弘和仁愛 HOSPITAL CORPORATION

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

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3869

2022
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Shuai (陳帥) *(Chairman and Acting Chief Executive Officer)*
Mr. Pu Chengchuan (蒲成川)
Ms. Pan Jianli (潘建麗)

Non-executive Directors

Ms. Liu Lu (劉路)
Ms. Wang Nan (王楠)

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Dang Jinxue (党金雪) *(Chairman)*
Mr. Pu Chengchuan (蒲成川)
Mr. Zhou Xiangliang (周向亮)

NOMINATION COMMITTEE

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

LISTING INFORMATION AND STOCK CODE

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

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

REGISTERED OFFICE

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

COMPANY'S WEBSITE

www.hcclhealthcare.com

AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	The year ended December 31, 2022		The year ended December 31, 2021		The year ended December 31, 2020		The year ended December 31, 2019		The year ended December 31, 2018	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Revenue	**1,142,951**	**100.0**	520,290	100.0	399,214	100.0	410,883	100.0	383,610	100.0
Cost of revenue	**(992,073)**	**(86.8)**	(306,063)	(58.8)	(204,885)	(51.3)	(237,017)	(57.7)	(231,478)	(60.3)
Gross profit	**150,878**	**13.2**	214,227	41.2	194,329	48.7	173,866	42.3	152,132	39.7
Selling expenses	**(344)**	**(0.0)**	(2,006)	(0.4)	(4)	(0.0)	(9)	(0.0)	(204)	(0.1)
Administrative expenses	**(95,158)**	**(8.3)**	(95,872)	(18.4)	(51,899)	(13.0)	(64,535)	(15.7)	(63,322)	(16.5)
Net impairment losses on financial assets	**(1,867)**	**(0.2)**	(26,477)	(5.1)	(15,007)	(3.8)	(1,581)	(0.4)	–	–
Impairment losses on intangible assets	**(460,283)**	**(40.3)**	(551,981)	(106.1)	(668,219)	(167.4)	–	–	–	–
Other (losses)/gains – net	**(137,156)**	**(12.0)**	19,854	3.8	136,226	34.1	65,838	16.0	(57,635)	(15.0)
Other income – net	**5,942**	**0.5**	7,181	1.4	4,803	1.2	3,453	0.8	2,874	0.7
Operating (loss)/profit	**(537,988)**	**(47.1)**	(435,074)	(83.6)	(399,841)	(100.2)	177,032	43.1	33,845	8.8
Finance income/(costs) – net	**5,360**	**0.5**	(14,028)	(2.7)	(35,982)	(9.0)	18,534	4.5	(15,962)	(4.1)
(Loss)/profit before income tax	**(532,628)**	**(46.6)**	(449,102)	(86.3)	(435,823)	(109.2)	195,566	47.6	17,883	4.7
Income tax credit/(expense)	**4,031**	**0.4**	86,706	16.7	14,754	3.7	(26,120)	(6.4)	(41,304)	(10.8)
(Loss)/profit for the year	**(528,597)**	**(46.2)**	(362,396)	(69.7)	(421,069)	(105.5)	169,446	41.2	(23,421)	(6.1)
Other comprehensive income										
Item that will not be subsequently reclassified to profit or loss										
- Remeasurement of defined benefit obligations	**(2,781)**	**(0.2)**	–	–	–	–	–	–	–	–
Total comprehensive income for the year	**(531,378)**	**(46.5)**	(362,396)	(69.7)	(421,069)	(105.5)	169,446	41.2	(23,421)	(6.1)

CONSOLIDATED ASSETS AND LIABILITIES

	As of December 31,				
	2022	2021	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**2,435,564**	3,123,714	3,744,204	4,454,969	3,805,851
Total liabilities	**1,992,136**	1,987,887	2,376,964	2,637,129	2,137,867
Total equity	**443,428**	1,135,827	1,367,240	1,817,840	1,667,984

Dear Shareholders,

In 2022, the continuous and resurgence of COVID-19 pandemic in the Yangtze River Delta region of China had a significant adverse impact on the business operations of the hospital, and the medical reform policies in relation to (Disease) Diagnosis Related Groups ("**DRG**")/Diagnosis-Intervention Packet ("**DIP**") were continuously deepened, the centralized procurement of drug consumables continued to advance, and the national policy sets forth higher requirements on the quality of hospital management. In the context of a complex and severe external environment, the Group and the hospital management, with a perseverance spirit, withstood the pressure and exerted a higher level of service and management, and demonstrated the ability of steady operation. In 2022, the total revenue and operating profit of the hospitals owned, managed and founded by the Group (the "**Group Hospital(s)**") decreased year-on-year due to the impact of the COVID-19 pandemic, but the operating results have begun to recover in the second half of the year. As the large-scale pandemic prevention and control work comes to an end, we will continue to drive the business of the Group Hospitals back on track and grow steadily.

During the year, the Group continued to optimize management effect and improve asset quality, making progress and breakthroughs in lots of work. In terms of optimizing internal management, while persisting in pandemic prevention and control and resumption of work and production, the Group completed the re-election of the management team of Shanghai Yangsi Hospital*（上海楊思醫院）（"**Yangsi Hospital**"） and continued to implement management optimization measures in terms of medical quality and financial management. Faced with repeated pandemic, all hospital management teams and colleagues withstood tremendous pressure, and formulated implementation plans concerning organization, coordination and execution in accordance with local conditions, not only ensuring the normal hospital operation, but successfully completing the important tasks of pandemic prevention and control. The Group updated the "Guidance on Medical Insurance Management of Hospital Corporation of China Limited（《弘和仁愛醫療集團關於醫保管理指導意見》)," promoted the refined management of projects in an all-round way, carried out the assessment of the target responsibility system of the hospital administrators, strengthened the coordination among Group Hospitals, and improved the medical insurance management system. Moreover, we improved the financial management system, strengthened capital management and control, optimized the capital expenditure approval management system, ensured the stability and security of the capital chain, and enhanced the ability to resist risks. At the same time, the Group further assured the asset quality. In April 2022, the Group acquired Hangzhou Jingyouzhi Enterprise Management Company Limited*（杭州靜有智企業管理有限公司）("**Hangzhou Jingyouzhi**"). Upon the completion of the transaction, all equities and interests of Jiande Hospital of Traditional Chinese Medicine Co., Ltd.*（建德中醫院有限公司）("**Jiande Hospital**") have been included in the consolidated financial statements of the Group. The Group's supply chain company has entered a new stage of all-out effort and rapid development. It has successively signed strategic agreements with many international medical device providers such as Mindray Medical, which have been applied to the supply chain system of more Group Hospitals. It has expanded from medicine management to multiple management dimensions such as medicine, medical devices, consumables, and information systems, and achieved phased goals of cost reduction and efficiency enhancement. We established the intranet between units of the group system, launched the new hospital resource planning ("**HRP**") system, introduced the intelligent medical insurance management system compatible with the DRGs/DIP payment rules, optimized the allocation of medical resources, and improved the rational income of hospitals.

Looking forward, the reform of medical insurance will further advance into key points, and the reform of public hospitals will further intensify competition, all of which will pose some challenges to the operation of private hospitals. However, we always believe that the trend of aging population, increasingly rising demands for medical services, and upgrading of consumer healthcare will bring more development opportunities to the Group. Under the national policy of motivating social forces to run medical services, the Group, as a comprehensive medical group with regional influence in the Yangtze River Delta region, will continue to adhere to the "Three-step" development strategy, strictly comply with various medical management policies, firmly improve hospital service capabilities and standards, consolidate and optimize the Group's management and improve asset quality, and develop innovative business models, including cultivating characteristic and advantageous disciplines, exploring business models that differentiate competition with public hospitals, to further enrich business structure. We will take measures to promote the steady growth of hospital performance, strengthen the brand awareness of the Group, actively promote the consolidation of the accounts of the Group Hospitals, build a sound balance sheet, and strive to enhance the integrated value of the Group.

Acknowledgement

I would like to express my sincere gratitude to the board (the "**Board**") of directors (the "**Directors**") of the Group, the management and all staff for their hard work and contributions over the past year. At the same time, I would like to thank all shareholders, friends and partners of the investment community for their full trust and support. In the future, let us jointly witness that the Group innovates bravely and steadily develops into a large-scale medical service technology group that is trustworthy, respectful and striving for excellence.

Chairman and Acting Chief Executive Officer
Chen Shuai

Beijing, China
March 27, 2023

BUSINESS OVERVIEW

Business positioning

The Group will adhere to and deepen its "Three-step" development strategy this year, refine its work objectives in three strategic directions: strengthening the management and control system, enhancing the quality of assets, and exploring new business models, and respond to the new situation of the pandemic policy and the new regulations of the national medical reform policy, and devote itself to developing from the business status quo of a general hospital chain group to a large medical service technology group. In order to achieve the adjustment of business positioning, the Group further strengthened the daily operation and management of Group Hospitals promoted the two-way improvement of medical service quality and operational efficiency, focused on establishing a medical service network centered on the Jinhua region and promoted the formation of regional synergy effects, so that the Group Hospitals could effectively cope with the challenges brought by the pandemic and the new normal of medical reform, and laid the foundation for the steady improvement of the Group's overall financial performance and strategic objectives.

- **Responding to the trend of pandemic and medical reform and strengthening the management and control system.** By building a scientific management and control system, strengthening management boundaries, stimulating the vitality of the Group Hospitals by improving the hospital administrator's incentive and restraint mechanisms, we reduced the Group's management costs, and used the information system as a management tool to improve the quality of medical services, focusing on the needs of stakeholders such as shareholders, customers, employees, suppliers, communities and regulators, and provided safe, effective, convenient and economical medical and health services for the people, and reshaped the Group's management philosophy and corporate culture.

- **Multiple measures taken to enhance the quality of assets.** During the year under review, the Group incorporated all the economic interests and benefits of Jiande Hospital into the Group's consolidated financial statements through transactions; meanwhile, in accordance with the Guiding Opinions of the General Office of the State Council on Establishing a Modern Hospital Management System (General Office of State Council Circular [2017] No. 67) (《國務院辦公廳關於建立現代醫院管理制度的指導意見》(國辦發[2017]67號)) issued by the General Office of the State Council and the template of public hospital constitution issued by the National Health Commission in December 2019, the Group optimized the internal decision-making system of the hospitals in due course to better exert influence on the operation of the Group Hospitals taking into account the relevant actual management and operation of the hospitals. Along with the continuous optimization of medical quality management and efficient operation of the full-value supply chain services, the Group's hospital management services will become increasingly comprehensive and mature, so as to promote a more rational business structure and robust improvement of asset quality.

- **Expanding business models and leveraging synergies of the Group Hospitals.** Drawing on the experience of outstanding companies in the industry, the Group piloted new business models such as specialty medical care, medical and health care integration, traditional Chinese medicine services and self-pay pharmacy on the basis of the existing comprehensive medical service business of the Group Hospitals, and sought strategic cooperation with internet medical platforms and commercial insurance companies to form complementary resources and industrial linkages.

Business layout

We will seek to acquire hospitals in the Yangtze River Delta region of China that meet the Group's investment criteria, use tertiary hospitals with strong comprehensive strength as regional medical centers, create synergy and drive a number of secondary or primary hospitals in the region, and at the same time, through Internet healthcare and cross-industry cooperation, high-quality medical resources are gathered to form the Group's regional medical network.

We will fully develop and rapidly develop the Group's supply chain management system, build the Group's centralized procurement center, expand from a single medicine procurement service to a full range of hospital supply chain management services such as medicine, medical devices, medical consumables and maintenance services, use information technology tools to reduce costs and increase efficiency for management and operation, and gradually expand supply chain management services to markets outside the Group Hospitals to form new revenue growth points.

We will support the Group Hospitals to take advantage of their resources and cross-industry linkage, integrate clinical data, operation data and material data based on their existing advantageous disciplines and brands, build medical databases, seek cooperation with Internet medical platforms and commercial insurance companies, integrate resources and technical advantages in finance and technology for the regional medical industry, and build a business ecology that organically combines medical services, big data management and livelihood finance.

INDUSTRY OVERVIEW

Policy review

In 2022, the reform of China's medical and health system continued to deepen. According to the "Circular of the General Office of the State Council on Printing and Issuing the Key Work for Deepening the Reform of the Pharmaceutical and Healthcare System in 2022" (Guobanfa No. [2022]14) (《關於印發深化醫藥衛生體制改革2022年重點工作任務的通知》(國辦發[2022]14號)), the policy still actively encourage the non-government funded medical institutions, to increase the supply of medical services sector and promote the expansion and balanced layout of high-quality medical resources. Among them, the implementation of the policy of encouraging the establishment or joining of medical consortia has provided an important support to the development of socially run hospitals:

(1) The "Circular of the General Office of the State Council on Printing and Issuing the Key Work for Deepening the Reform of the Pharmaceutical and Healthcare System in 2022" (Guobanfa No. [2022]14) (《關於印發深化醫藥衛生體制改革2022年重點工作任務的通知》(國辦發[2022]14號)) supports the sustainable, healthy and standardized development of non-government funded medical institutions, and supports the non-government funded medical institutions to take the lead in the establishment or participation in medical consortia;

(2) According to the "Guidelines for the Establishment and Planning of Medical Institutions (Year 2021-2025)" (Guowei Yifa No. [2022]3) (《醫療機構設置規劃指導原則(2021-2025年)》(國衛醫發[2022]3號)), the government does not limit the total number and space of non-government funded medical institutions, and encourages medical institutions organized by social forces to take the lead in establishing or joining medical consortia, so as to leave more space for the development of non-government funded medical institutions.

Meanwhile, the Chinese government continues to deepen the reform of medical service, medical insurance, and medical-pharm linkage, pushes forward the reforms in the sectors of medical insurance payment modes, centralized procurement of medicine and medical consumables, informatization, and standardization, and sets forth higher requirements on modernization of medical service management to help private medical institutions achieve high-quality and sustainable development:

(1) According to the "Notice of the Health Commission on Taking the Special Inspection Action to National Private Hospitals in 2022" (Guowei Yihan No. [2022]45) (《衛生健康委關於開展2022年度全國民營醫院專項巡查行動的通知》(國衛醫函[2022]45號)), the National Health Commission has decided to organize and carry out a special inspection action to national private hospitals for one year from March 2022, in order to create an increasingly fair and benign competition environment for private medical institutions;

(2) The "Notice on Further Improving the Direct Settlement of Cross-Province Medical Treatment for Basic Medical Insurance" (YiBaoFa No. [2022]22) (《關於進一步做好基本醫療保險跨省異地就醫直接結算工作的通知》(醫保發[2022]22號)) improves the direct settlement method for transprovincial medical care for basic medical insurance, standardizes the management of direct settlement services, and realizes the high-efficiency and convenience of remote settlement of medical insurance. It is beneficial for high-quality private hospital institutions to exert competitive advantages while facilitating patients to seek medical treatment in different areas;

(3) The "Notice of Zhejiang Provincial Medical Insurance Bureau on Printing and Distributing the "Three-Year Action Plan for Zhejiang Province to Comprehensively Promote the Reform of Medical Insurance Payment Methods"(Zheyibaofa No. [2022]14) (《浙江省醫療保障局關於印發<浙江省全面推進醫保支付方式改革三年行動計劃>的通知》(浙醫保發[2022]14號)) requires the establishment of a provincially unified technical specifications of Ambulatory Patient Groups ("**APG**") payment and APG plans in 2022, puts forward higher requirements for hospital standardization and fine management.

(4) The regular meeting of the State Council held on January 10, 2022 pointed out that it is necessary to promote the normalization, institutionalization and speeding up of centralized procurement, aiming to reduce pharmaceutical prices, ensure the long-term stable supply of selected medicine and consumables, and benefits offered to patients; and

(5) The “Notice of the National Health Commission on Printing and Distributing the “14th Five-Year” Health and Health Standardization Work Plan” (Guowei Fagui No. [2022]2) (《國家衛生健康委關於印發「十四五」衛生健康標準化工作規劃的通知》(國衛法規發[2022]2號)) promotes the in-depth integration of standardization strategies and national health care cause, so as to standardize and improve the scientific, standardized and refined level of hospital management, and to provide standardized support for the healthy China initiative.

The Group believes that with the continuous encouragement and support of national and local government policies, the high-quality development environment for non-government funded medical institutions will be continuously optimized. The Group will closely follow the policy requirements of the reform of the healthcare system, seize opportunities, rise to challenges, continuously improve the level of modern management and enhance brand awareness.

All-out fights against COVID-19 pandemic

During the Year, the Group has always taken the pandemic prevention and control as a priority throughout the year, and issued the “Notice on the Group’s Continued Emphasis on Pandemic Prevention and Control” (《關於集團繼續強調疫情防控工作的通知》) requiring the Group Hospitals to fully implement the relevant policy requirements of the CPC and the central government, emphasizing that it is “to attach great importance to pandemic prevention and control, ensure the safety of the people, that all suspected and confirmed patients should be admitted to the hospitals, and fully implement social duties.” Finally, while ensuring the normal operation of Group Hospitals and meeting the needs of the surrounding people for medical services, we have also successfully completed the pandemic prevention and control and treatment work in the area we operate.

RECENT DEVELOPMENTS

Time	Event
February 7, 2022	Hangzhou Jingyouzhi, Hangzhou Jinhoupu Management Company Limited* (杭州金厚樸企業管理有限公司) (“**Hangzhou Jinhoupu**” or the “**OPCO**”) and Mr. Hong Jiangxin and Mr. Hong Yang (together with Mr. Hong Jiangxin, the “**Vendors**”) have entered into a series of structured contracts (the “**Existing VIE Contracts**”) on February 7, 2022.

February 16, 2022

On February 16, 2022, the Group acquired the entire equity interests of Hangzhou Jingyouzhi (holding 30% of the equity interests in Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd.*（建德大家中醫藥科技有限公司）(“**DJ Pharmaceutical Technology**”) and Zhejiang Dajia Medicines Co., Ltd.*（浙江大佳醫藥有限公司）(“**DJ Medicines**”) and controlling 30% of the equity interests in Jiande Hospital) (the “**Acquisition**”), at a consideration of RMB120 million in accordance with the terms and conditions under an equity transfer agreement (the “**Onshore Equity Transfer Agreement**”). The Group, through Hangzhou Jingyouzhi, indirectly holds 30% equity interests in DJ Medicines and DJ Pharmaceutical Technology, and indirectly controls 30% of the equity interests in Jiande Hospital through a series of structured contracts. This Acquisition contributed to revenue for the sale of pharmaceutical products and general hospital services businesses that the Group engaged in.

March 29, 2022

Ms. Shi Wenting resigned as a non-executive Director and ceased to be a member of the audit committee of the Company (the “**Audit Committee**”) on March 29, 2022 due to other work commitments. Ms. Pan Jianli has been appointed as an executive Director on March 29, 2022. Mr. Dang Jinxue was appointed as a member of the Audit Committee on March 29, 2022.

April 2022

On April 2, 2022, (i) a series of agreements (the “**Termination Agreements**”) have been entered into by Hangzhou Jingyouzhi, Hangzhou Jinhoupu, and the Vendors to terminate the Existing VIE Contracts; (ii) a series of contracts (the “**New VIE Contracts**”) have been duly executed to establish the new variable interest entity (“**VIE**”) structure; and (iii) the equity transfer in the OPCO from the Vendors to Mr. Qin Chuan and Mr. Liu Hui (the “**PRC Equity Owners**”) pursuant to an equity transfer agreement (“**Associated Equity Transfer Agreement**”) has been completed. The New VIE Contracts, comprise the following: (i) the exclusive operation service agreement entered into among Jiande Heyue Enterprise Management Co., Ltd.*（建德和悅企業管理有限公司）(“**Jiande Heyue**”), the OPCO and the PRC Equity Owners; (ii) the exclusive option agreements entered into among Jiande Heyue, the PRC Equity Owners, the OPCO and Jiande Hospital; (iii) the entrustment agreements entered into among Jiande Heyue, the PRC Equity Owners, the OPCO and Jiande Hospital in favor of Jiande Heyue (and its successors or liquidators) or a natural person designated by Jiande Heyue and the annexure of the powers of attorney executed by the PRC Equity Owners and the OPCO appended thereto; and (iv) the equity pledge agreements entered into among Jiande Heyue, the PRC Equity Owners, the OPCO and Jiande Hospital.

On April 3, 2022, the Company has applied for a waiver (the “**Waiver**”) pursuant to Rule 14A.102 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) from (i) fixing the term of the New VIE Contracts for a period of not exceeding three years under Rule 14A.52 of the Listing Rules; and (ii) setting a maximum annual cap for the service fees payable by the OPCO to Jiande Heyue under Rule 14A.53 of the Listing Rules. The Stock Exchange has granted the Waiver, subject to conditions.

June 22, 2022

PricewaterhouseCoopers ("**PricewaterhouseCoopers**") retired as the auditor of the Company upon expiration of its current term of office at the conclusion of the annual general meeting of the Company held on June 22, 2022 (the "**2022 AGM**") as the Company and PricewaterhouseCoopers could not reach a consensus on the fee for the audit of the Group for the financial year ended December 31, 2022 (the "**Year**").

At the 2022 AGM, KPMG has been appointed as the Company's auditor with effect from the conclusion of the AGM and until the conclusion of the next annual general meeting of the Company.

September 27, 2022

On September 27, 2022, the Company entered into a guarantee agreement (the "**Guarantee Agreement**") in favour of Nanyang Commercial Bank (China) Limited Beijing Branch (the "**Bank**"), pursuant to which the Company agreed to provide a corporate guarantee for Zhejiang Jinhua Guangfu Oncological Hospital*（浙江金華廣福腫瘤醫院, which is managed by Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd*（浙江弘和致遠醫療科技有限公司）("**Zhiyuan Medical**")) ("**Jinhua Guangfu Hospital**") in connection with the repayment obligations up to a maximum outstanding principal amount of RMB50 million (the "**Corporate Guarantee**"). The Corporate Guarantee is provided as a security to enable Jinhua Guangfu Hospital to obtain funds from the Bank for the purpose of maintaining its day-to-day business operations, supporting its development, and further improving its competitiveness in the healthcare sector. The Group is able to exercise its influence over the operational and managerial decisions of Jinhua Guangfu Hospital to keep track of the funds account of Jinhua Guangfu Hospital, closely monitor the operational stability and cash flow of Jinhua Guangfu Hospital, and supervise, manage and ensure the fulfillment of the repayment obligations. The Group has made the decision not to charge any fee from providing the Corporate Guarantee to Jinhua Guangfu Hospital in consideration of the contractual relationship between the Group and Jinhua Guangfu Hospital as well as the overall interests of the Group.

According to Rule 14.22 of the Listing Rules, the Stock Exchange will aggregate a series of transactions and treat them as if there were one transaction if they are all completed within a 12-month period or are otherwise related.

On July 24, 2019, the Company entered into a loan agreement (the "**Existing 2019 Loan Agreement**") with Jinhua Guangfu Hospital, pursuant to which the Company has conditionally agreed to grant the loan in a principal amount of RMB80 million to Jinhua Guangfu Hospital at an interest rate of 5.23% per annum, which is subject to adjustment according to the applicable benchmark interest rates as published by the People's Bank of China from time to time, for a term of 36 months from the date of the relevant drawdown (the "**Existing 2019 Loan**").

On November 20, 2020, Tibet Honghe Zhiyuan Business Management Co., Ltd.*（西藏弘和志遠企業管理有限公司）(“**Tibet Honghe Zhiyuan**”), a wholly-owned subsidiary of the Company, entered into a loan agreement (the “**Existing 2020 Loan Agreement**”) with Jinhua Guangfu Hospital, pursuant to which Tibet Honghe Zhiyuan has conditionally agreed to grant the loan to Jinhua Guangfu Hospital (the “**Existing 2020 Loan**”) for an availability period of three years from the date of signing of the Existing 2020 Loan Agreement and a term of one year from the date of the relevant drawdown of each installment of the loan. The maximum principal amount is RMB100 million at an interest rate of 4.79% per annum, which is subject to adjustment according to the applicable benchmark interest rates as published by the People’s Bank of China from time to time.

Since the Existing 2019 Loan and Existing 2020 Loan (collectively, the “**Existing Loans**”) and the transactions contemplated under the Guarantee Agreement constitute financial assistance provided by the Company to Jinhua Guangfu Hospital, the Existing Loans and the transactions contemplated under the Guarantee Agreement are required to be aggregated pursuant to Rule 14.22 of the Listing Rules.

As the highest applicable percentage ratio in respect of the transactions contemplated under the Guarantee Agreement, when aggregated with the Existing Loans, is more than 5% but less than 25%, the transactions contemplated under the Guarantee Agreement constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Please refer to the announcements of the Company dated July 24, 2019, November 20, 2020, September 27, 2022 and November 11, 2022 for further details.

December 26, 2022 — Mr. Lu Wenzuo has resigned from the position of executive Director of the Company with effect from December 26, 2022 due to the reason of age, so as to devote more time to his family.

EVENTS AFTER THE YEAR UNDER REVIEW

The Group had no significant events after December 31, 2022 and up to the date of this report.

REVIEW OF 2022 ANNUAL PERFORMANCE

Results of Operations

Revenue

Our revenue increased by approximately 119.7% from approximately RMB520.3 million in 2021 to approximately RMB1,143.0 million in 2022. The table below sets forth the Group's revenue by segment and by services category for the years indicated:

	For the year ended December 31,	
	2022	2021
	RMB'000	*RMB'000*
Revenue	**1,142,951**	520,290
– Hospital management services	**81,603**	217,479
– General hospital services	**1,049,374**	298,436
– Sale of pharmaceutical products	**11,124**	4,375
– Others	**850**	–

Hospital management services

Revenue from our hospital management services segment, which consists of the provision of hospital management services to Cixi Union Hospital ("**Cixi Hospital**") and Jinhua Guangfu Hospital, decreased by approximately 62.5% from approximately RMB217.5 million in 2021 to approximately RMB81.6 million in 2022. The decrease in revenue was mainly due to the decrease of RMB163.0 million in management service fees received from Yangsi Hospital as a result of the consolidation of the accounts of Yangsi Hospital from 6 December 2021.

General hospital services

Revenue from our general hospital services segment increased by approximately 251.6% from RMB298.4 million in 2021 to approximately RMB1,049.4 million in 2022. Revenue from this segment increased mainly due to an increase of RMB12.2 million in the revenue from the provision of general hospital services by Jiande Hospital to individual patients as a result of the increase in the number of out-patient and in-patient visits of Jiande Hospital in 2022, and an increase of RMB738.7 million in the revenue from the general hospital services of Yangsi Hospital incorporated into the consolidation starting from December 6, 2021.

Sale of pharmaceutical products

Revenue from sale of pharmaceutical products was derived from the business of Dajia Medicines and Jinhua Pharmacy. Revenue from sale of pharmaceutical products increased by RMB6.7 million from approximately RMB4.4 million in 2021 to approximately RMB11.1 million in 2022, mainly due to an increase in Jinhua Pharmacy's income from the supply of pharmaceutical products to customers.

Cost of revenue

Our cost of revenue increased by approximately 224.1% from approximately RMB306.1 million in 2021 to approximately RMB992.1 million in 2022. The increase in costs was mainly due to an increase in related cost of inventories and employee benefit expenses when compared with the Corresponding Period of Previous Year arising from the consolidation of the accounts of Yangsi Hospital since 6 December 2021.

Administrative expenses

Our administrative expenses decreased by approximately 0.7% from approximately RMB95.9 million in 2021 to approximately RMB95.2 million in 2022. The decrease in administrative expenses was mainly attributable to the decrease in employee benefit expenses.

Impairment losses on intangible assets

For the year ended December 31, 2022, we recorded impairment losses on contractual rights to provide management services and goodwill of approximately RMB97.5 million and RMB362.8 million (2021: approximately RMB410.7 million and RMB141.3 million), respectively, mainly attributable to the impairment losses on relevant intangible assets and goodwill.

Other (losses)/gains, net

Our other (losses)/gains, net decreased by approximately RMB157.0 million from other gains of RMB19.9 million in 2021 to other losses of RMB137.2 million in 2022. The decrease in other (losses)/gains, net was mainly attributable to the increase in net losses on changes of fair value of convertible bonds in 2022 of approximately RMB132.3 million.

Other income

We recorded other income of approximately RMB7.2 million and approximately RMB5.9 million for the years ended December 31, 2021 and 2022, respectively, representing a year-on-year decrease of approximately 17.3%. The decrease was mainly attributable to the decrease in repair and maintenance income of approximately RMB1.9 million.

Finance income and finance costs

Our finance income increased by approximately RMB7.9 million from approximately RMB6.7 million in 2021 to approximately RMB14.6 million in 2022, and such increase was mainly attributable to the increase of approximately RMB2.3 million in interest income from demand deposit, term deposit, deposit held at call and loan to a related party and an increase in foreign exchange gains arising from cash and cash equivalents of approximately RMB5.6 million.

Our finance costs decreased by approximately RMB11.6 million from approximately RMB20.8 million in 2021 to approximately RMB9.2 million in 2022, mainly due to (i) a decrease of approximately RMB13.3 million in foreign exchange losses in relation to cash and cash equivalents and (ii) a decrease of approximately RMB1.2 million in interest expenses on bank borrowings, which was offset by an increase in the financial expenditure for redemption of convertible bonds of RMB4.3 million.

Income tax

We recorded income tax credit of approximately RMB4.0 million for the year ended December 31, 2022, and income tax credit of approximately RMB86.7 million for the year ended December 31, 2021. The changes of approximately RMB82.7 million was mainly attributable to the increase of approximately RMB101.3 million in deferred income tax expenses, which was offset by the decrease in current income tax expenses of approximately RMB18.6 million.

Loss for the year

We recorded a net loss of approximately RMB528.6 million for the year ended December 31, 2022, representing an increase of approximately RMB166.2 million from the net loss of approximately RMB362.4 million for the corresponding period, mainly due to an increase of RMB132.3 million in the losses in fair value changes of convertible bonds.

Discussion of certain items from the consolidated balance sheet

Cash and cash equivalents

We had cash and cash equivalents of approximately RMB440.4 million and approximately RMB497.1 million as at December 31, 2021 and 2022, respectively. The increase of approximately RMB56.6 million in 2022 was primarily attributable to the decrease in financial assets at fair value through profit or loss.

Other receivables, deposits and prepayments

Our other receivables, deposits and prepayments increased by approximately RMB3.5 million from approximately RMB12.3 million as at December 31, 2021 to approximately RMB15.8 million as at December 31, 2022, primarily due to an increase of RMB2.5 million for the prepaid service fees.

Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss as at December 31, 2022 amounted to approximately RMB129.8 million, mainly representing monetary funds. The monetary funds held by us are low-risk products.

The following table sets out the changes in the monetary funds for the year ended December 31, 2022.

	Year ended December 31, 2022 *RMB'000*
Opening balance	**338,905**
Additions	**407,961**
Settlements	**(622,740)**
(Losses)/gains recognised in other gains, net	**5,722**
Closing balance	**129,848**

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

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

Financial assets at fair value through profit or loss	Name of monetary funds	Balances at December 31, 2022 (including dividend income) *RMB*
Monetary Fund	Yinhua Duolibao Money Market Fund B（銀華多利寶B）	15,281,506
Monetary Fund	Da Cheng Fund（大成基金）	10,125,319
Monetary Fund	MANULIFE TEDA Money Market Fund（泰達宏利貨幣市場基金）	11,934,123
Monetary Fund	Agricultural Bank of China Huabao Cash Fund B （農業銀行華寶現金寶B）	6,500,000
Monetary Fund	HFT Monetary B（海富通貨幣B）	6,904,021
Monetary Fund	Gf Fund（廣發基金）	14,103,270
Monetary Fund	ABC Anxin Yearly Interval Open-end RMB Wealth Management Product (Eighth Tranche) (Premium)（農銀理財「農銀安心•每年開放」第8期人民幣理財產品（尊享款））	20,000,000
Monetary Fund	Huizhong CRi Sheng Ji Shu Open-ended Product (for CCB Wealth Management)（惠眾日申季贖開放式產品（代銷建信理財））	30,000,000
Monetary Fund	E Fund Wealth（易方達財富）	15,000,000

The financial assets that the Company invested in during the year ended December 31, 2022 are monetary funds with floating rates, which carry lower expected return of principal and risk as compared to stocks or corporate debt issues. These monetary funds focus on short-term securities in the capital markets, and invest in financial instruments such as certificates of deposit and short-term commercial papers with maturities not exceeding one year.

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

Going forward, the Directors consider that it is in the Company's best interest to continue to invest in monetary funds based on our business and operational needs.

Accruals, other payables and provisions

Our accruals, other payables and provisions were approximately RMB613.2 million and approximately RMB520.8 million as at December 31, 2021 and 2022, respectively. The accruals, other payables and provisions decreased by approximately RMB92.5 million, mainly due to (i) the decrease in the early redemption payables for convertible bonds of RMB85.2 million, (ii) the decrease in duty and tax payables other than corporate income tax of RMB13.3 million and (iii) the decrease in payables to third parties of RMB20.0 million, which was offset by the increase in employee benefit payables of RMB41.6 million.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2022, our total equity was approximately RMB443.4 million (2021: approximately RMB1,135.8 million). As at December 31, 2022, we had current assets of approximately RMB843.0 million (2021: approximately RMB1,175.6 million) and current liabilities of approximately RMB1,785.7 million (2021: approximately RMB526.0 million). As at December 31, 2022, our current ratio was approximately 0.47, as compared with approximately 2.23 as at December 31, 2021.

Our current assets decreased by approximately RMB332.6 million from approximately RMB1,175.6 million as at December 31, 2021 to approximately RMB843.0 million as at December 31, 2022, primarily due to the decrease in the financial assets at fair value through profit or loss of RMB209.1 million and the decrease in receivables from related parties of approximately RMB151.3 million, which was offset by the increase in cash and cash equivalents of approximately RMB56.6 million. Our current liabilities increased by approximately RMB1,259.7 million from approximately RMB526.0 million as at December 31, 2021 to approximately RMB1,785.7 million as at December 31, 2022, primarily due to (i) the increase of RMB1,026.4 million in convertible bonds which are due within one year, (ii) the increase of RMB233.3 million in accruals, other payables and provisions.

Our primary uses of cash in 2022 were for working capital and payment for financial assets at fair value through profit or loss. We financed our liquidity requirements mainly with cash flows generated from our operating activities. In the year under review, we had net cash generated from operating activities of approximately RMB143.1 million, consisting of approximately RMB101.2 million in net cash inflows generated from our operations before changes in working capital, net cash inflows of approximately RMB69.2 million relating to changes in working capital, cash outflows on income tax paid of approximately RMB30.9 million and interests received of approximately RMB3.5 million. Our net cash inflows generated from operating activities before changes in working capital were primarily attributable to our loss before income tax of approximately RMB532.6 million, adjusted for non-cash and non-operating items, mainly including impairment losses on intangible assets of approximately RMB460.3 million, losses on fair value change arising from the change in value of convertible bonds of approximately RMB119.5 million, and depreciation of property, plant and equipment and amortization of intangible assets of approximately RMB63.3 million. Our net cash inflows relating to changes in working capital were primarily attributable to the increase in trade payable of approximately RMB12.1 million and the increase in accruals, other payables and provisions of approximately RMB17.0 million, and the decrease in trade receivable of approximately RMB41.4 million.

In the year under review, we had net cash inflows from investing activities of approximately RMB187.2 million, which primarily comprised proceeds from the redemption of financial assets at fair value through profit or loss of approximately RMB618.8 million, which were offset by payments for financial assets at fair value through profit or loss of approximately RMB408.0 million and payment for property, plant and equipment of approximately RMB15.6 million.

Cash and Borrowings

We had cash and cash equivalents of approximately RMB440.4 million and approximately RMB497.1 million as at December 31, 2021 and 2022, respectively. Our borrowings amounted to approximately RMB69.4 million as at December 31, 2022 (as at December 31, 2021: approximately RMB71.0 million). Of our borrowings, approximately RMB12.9 million bear interest at a fixed rate of 4.30%, RMB47.9 million bear interest at a fixed rate of 4.1% and RMB8.2 million bear interest at a fixed rate of 3.85%. The table below sets forth the maturity profile of our borrowings in the years indicated:

	Bank borrowings	
	2022	2021
	RMB'000	*RMB'000*
Within 1 year	**69,429**	71,018
	69,429	71,018

As at December 31, 2022, the net gearing ratio of the Company was approximately 2.9% (net gearing ratio equals borrowing balance divided by total assets). Our Directors believe that, after taking into account the financial resources available to us, we have sufficient working capital for our requirements. As at December 31, 2022, the Group did not have any material contingent liabilities.

FUTURE PROSPECTS

China's medical industry as a whole has a large scale and high development potential. After continuous research and review, we are still positive on the medical industry in the long term and will adhere to the main business of medical services, stay focused on the business development in the Yangtze River Delta region, strive to become the regional general hospital leader, combine the specialties advantages and resources of the Group hospitals, and establish a regional leading hospital cluster.

Over the past two and a half years, the Group has firmly implemented its "Three-step" strategic plan and has made significant progress in strengthening its management and control system and improving asset quality. In 2023, the Group will invest more resources to promote steady organic growth, including supporting the introduction of talents and the construction of superior disciplines in the Group hospitals, promoting the construction of the Group's supply chain management system and information integration platform, and responding to a series of healthcare reform measures such as tiered medical diagnosis and treatment and centralized procurement of medicine and consumables, the Group will actively respond to the requirements of national policies and apply operational control methods and tools that are in line with the characteristics of the healthcare industry to continuously improve the competitive advantages and brand value of the Group hospitals and strive to provide safe, effective, convenient and economical medical services to the people, while also continuing to attempt to develop new business models to achieve resource synergy between online and offline, cross-region and cross-industry, and dedicated to becoming a large medical service technology group that is trustworthy, respected and pursues excellence.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group did not undertake any material acquisitions and disposals of subsidiaries, associates and joint ventures from January 1, 2022 until December 31, 2022.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As of December 31, 2022, the Group did not have any significant investments or future plans for material investments or capital assets.

EXPOSURE TO FOREIGN EXCHANGE RISK

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

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

As at December 31, 2022, the Group was exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to USD and HKD.

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

PLEDGE OF ASSETS

As at December 31, 2021 and 2022, Impeccable Success has pledged its paid-up equity interests in Zhiyuan Medical to Industrial and Commercial Bank of China Jinhua Economic Development Zone Branch to secure certain loans granted to Jinhua Guangfu Hospital with a maximum amount of RMB412.5 million.

Zhiyuan Medical has provided a joint liability to Industrial and Commercial Bank of China Jinhua Economic Development Zone Branch in respect of the same loans granted to Jinhua Guangfu Hospital with a maximum amount of RMB550.0 million. As at December 31, 2022, the principal amount of loan balance of Jinhua Guangfu Hospital was RMB180.0 million.

As at December 31, 2022, Company has provided a corporate guarantee for Jinhua Guangfu Hospital and Nanyang Commercial Bank (China) Limited Beijing Branch in connection with the repayment obligations up to a maximum outstanding principal amount of RMB50 million. As at December 31, 2022, the principle amount of loan balance of Jinhua Guangfu Hospital was RMB40.0 million.

Save as disclosed above, as at December 31, 2022, the Group has pledged its assets as security for bank borrowings, details of which are set out in Note 26 to the consolidated financial statements.

FINAL DIVIDEND

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

HUMAN RESOURCES

As at December 31, 2022, we had a total of 1,422 employees (December 31, 2021: 1,422). We provide wages, employee-related insurance and employee benefits to our employees. Remuneration packages for our employees mainly consist of base salary, welfare and bonus. For the year ended December 31, 2022, the total employee benefits expenses (including Directors' remuneration) were approximately RMB380.8 million (2021: approximately RMB187.2 million).

We set performance targets for our employees based on their position and department, and regularly review their performance. The results of these reviews are used in their salary determinations, bonus awards and promotion appraisals. As required by PRC laws and regulations, our employees participate in several government-run or-regulated benefit programs, including but not limited to retirement benefit programs, housing provident fund, medical insurance and other employee social insurance programs. The Company has adopted certain share-based payment schemes for the purpose of, among others, providing incentive and rewards to eligible persons with outstanding performance and contributions to the Group.

The Board is pleased to present the report of the Directors together with the audited consolidated financial statements of the Group for the year ended December 31, 2022.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Segment analysis of the Company for the year ended December 31, 2022 is set out in Note 5 to the consolidated financial statements. A list of the Company's subsidiaries, together with their places of incorporation, principal activities and particulars of their issued shares/registered share capital, is set out in Note 9 to the consolidated financial statements.

A discussion and analysis of the activities as required by Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), including a fair review of the business, particulars of important events affecting the Group that have occurred since the end of the year ended December 31, 2022, and an indication of likely future developments in the Group's business, can be found in the "CEO's Statement", "Management Discussion and Analysis" and "Environmental, Social and Governance Report" sections in this annual report. These discussions form part of this report of the Directors. Further discussions on the principal risks and uncertainties facing the Company, the Company's environmental policies and performance and compliance with relevant laws and regulation are set out on pages 68 of this report.

There is no significant subsequent event undertaken by the Company or by the Group from January 1, 2023 to the date of this report.

FINANCIAL RESULTS

The results of the Group for the year ended December 31, 2022 are set out in the consolidated statement of comprehensive income on page 103 of this annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the years ended December 31, 2018, 2019, 2020, 2021 and 2022, as set out on page 4 of this annual report, is extracted from the audited consolidated financial statements.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year ended December 31, 2022 are set out in Note 22 to the consolidated financial statements. As of the date of this report, the total share capital of the Company was HK$138,194 divided into 138,194,000 Shares of HK$0.001 each.

FINAL DIVIDEND

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

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

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

The Board does not recommend the payment of a final dividend for the year ended December 31, 2022 (2021: nil).

TAX RELIEF AND EXEMPTION

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

RESERVES

Details of the movements in the reserves of the Group during the year ended December 31, 2022 are set out in Note 24 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2022, the Company had distributable reserves of approximately RMB326.1 million.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements of our property, plant and equipment during the year ended December 31, 2022 are set out in Note 12 to the consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange on March 16, 2017 (the "**Listing Date**"). The net proceeds received by the Company from the global offering and the exercise of the over-allotment option after deducting underwriting commissions and all related expenses was approximately HK$465.6 million. The net proceeds received from the global offering has been and will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the prospectus of the Company. All of the unutilized amount has been placed with licensed banks in Hong Kong, and will be utilized in the manner as described in the Prospectus and in accordance with the Company's needs from time to time. An analysis of the utilization of the net proceeds from the Listing Date up to December 31, 2022 is set out below:

	Percentage of the total amount	Net proceeds	Utilized amount up to December 31, 2021	Utilized amount subsequent to December 31, 2021 and up to December 31, 2022	Unutilized amount as at December 31, 2022	Expected time period
		HK$ million	HK$ million	HK$ million	HK$ million	
Strategic acquisition of hospitals in China	50%	232.80	232.80	–	–	–
Further investment in the hospitals we own or manage from time to time (except for not-for-profit hospitals)						
– Purchase of medical and other equipment	11%	51.22	51.22	–	–	–
– Upgrading and improvement of medical facilities	7%	32.59	32.59	–	–	–
Employee training programs at the hospitals we own or manage from time to time, efforts to recruit talents and academic research activities						
– Human resources expenses	6%	27.94	27.94	–	–	–
– Employing medical professionals and experts in business management	5%	23.28	23.28	–	–	–
– Conducting academic research activities and developing employee training programs with a focus on management training and professional training	4%	18.62	16.43	2.19	–	The balance is expected to be fully utilized by the end of 2023
Upgrading and improving our information technology system	7%	32.59	32.59	–	–	–
Provide funding for our working capital, rental and property related expenses and other general corporate purposes	10%	46.56	46.56	–	–	–
	100%	465.60	463.41	2.19	–	

CONVERTIBLE BONDS

Vanguard Convertible Bonds

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

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

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

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

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

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

The net proceeds from the Vanguard Convertible Bonds, after deducting all related costs and expenses, was approximately HK$467 million. The net proceeds of approximately HK$405 million were used to acquire Cixi Hongai Medical Management Co., Ltd. ("**Cixi Hongai**") in March 2018. As at December 31, 2022, the remaining net proceeds of approximately HK$62 million were placed in the bank account of the Group opened with licensed banks in Hong Kong, and was expected to be utilized in accordance with the use of proceeds as referred to in the circular of the Company dated February 13, 2018. The unutilized amount of the net proceeds will be used for acquisitions of other hospitals or hospital management businesses by the Group. The Directors believe that it is fair and reasonable, and in the interests of the Company and its shareholders as a whole. As at December 31, 2022, the analysis of use of the net proceeds is as follows:

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

As at December 31, 2022, none of the Vanguard Convertible Bonds has been converted into shares of the Company. Details of the Vanguard Convertible Bonds were disclosed in the announcement and circular of the Company dated January 25, 2018 and February 13, 2018, respectively.

Dilution Impact on Earnings per Share

As calculated based on loss attributable to owners of the Company of approximately RMB480.9 million for the year ended December 31, 2022, basic and diluted losses per share of the Company amounted to RMB3.480 and RMB3.480, respectively.

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

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

Hony Convertible Bonds

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

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

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

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

As at December 31, 2022, none of the Hony Convertible Bonds has been converted into shares of the Company. Details of the Hony Convertible Bonds have been disclosed in the announcement and circular of the Company dated May 29, 2018 and June 24, 2018, respectively.

Dilution Impact on Earnings per Share

As calculated based on loss attributable to owners of the Company of approximately RMB480.9 million for the year ended December 31, 2022, basic and diluted losses per share of the Company amounted to RMB3.480 and RMB3.480, respectively.

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

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

LW Convertible Bonds

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

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

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

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

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

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

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

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

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

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

On October 15, 2021, the Company has served a redemption notice to Leap Wave to request for early redemption on all outstanding LW Convertible Bonds in the principal amount of HK$800,000,000, pursuant to which, the Company will pay the early redemption amount, being HK$784,000,000, to Leap Wave in accordance with the following payment schedule:

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

Following the early redemption of the LW Convertible Bonds, there will be no principal amount of the LW Convertible Bonds outstanding and no LW Convertible Bonds have been or will be converted into Shares. Upon the payment of the early redemption amount in full, the LW Convertible Bonds will be cancelled in whole and the Company will be discharged from all of the obligations under and in respect of the LW Convertible Bonds.

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

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

Substantial Shareholders	**As at December 31, 2022**		**Immediately upon full conversion of the Vanguard Convertible Bonds and the Hony Convertible Bonds**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*
Vanguard Glory	97,000,000	70.19	123,000,000	60.62
Hony Fund VIII	0	0.00	38,693,985	19.07
Anhui Zhong'an LP	9,098,800	6.58	9,098,800	4.48

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

During the year ended December 31, 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

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

Executive Directors:

Mr. Chen Shuai *(Chairman and Acting Chief Executive Officer)*
Mr. Lu Wenzuo *(resigned on December 26, 2022)*
Mr. Pu Chengchuan
Ms. Pan Jianli *(appointed on March 29, 2022)*

Non-executive Directors:

Ms. Shi Wenting *(resigned on March 29, 2022)*
Ms. Liu Lu
Ms. Wang Nan

Independent non-executive Directors:

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

Biographical details of the Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 70 to 79 of this annual report.

Mr. Chen Shuai, Mr. Pu Chengchuan and Mr. Shi Luwen shall retire by rotation at the forthcoming annual general meeting of the Company (the "**AGM**"). Ms. Liu Lu and Ms. Wang Nan shall also voluntarily retire at the AGM. All of the aforementioned retiring Directors, being eligible, will offer themselves for re-election at the AGM.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND COMPETING BUSINESS

Save as disclosed under Note 35 "Significant related party transactions" to the consolidated financial statements and the section headed "Convertible Bonds" in this report, no transaction, arrangement or contract of significance (as defined in Appendix 16 to the Listing Rules) in relation to our business to which the Company, its holding company or any of its subsidiaries was a party and in which a Director or controlling shareholder of the Company had a material interest, either directly or indirectly, subsisted at any time during or at the end of the year ended December 31, 2022.

As of December 31, 2022, none of the Directors was interested in any businesses other than our business which competes or is likely to compete with our business, either directly or indirectly or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in this report, at no time during the year ended December 31, 2022 did the Company or any of its subsidiaries enter into any contract of significance with a controlling shareholder of the Company or any of its subsidiaries, or any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2022, the Company conducted the following transactions which constitute non-exempt continuing connected transactions (as defined in the Listing Rules) of the Company, details of these transactions are set out below.

Procurement Agreements

On July 12, 2021, Jiande Hospital, an indirect non-wholly owned subsidiary of the Company, entered into the following agreements which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules:

(i) An agreement (the "**New Medicine Procurement Agreement**") with Zhejiang Zhongyouli Medicines Co., Ltd.*(浙江中友力醫藥有限公司)("**Zhejiang Zhongyouli**"), pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Zhongyouli agreed to sell, certain types of medicines (the "**Medicines**") from time to time during the term of the New Medicine Procurement Agreement, for a term of three years ending on December 31, 2024.

For medicines listed in the Prices Catalogue of the Medical Insurance of Zhejiang Province*(浙江省醫保支付價目錄)which is valid and in effect as at the time of the relevant purchase, the purchase price shall be determined in accordance with the price of the winning bid for supplying medicine to the medical insurance of Zhejiang Province.

For medicines not listed in the Prices Catalogue of the Medical Insurance of Zhejiang Province*(浙江省醫保支付價目錄)which is valid and in effect as at the time of the relevant purchase:

(a) For each of the medicines listed in the Medicine and Medical Device Procurement Platform of Zhejiang Province*(浙江省藥械採購平台), the purchase price shall be determined in accordance with the purchase prices of the same medicines on such platform.

(b) For each of the medicines not listed in the Medicine and Medical Device Procurement Platform of Zhejiang Province*(浙江省藥械採購平台), the purchase price shall be determined after negotiation and agreement between the parties to the New Medicine Procurement Agreement, which shall not be higher than the purchase price of the same medicine offered to other hospitals within Zhejiang Province.

* *For identification purpose only*

(ii) An agreement (the "**New Medical Consumables and Equipment Procurement Agreement**") with Zhejiang Dajia Medical Equipment Co., Ltd.*（浙江大佳醫療器械有限公司）("**Zhejiang Dajia**"), pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Dajia agreed to sell, certain medical consumables and equipment (the "**Medical Consumables and Equipment**") from time to time during the term of the New Medical Consumables and Equipment Procurement Agreement, for a term of three years ending on December 31, 2024.

The prices of such products shall in principle be not higher than the comparable fair market values or prices offered by independent third parties for the medical consumables and equipment to be purchased and will be determined by negotiation and agreement between the parties to the New Medical Consumables and Equipment Procurement Agreement with reference to:

(1) For medical consumables and equipment listed in the Prices Catalogue of the Medical Insurance of Zhejiang Province*（浙江省醫保支付價目錄）which is valid and in effect as at the time of the relevant purchase, the purchase price shall be determined in accordance with the supplying price of such medical consumables and equipment set out in such catalogue.

(2) For medical consumables and equipment not listed in the Prices Catalogue of the Medical Insurance of Zhejiang Province*（浙江省醫保支付價目錄）which is valid and in effect as at the time of the relevant purchase:

(a) For each of the medical consumables and equipment listed in the Medicine and Medical Device Procurement Platform of Zhejiang Province*（浙江省藥械採購平台）, the purchase price shall be determined in accordance with the price of the winning bid for the same medical consumables and equipment listed in such platform (which for this purpose excludes linked price and price under re-negotiation).

(b) For each of the medical consumables and equipment not listed in the Medicine and Device Procurement Platform of Zhejiang Province*（浙江省藥械採購平台）, the purchase price shall be determined after negotiation and agreement between the parties to the New Medical Consumables and Equipment Procurement Agreement, which shall not be higher than the purchase price of the same product offered to other hospitals within Zhejiang Province.

* *For identification purpose only*

Mr. Hong Jiangxin (洪江鑫) ("**Mr. Hong**") is a substantial shareholder of Jiande Hospital, which is an indirectly non-wholly owned subsidiary of the Company and hence, Mr. Hong is a connected person of the Company. Zhejiang Zhongyouli is directly held as to 49% by Mr. Hong and 51% by Mr. Hong Yang and Zhejiang Dajia is a directly wholly-owned subsidiary of Zhejiang Xinxiangli Investment Co., Ltd.* (浙江新祥利投資有限公司) which in turn is held as to 67% by Mr. Hong, 32% by Mr. Hong Yang and 1% by Ms. Hong Lijuan (洪麗娟) ("**Ms. Hong**"). Therefore, Zhejiang Zhongyouli and Zhejiang Dajia are both associates of Mr. Hong under the Listing Rules. Accordingly, Zhejiang Zhongyouli and Zhejiang Dajia are connected persons of the Company under the Listing Rules. As such, the transactions contemplated under each of the New Medicine Procurement Agreement and New Medical Consumables and Equipment Procurement Agreement (collectively, the "**New Procurement Agreements**") constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Amongst certain applicable percentage ratios (excluding profits ratio) calculated pursuant to Chapter 14 of the Listing Rules, the highest applicable percentage ratio in respect of the annual caps for the transactions contemplated under the New Procurement Agreements (the "**Annual Caps**") on an aggregated basis exceeds 5%.

As Zhejiang Zhongyouli and Zhejiang Dajia are connected persons at the subsidiary level, the transactions contemplated under the New Procurement Agreements are connected transactions between the Group and connected persons at the subsidiary level.

The Directors (including the independent non-executive Directors) approved the transactions contemplated under the New Procurement Agreements; and confirmed that the New Procurement Agreements and the transactions contemplated thereunder have been entered into in the ordinary and usual course of business of the Group and are on normal or better commercial terms, and the terms thereof (including the respective Annual Caps set out thereunder) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

On this basis and pursuant to Rule 14A.101 of the Listing Rules, the transactions contemplated under the New Procurement Agreements are subject to reporting, annual review and announcement requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements.

Annual caps for the New Medicine Procurement Agreement

The annual caps in respect of the transactions contemplated under the New Medicine Procurement Agreement for each of the three financial years ending December 31, 2022, December 31, 2023 and December 31, 2024 are expected to be RMB50.0 million for each year, respectively. These annual caps have been determined by reference to (i) the value of the historical amounts for the two years ended December 31, 2020 and the six months ended June 30, 2021 under the previous medicine procurement agreement; (ii) the anticipated demand for the Medicines of the Company for the three financial years ending December 31, 2022, December 31, 2023 and December 31, 2024, based on the business development of Jiande Hospital, as well as the expectation that the business of Jiande Hospital will gradually recover from the COVID-19 pandemic; (iii) the current market prices of the Medicines; and (iv) potential prices fluctuations.

Annual caps for the New Medical Consumables and Equipment Procurement Agreement

The annual caps in respect of the transactions contemplated under the New Medical Consumables and Equipment Procurement Agreement for each of the three financial years ending December 31, 2022, December 31, 2023 and December 31, 2024 are expected to be RMB23.0 million, RMB25.0 million and RMB26.0 million, respectively. These annual caps have been determined by reference to (i) the value of the historical amounts for the two years ended December 31, 2020 and the six months ended June 30, 2021 under the previous medical consumables and equipment procurement agreement; (ii) the anticipated demand for the Medical Consumables and Equipment of the Company for the three financial years ending December 31, 2022, December 31, 2023 and December 31, 2024, based on the business development of Jiande Hospital, new medical specialties introduced and the increase in the number of operations cases of orthopedics, general surgery and cardiology as well as the expectation that the business of Jiande Hospital will gradually recover from the COVID-19 pandemic; (iii) the current market prices of the Medical Consumables and Equipment; and (iv) potential prices fluctuations.

Historical transaction amounts

During the year ended December 31, 2022, the cost of purchasing Medicines, Medical Consumables and Medical Equipment incurred by the Group pursuant to the New Medicine Procurement Agreement and the New Medical Consumables and Equipment Procurement Agreement amounted to approximately RMB10,577,000, comprising (i) approximately RMB6,631,000 paid to Zhejiang Zhongyouli for the purchase of Medicines; and (ii) approximately RMB3,946,000 paid to Zhejiang Dajia for the purchase of Medical Consumables and Equipment. The actual amounts paid by the Group to Zhejiang Zhongyouli and Zhejiang Dajia under the New Medicine Procurement Agreement and the New Medical Consumables and Equipment Procurement Agreement, respectively, did not exceed the above-mentioned annual caps approved by the Board.

Contractual Arrangements

Introduction

On February 16, 2022, the Group acquired the entire equity interests of Hangzhou Jingyouzhi Enterprise Management Company Limited*（杭州靜有智企業管理有限公司）(“**Hangzhou Jingyouzhi**”) (holding 30% of the equity interests in Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd.*（建德大家中醫藥科技有限公司）(“**DJ Pharmaceutical Technology**”) and Zhejiang Dajia Medicines Co., Ltd.*（浙江大佳醫藥有限公司）(“**DJ Medicines**”) and controlling 30% of the equity interests in Jiande Hospital) (the “**Acquisition**”), at a consideration of RMB120 million in accordance with the terms and conditions under an equity transfer agreement (the “**Onshore Equity Transfer Agreement**”). The Group, through Hangzhou Jingyouzhi, indirectly holds 30% equity interests in DJ Medicines and DJ Pharmaceutical Technology, and indirectly controls 30% of the equity interests in Jiande Hospital through a series of structured contracts. This Acquisition contributed to revenue for the sale of pharmaceutical products and general hospital services businesses that the Group engaged in.

Hangzhou Jingyouzhi, Hangzhou Jinhoupu Management Company Limited*（杭州金厚樸企業管理有限公司）(“**Hangzhou Jinhoupu**” or the “**OPCO**”) and Mr. Hong Jiangxin and Mr. Hong Yang (together with Mr. Hong Jiangxin, the “**Vendors**”) have entered into a series of structured contracts (the “**Existing VIE Contracts**”) on February 7, 2022. On April 2, 2022, (i) a series of agreements (the “**Termination Agreements**”) have been entered into by Hangzhou Jingyouzhi, Hangzhou Jinhoupu, and the Vendors to terminate the Existing VIE Contracts; (ii) a series of contracts (the “**New VIE Contracts**”) have been duly executed to establish the new variable interest entity (“**VIE**”) structure; and (iii) the equity transfer in the OPCO from the Vendors to Mr. Qin Chuan and Mr. Liu Hui (the “**PRC Equity Owners**”) pursuant to an equity transfer agreement (“**Associated Equity Transfer Agreement**”) has been completed.

The New VIE Contracts, comprise the following:

(i) the exclusive operation service agreement entered into among Jiande Heyue Enterprise Management Co., Ltd.*（建德和悅企業管理有限公司）(“**Jiande Heyue**”), the OPCO and the PRC Equity Owners (the “**Exclusive Operation Service Agreement**”);

(ii) the exclusive option agreements entered into among Jiande Heyue, the PRC Equity Owners, the OPCO and Jiande Hospital (the “**Exclusive Option Agreements**”);

(iii) the entrustment agreements entered into among Jiande Heyue, the PRC Equity Owners, the OPCO and Jiande Hospital in favor of Jiande Heyue (and its successors or liquidators) or a natural person designated by Jiande Heyue (the “**Entrustment Agreements**”) and the annexure of the powers of attorney executed by the PRC Equity Owners and the OPCO appended thereto (the “**Powers of Attorney**”); and

(iv) the equity pledge agreements entered into among Jiande Heyue, the PRC Equity Owners, the OPCO and Jiande Hospital (the “**Equity Pledge Agreements**”).

* *For identification purpose only*

Background and reasons for use of the New VIE Contracts

The Group is principally engaged in hospital management business and general hospital business in China. Foreign investment activities in the PRC are mainly governed by the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2021 Version) (the "**Negative List**") and the Catalog of Industries for Encouraging Foreign Investment (2020 Version) (the "**Encouraging Catalog**"), which were promulgated and are amended from time to time jointly by The Ministry of Commerce of the PRC (the "**MOFCOM**") and the National Development and Reform Commission (NDRC). The Negative List and the Encouraging Catalog divide industries into four categories in terms of foreign investment, namely, "encouraged", "restricted", "prohibited" and "permitted" (the last category of which includes all industries not listed under the "encouraged", "restricted" and "prohibited" categories).

According to the Negative List, medical institutions fall within the "restricted" investment category, and therefore cannot be held 100% by foreign investments and foreign investments are restricted to the form of sino-foreign equity joint venture. Furthermore, as advised by our PRC legal adviser, Bureau of Commerce of Jiande City, as the competent authority for foreign investment administration in Jiande City, and Health Commission of Jiande City, as the competent authority of medical institutions in Jiande City, are of the view that the Company, as a foreign entity, shall not hold, directly or indirectly, more than 70% of the equity interests in any medical institution in Jiande City (the "**Foreign Ownership Restriction**"). As such, the Company, through Jiande Heyue, holds 70% equity interests in Jiande Hospital and Hangzhou Jinhoupu holds the remaining 30% equity interests in Jiande Hospital.

In light of the Foreign Ownership Restriction, in order to control Jiande Hospital and to prevent leakages of equity and values to the minority shareholders of Jiande Hospital, and to obtain 30% economic benefits of this medical institution attributable to the OPCO, Jiande Heyue entered into the New VIE Contracts with the PRC Equity Owners and the OPCO Group. The New VIE Contracts allow the Group to control and consolidate the OPCO and to obtain 30% economic benefits of Jiande Hospital attributable to the OPCO.

The New VIE Contracts are narrowly tailored because they are only used to address the Foreign Ownership Restriction. The New VIE Contracts are also narrowly tailored to achieve the business purposes of the Company and minimize the potential for conflict with relevant PRC laws and regulations.

Principal terms of the New VIE Contracts

Exclusive Operation Service Agreement

Pursuant to the Exclusive Operation Service Agreement, Jiande Heyue agrees to provide to the OPCO and its affiliated medical institution, being Jiande Hospital, on an exclusive basis, shareholder's rights and investment management related services and medical institution operation services based on their actual business demand. Accordingly, Jiande Heyue agrees to provide services to the OPCO and its affiliated medical institution, including but not limited to, (i) asset and business operational plan formulation and execution, (ii) human resources and operation technology related consultation and management, (iii) technical and commercial market research, (iv) strategies for marketing and business expansion, (v) technical personnel support, (vi) internal management, (vii) provision of comprehensive solution including medical resources sharing and technical consultation, (viii) medical appliances sourcing, (ix) quality control, and (x) other services relating to management and operation of medical institutions and maintenance of appliances and facilities.

Jiande Heyue has proprietary rights to all the intellectual properties developed or created by Jiande Heyue from the performance of these services. During the term of the Exclusive Operation Service Agreement, Jiande Heyue may use the intellectual property rights owned by the OPCO free of charge and without any conditions. The OPCO may also use the intellectual property work created by Jiande Heyue from the services performed by Jiande Heyue in accordance with the Exclusive Operation Service Agreement.

Pursuant to the Exclusive Operation Service Agreement, Jiande Heyue has the right to request for an annual service fee in an amount equivalent to 30% of the annual distributable profits of Jiande Hospital after deducting any loss in the prior year and the statutory provident fund (if applicable) from the OPCO.

In addition, pursuant to the Exclusive Operation Service Agreement, without the prior written approval from Jiande Heyue, the OPCO and the PRC Equity Owners shall not enter into any transactions that may materially affect their assets, obligations, equity interests, rights or operation, including but not limited to (i) the disposal, transfer or acquisition of any assets, (ii) the disposal or transfer of the shares in its affiliated medical institution, and (iii) the entering into of any contracts or arrangements which may conflict with the New VIE Contracts or adversely affect the interests of Jiande Heyue under the New VIE Contracts.

Exclusive Option Agreements

Pursuant to the Exclusive Option Agreements, (i) each of the PRC Equity Owners irrevocably and unconditionally grants an exclusive option to Jiande Heyue which entitles Jiande Heyue to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interests in the OPCO itself or through its designated person(s), (ii) the OPCO irrevocably and unconditionally grants an exclusive option to Jiande Heyue which entitles Jiande Heyue to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of the OPCO itself or through its designated person(s), (iii) the OPCO irrevocably and unconditionally grants an exclusive option to Jiande Heyue which entitles Jiande Heyue to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the 30% of equity interests in Jiande Hospital from the OPCO itself or through its designated person(s), and (iv) Jiande Hospital irrevocably and unconditionally grants an exclusive option to Jiande Heyue which entitles Jiande Heyue to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of Jiande Hospital attributable to the OPCO from Jiande Hospital itself or through its designated person(s). Jiande Heyue may appoint designated person(s) when exercising its option. The transfer price of the relevant equity interests and assets shall be the minimum purchase price permitted under PRC law, and each of the PRC Equity Owners, the OPCO and Jiande Hospital will undertake that they/it will, subject to applicable PRC laws, return in full the consideration received in relation to such transfer of equity interests or assets to Jiande Heyue.

The PRC Equity Owners and the OPCO undertake to endeavor to develop the business of the OPCO and Jiande Hospital and not to take any action or fail to take any action which may affect their asset value, goodwill and effectiveness of business licenses. Furthermore, in the absence of prior written consent of Jiande Heyue, the PRC Equity Owners and the OPCO shall not transfer or otherwise dispose of any option under the Exclusive Option Agreements, or create any encumbrances thereon and Jiande Hospital shall not assist in transferring or otherwise disposing of any option or assets under the Exclusive Option Agreements, or creating any encumbrances thereon.

In addition, the PRC Equity Owners, the OPCO and Jiande Hospital undertake that, upon Jiande Heyue issuing the notice to exercise the option in accordance with the Exclusive Option Agreements, they will implement necessary actions to effect the transfer and to ensure there is no defects, security rights or any restrictions imposed by third-party in the legal title of the option or transferred assets, as the case may be. Each of the parties to the Exclusive Option Agreements confirms and agrees that (i) in the event of a dissolution or liquidation of the OPCO and Jiande Hospital (as applicable) under the PRC laws, all the residual assets which are attributable to the PRC Equity Owners and the OPCO (as applicable) shall be transferred to Jiande Heyue or its designated person(s) at the minimum purchase price permitted under PRC law, and each of the PRC Equity Owners and the OPCO undertakes that he/it will, subject to applicable PRC laws, return in full the consideration received in relation to such transfer to Jiande Heyue or its designated person(s), (ii) in the event of bankruptcy, reorganization or merger of the OPCO, death or incapacity of the PRC Equity Owners or any other event which causes changes to their shareholding in the OPCO, or the OPCO's shareholding in Jiande Hospital (as applicable), the successor of the PRC Equity Owners' equity interests in the OPCO, or the OPCO's equity interests in Jiande Hospital shall be bound by the New VIE Contracts, and (iii) any disposal of shareholding in the OPCO and Jiande Hospital shall be governed by the New VIE Contracts unless Jiande Heyue consents otherwise in writing.

Entrustment Agreements and Powers of Attorney

Pursuant to the Entrustment Agreements and the Powers of Attorney annexed thereto, (i) the PRC Equity Owners irrevocably agree to authorize the Attorney to exercise all of its rights and powers as a shareholder of the OPCO and Jiande Hospital (as applicable), including the rights to vote in a shareholders' meeting, sign minutes, and file documents with the relevant companies registry; and (ii) the OPCO irrevocably agrees to authorize the Attorney to exercise all of its rights and powers as a shareholder of Jiande Hospital (as applicable), including the rights to vote in a shareholders' meeting, sign minutes, and file documents with the relevant companies registry. As Jiande Heyue is a wholly-owned subsidiary of the Company, the terms of the Entrustment Agreements and the Powers of Attorney will give the Company full control over all corporate decisions made by such Attorney and exercise management control over the OPCO, and the 30% equity interests in Jiande Hospital.

Furthermore, since the Exclusive Option Agreements, the Entrustment Agreements and the Powers of Attorney encompass dealing with the assets of the OPCO and Jiande Hospital, the liquidator can seize their assets in a winding up situation for the benefit of Jiande Heyue's shareholders or creditors.

Equity Pledge Agreements

Pursuant to the Equity Pledge Agreements, the PRC Equity Owners and the OPCO agree to pledge all of his/its respective equity interests in the OPCO and Jiande Hospital to Jiande Heyue to secure performance of all their obligations and the obligations of Jiande Hospital under the New VIE Contracts.

To the extent permitted by the PRC laws and best knowledge of the PRC Equity Owners, if the OPCO and Jiande Hospital declare any dividend during the term of the pledge, Jiande Heyue is entitled to receive all dividends or other income arising from the pledged equity interests, if any. In case of any breach of obligations by the PRC Equity Owners, the OPCO or Jiande Hospital, upon issuing a written notice to the PRC Equity Owners and the OPCO, Jiande Heyue will be entitled to all remedies available in the New VIE Contracts including but not limited to disposing of the pledged equity interests.

In addition, pursuant to the Equity Pledge Agreements, the PRC Equity Owners and the OPCO undertake to Jiande Heyue, among other things, not to transfer their equity interests in the OPCO and Jiande Hospital and not to create or allow any pledge or encumbrance thereon that may affect the rights and interest of Jiande Heyue without its prior written consent. The OPCO and Jiande Hospital undertake to Jiande Heyue, among other things, not to assist to transfer the equity interests in the OPCO and Jiande Hospital held by the PRC Equity Owners and the OPCO (as applicable) or to create or allow any pledge or encumbrance thereon without Jiande Heyue's prior written consent.

During the year ended December 31, 2022, (i) there were no material changes in the New VIE Contracts or the circumstances under which they were adopted; and (ii) none of the New VIE Contracts mentioned above had been unwound as none of the restrictions that led to the adoption of the New VIE Contracts were removed.

Internal control measures implemented by the Group

The Group has adopted the following measures to ensure legal and regulatory compliance of the New VIE Contracts:

- as part of the internal control measures, major issues arising from the implementation of the New VIE Contracts with the PRC Equity Owners and the OPCO Group will be regularly reviewed, at least on an annual basis, by the Board. The Board will determine, as part of its periodic review process, whether legal advisers and/or other professionals will be retained to assist the Group to deal with specific issues arising from the New VIE Contracts;

- the independent non-executive Directors will review the implementation and compliance of the New VIE Contracts;

- matters relating to compliance and regulatory enquiries from government authorities (if any) will be discussed at regular meetings by the Board no less frequently than on a quarterly basis;

- the relevant business units and operation divisions of the Group will report regularly, which will be no less frequently than on a monthly basis, to the senior management of the Company in relation to compliance and performance conditions under the New VIE Contracts and other related matters;

- the PRC Equity Owners and the OPCO will undertake that they will not carry on, own or acquire any business which is in competition with or is likely to be in competition with the business carried on by Jiande Hospital without our prior written consent; and

- the Group will unwind the VIE Contracts as soon as the law allows the business to be operated without them.

As of December 31, 2022, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry, the Directors are not aware of any factors that would lead to any interference from or restrictions imposed by any PRC governing bodies on the Group's operating the businesses through Jiande Hospital under the Existing VIE Contracts.

Risks associated with the New VIE Contracts and the actions taken by the Company to mitigate the risks

Risks associated with the New VIE Contracts	Mitigation actions taken by the Company
If the PRC government finds that the New VIE Contracts do not comply with PRC laws and regulations, or if these laws or regulations or their interpretations change in the future, the Company could be subject to severe penalties or be forced to relinquish our interests received through the New VIE Contracts.	According to the agreements of the New VIE Contracts, in the event of any changes in the relevant laws and regulations that result in the legal effect of the agreement and its performance are not compliant with the laws and regulations of the PRC, the parties to the agreements shall take action in keep its legal effect, or otherwise realize the purpose and intention of new VIE contracts. The Directors will closely monitor the latest development of the existing or future applicable PRC laws or regulations (including the Foreign Investment Law of the PRC), so as to comply with relevant rules and regulations in the PRC.
The New VIE Contracts may not be as effective in providing operational control as direct ownership and any member of the OPCO Group or the PRC Equity Owners may fail to perform their obligations under the New VIE Contracts.	Each of the New VIE Contracts contains a dispute resolution provision, which stipulates that in the event of any dispute relating to the interpretation and performance of the New VIE Contracts, the parties shall negotiate in good faith to resolve such disputes. If the parties fail to reach an agreement on the resolution of such a dispute within 30 days, the relevant dispute may be submitted to the China International Economic and Trade Arbitration Commission for arbitration in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing, and the language used in the arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties.

Risks associated with the New VIE Contracts	Mitigation actions taken by the Company
The Group may lose control over any member of the OPCO Group and may not enjoy 30% of the economic benefits of Jiande Hospital if the OPCO declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.	Pursuant to the Exclusive Option Agreements, (i) in the event of a dissolution or liquidation of the OPCO and Jiande Hospital (as applicable) under the PRC laws, all the residual assets which are attributable to the PRC Equity Owners and the OPCO (as applicable) shall be transferred to Jiande Heyue or its designated person(s) at the minimum purchase price permitted under PRC law, and each of the PRC Equity Owners, the OPCO and Jiande Hospital undertakes that he/it will, subject to applicable PRC laws, return in full the consideration received in relation to such transfer to Jiande Heyue or its designated person(s), (ii) in the event of bankruptcy, reorganization or merger of the OPCO, death or incapacity of the PRC Equity Owners or any other event which causes changes to the PRC Equity Owner's shareholding in the OPCO or the OPCO's shareholding in Jiande Hospital, the successor of the PRC Equity Owners' equity interests in the OPCO and the successor of the OPCO's equity interests in Jiande Hospital shall be bound by the New VIE Contracts, and (iii) any disposal of shareholding in the OPCO or the OPCO's shareholding in Jiande Hospital shall be governed by the New VIE Contracts unless Jiande Heyue consents otherwise in writing.
The New VIE Contracts may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that we owe additional taxes could substantially reduce the Group's net income.	In accordance with applicable PRC laws and regulations, under the condition that the OPCO executes the VIE Contracts in accordance with the terms of the structured contract, New VIE Contracts will not be challenged by the PRC tax authorities or other governmental authorities, unless the PRC tax authorities determine that such transactions do not comply with the independent transaction principle.

Risks associated with the New VIE Contracts	Mitigation actions taken by the Company
The PRC Equity Owners may have conflicts of interest with the Group, which may materially and adversely affect the Group's business and financial conditions.	The Company confirms that appropriate arrangements have been made to address the potential conflict of interests between the PRC Equity Owners and the Group. Each of the PRC Equity Owners has made certain consents, confirmations and the undertakings. The PRC Equity Owners have undertaken under the Exclusive Option Agreements that, during the period that the New VIE Contracts remain effective, they shall not take or omit to take any action which may lead to a conflict of interest with Jiande Heyue or Jiande Heyue's direct or indirect shareholders. If there is any conflict of interest, Jiande Heyue shall have the right to decide in its sole discretion on how to deal with such conflict of interest in accordance with the applicable PRC laws. The PRC Equity Owners and the OPCO will unconditionally follow the instructions of Jiande Heyue to take any action to eliminate such conflict of interest.
Certain terms of the New VIE Contracts may not be enforceable under PRC law and enforcement of certain of the Group's rights under the New VIE Contracts is subject to regulatory approval.	All the agreements which constitute the New VIE Contracts are governed by PRC laws and all disputes will be submitted for arbitration, whose ruling will be final and binding. Accordingly, these agreements would be interpreted in accordance with PRC laws and disputes would be resolved in accordance with PRC legal procedures. Under PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order. In the event that the Group is unable to enforce the New VIE Contracts, or if the Group suffers significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert control over the PRC Equity Owners, the OPCO and the 30% equity interests in Jiande Hospital.

Risks associated with the New VIE Contracts	Mitigation actions taken by the Company
	The New VIE Contracts contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of the OPCO Group and the PRC Equity Owners, injunctive relief and/or winding up of these entities. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, these terms may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order. However, under the PRC law, the parties may apply to a PRC court for enforcement of the arbitral award. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC. Therefore, in the event of breach of any of the New VIE Contracts by the OPCO Group and the PRC Equity Owners, and if the Group is unable to enforce the New VIE Contracts, the Group may not be able to exert control over the PRC Equity Owners, the OPCO and the 30% equity interests in Jiande Hospital, which could negatively affect our ability to conduct our business. Pursuant to the New VIE Contracts, Jiande Heyue (or its designee) has the exclusive right to purchase all or any part of the equity interests in the OPCO and all or any part of the 30% equity interests in Jiande Hospital from the PRC Equity Owners and the OPCO by the minimum price permitted under the then applicable PRC laws. The equity interests transfer is subject to the approval from or filings with the PRC's competent departments, which is outside of the Group's control. As disclosed in the Company's announcement dated 16 February 2022 and confirmed by the parties to the VIE Contracts, the Company's PRC legal advisers believe that the new VIE Contracts are entered into for the purpose of fulfilling the commercial purpose of the parties and minimising the possibility of violating applicable PRC laws and regulations.

Risks associated with the New VIE Contracts	Mitigation actions taken by the Company
Our current corporate structure and business operations may be affected by the Foreign Investment Law.	Foreign Investment Law does not contain a concrete guidance to deal with the existing VIE structures. As such, the Board will monitor the implementation of the Foreign Investment Law and discuss with the Company's PRC legal adviser on a regular basis in order to assess any possible impact arising from the implementation of the Foreign Investment Law on the New VIE Contracts and the business operation of the OPCO Group. In case there would be material and adverse effect on the Onshore Target Companies or the business of the OPCO Group arising from the Foreign Investment Law, the Company will timely publish announcements in relation to (i) any amendments to or interpretations of the Foreign Investment Law; and (ii) any material impact of the Foreign Investment Law on the OPCO Group's operations and financial position.
The Group would be adversely affected if OPCO suffers losses	As advised by our PRC legal adviser, none of the New VIE Contracts contains the provisions that the Group is obligated to share the losses of the OPCO or provide financial support to the OPCO. Further, the OPCO is a limited liability company and will be solely liable for its own debts and losses with assets and properties owned by it. Under the PRC laws, Jiande Heyue is not required to share the losses of the OPCO or provide financial support to the OPCO.

Risks associated with the New VIE Contracts	Mitigation actions taken by the Company
Limitations in acquiring ownership in the equity interest of the OPCO	Pursuant to the Exclusive Option Agreements, (i) each of the PRC Equity Owners irrevocably and unconditionally grants an exclusive option to Jiande Heyue which entitles Jiande Heyue to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interests in the OPCO itself or through its designated person(s), (ii) the OPCO irrevocably and unconditionally grants an exclusive option to Jiande Heyue which entitles Jiande Heyue to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of the OPCO itself or through its designated person(s), (iii) the OPCO irrevocably and unconditionally grants an exclusive option to Jiande Heyue which entitles Jiande Heyue to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the 30% of equity interests in Jiande Hospital from the OPCO itself or through its designated person(s), and (iv) Jiande Hospital irrevocably and unconditionally grants an exclusive option to Jiande Heyue which entitles Jiande Heyue to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of Jiande Hospital attributable to the OPCO from Jiande Hospital itself or through its designated person(s). Jiande Heyue may appoint designated person(s) when exercising its option. The transfer price of the relevant equity interests and assets shall be the minimum purchase price permitted under PRC law, and each of the PRC Equity Owners, the OPCO and Jiande Hospital will undertake that they/it will, subject to applicable PRC laws, return in full the consideration received in relation to such transfer of equity interests or assets to Jiande Heyue.
The Company does not have any insurance which covers the risks relating to the New VIE Contracts and the transactions contemplated thereunder	The Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. The Company will continue evaluating the feasibility, the cost and the benefit of insuring the transactions contemplated under the New VIE Contracts.

Waiver from the Stock Exchange and annual review

On April 3, 2022, the Company has applied for a waiver (the "**Waiver**") pursuant to Rule 14A.102 of the Listing Rules from (i) fixing the term of the New VIE Contracts for a period of not exceeding three years under Rule 14A.52 of the Listing Rules; and (ii) setting a maximum annual cap for the service fees payable by the OPCO to Jiande Heyue under Rule 14A.53 of the Listing Rules. The Stock Exchange has granted the Waiver, subject to conditions.

The independent non-executive Directors have confirmed that (i) the transactions carried out during the year ended December 31, 2022 have been entered into in accordance with the relevant provisions of the New VIE Contracts and that the profit generated by the OPCO Group has been substantially retained by the Group; (ii) no dividends or other distributions have been made by the OPCO Group to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) any new contracts entered into, renewed or reproduced between the Group and the OPCO Group during the year ended December 31, 2022 (if any) are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole.

Please refer to the announcements published by the Company on October 27, 2017, November 1, 2017, February 16, 2022, April 3, 2022 and the circular published by the Company on December 15, 2017 for details of the New VIE Contracts.

Confirmation from Directors in respect of continuing connected transactions

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

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

(b) on normal commercial terms or better; and

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

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

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

Auditor's report on continuing connected transactions

The Company's auditor was engaged to report on the Group's continuing connected transactions as disclosed above in accordance with the Hong Kong Standard on Assurance Engagement 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on page 35 to 38 of the Annual Report in accordance with paragraph 14A.56 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

In addition, all of the continuing connected transactions of the Company disclosed above which constitute related party transactions were set out in Note 35 to the consolidated financial statements in this annual report. Save as disclosed above, all other related party transactions as described in Note 35 to the consolidated financial statements did not fall under the definition of "continuing connected transaction" or "connected transaction" under the Listing Rules.

Save for the continuing connected transaction as disclosed above and the related party transactions as disclosed in Note 35 to the consolidated financial statements in this annual report, during the year ended December 31, 2022, the Company did not enter into any connected transactions and/or continuing connected transactions which were required to be disclosed in accordance with the requirements of Chapter 14A of the Listing Rules. The Company has complied with all applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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

As at December 31, 2022, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, under section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (iii) which were required under the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares and underlying shares of the Company

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

Notes:

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

(2) As of December 31, 2022, the total number of issued shares of the Company was 138,194,000.

Save as disclosed above, as of December 31, 2022, so far as is known to the Directors, none of the Directors and chief executives of the Company had or were deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified under Divisions 7 and 8 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As of December 31, 2022, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the shares or underlying shares of the Company which were required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued shares of the Company:

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

Notes:

(1) Vanguard Glory is a wholly-owned subsidiary of Hony Fund V, L.P. and holds (a) 97,000,000 shares of the Company and (b) convertible bonds issued by the Company, which can be converted into 26,000,000 shares of the Company and represent approximately 18.81% of the issued share capital of the Company as of December 31, 2022. For further details, please refer to the section headed "Convertible Bonds" in this report.

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

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

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

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

(6) As of December 31, 2022, the total number of issued shares of the Company was 138,194,000.

SHARE-BASED PAYMENT SCHEMES

Save as disclosed below and under Note 23 to the consolidated financial statements, the Company does not have any other share option schemes.

(a) Share Subscription Agreement

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

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

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

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

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

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

As of December 31, 2022, pursuant to the Share Subscription Agreement and the Amendment Agreements, the granted share options have been finally settled when the options were vested or repurchased.

(b) Pre-IPO Share Appreciation Rights Scheme

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

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

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

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

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

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

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

The share-based compensation expense related to the Pre-IPO SARs Scheme of RMB749,000 were derecognized as "cost of revenue" for the year ended December 31, 2022 (2021: RMB568,000 were derecognized as "cost of revenue").

(c) Service Contract with Mr. Lu Wenzuo

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

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

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

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

On January 25, 2019, Mr. Lu Wenzuo submitted an application to New Pride for the exercise of Mr. Lu's SARs amounting to RMB13,623,000. As of December 31, 2022, the amount in respect of Mr. Lu's SARs had been settled.

(d) Share Incentive Scheme

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

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

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

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

Share-based compensation expenses related to the Share Incentive Scheme of RMB130,000 were recognized as 'cost of revenue' for the year ended December 31, 2022 (2021: RMB676,000).

(e) Post-IPO Share Appreciation Rights Scheme

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

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

(f) Share Award Scheme

The Company has adopted a share award scheme of the Company (the "**Share Award Scheme**") for a term of 10 years from January 18, 2021.

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

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

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

The purposes of the Share Award Scheme are (i) to encourage or facilitate the holding of Shares by the SAS Eligible Participants; (ii) to encourage and retain the SAS Eligible Participants to work with the Group; and (iii) to provide additional incentive for the SAS Eligible Participants to achieve performance goals, with a view to achieving the objectives of increasing the value of the Company and aligning the interests of the SAS Eligible Participants with the Shareholders through ownership of Shares.

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

The remaining life of the Share Award Scheme is 8 years. No payment is required on acceptance of the Share Awards and for the Share Awarded. As at the date of this annual report, the total number of shares available for issue under the Share Award Scheme was 13,819,400, representing 10% of the issued shares of the Company.

Since the adoption of the Share Award Scheme on 18 January 2021 and up to the date of this annual report, no Share Award has been granted, vested, lapsed or cancelled pursuant to the Share Award Scheme.

As of 1 January 2022 and 31 December 2022, the number of shares available for grant under the scheme mandate of the Share Award Scheme was 13,819,400.

The aggregated maximum number of Shares that the SAS Trustee may purchase must not exceed 10% of the Company's share capital in issue from time to time, i.e. 13,819,400 Shares (representing approximately 10% of the issued shares of the Company as at the date of this annual report).

As the date of this annual report, the SAS Trustee has purchased 592,000 Shares pursuant to the Share Award Scheme, representing approximately 0.43% of the issued shares of the Company as at the date of this annual report. The remaining number of Shares which may be purchased by the SAS Trustee is 13,227,400, representing approximately 9.57% of the issued shares of the Company as at the date of this annual report.

Where any grant of Share Awards to a SAS Eligible Participant would result in the shares issued and to be issued in respect of all share awards granted to such person (excluding any share awards lapsed in accordance with the terms of the scheme) in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the shares of the Company in issue, such grant must be separately approved by shareholders of the Company in general meeting with such SAS Eligible Participant and his/her close associates (or associates if the participant is a connected person) abstaining from voting. The Company must send a circular to the shareholders.

The vesting period for Share Awards shall not be less than 12 months.

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

EQUITY-LINKED AGREEMENTS

Save for the share-based payment schemes as set out above and the convertible bonds issued by the Company as disclosed in the section headed "Convertible Bonds" in this report, no equity-linked agreement that would or might result in the Company issuing shares, or requiring the Company to enter into an agreement that would or might result in the Company issuing shares, was entered into by the Company during the year ended December 31, 2022 or subsisted at the end of 2022.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

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

MINIMUM PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

EMOLUMENT POLICY AND SENIOR MANAGEMENT'S EMOLUMENTS

Remuneration policy of the Group is reviewed regularly, making reference to legal framework, market condition and performance of the Group and individual staff (including the Directors). Under the Share Award Scheme, Share Award is granted based on individual employee's performance and the achievement of certain goals that are consistent with the Group's objective of maximising long-term value for the Shareholders. The remuneration policy and remuneration packages of the Directors and member of the senior management of the Group are reviewed by the Remuneration Committee. The Directors' fees are subject to approval by the shareholders of the Company at general meetings.

The five individuals whose remuneration was the highest in the Group for the year ended December 31, 2022 included two Directors and three members of the senior management.

Details of the remuneration of the five highest paid individuals and each of the Directors for the year ended December 31, 2022 are set out in Note 8(b) and Note 37 to the consolidated financial statements, respectively. None of the Directors has agreed to waive any emoluments for the year ended December 31, 2022.

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

PENSION SCHEME

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

The Group's contributions to the Central Pension Scheme vest fully and immediately with the employees. Accordingly, (i) for each of the two years ended December 31, 2021 and December 31, 2022, there was no forfeiture of contributions under the Central Pension Scheme; and (ii) there were no forfeited contributions available for the Group to reduce its existing level of contributions to the Central Pension Scheme as at December 31, 2021 and December 31, 2022.

Certain subsidiary of the Group operates a post employment benefit plan during the year ended December 31, 2022. Details of the post employment benefit plan are set out in Note 28 to the consolidated financial statements. For the year end December 31, 2021 and December 31, 2022 the Group did not have any defined benefit plan.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or a substantial part of the business of the Company were entered into or existed during the year ended December 31, 2022.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in his/her favor, or in which he/she is acquitted. Such permitted indemnity provision was in force throughout the year ended December 31, 2022 and up to the date of this report.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

Details of the trade and bills payables of the Group as at December 31, 2022 are set out in note 25 to the financial statements. Up to the date of this report, approximately 80% of the trade and bills payable to the major suppliers has been settled.

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

During the year ended December 31, 2022, the Group did not have any significant disputes with our major suppliers.

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

Our major customers include the Group Hospitals. The years of business relationship of these major customers with the Group ranged between nil and six years and the credit terms granted to them ranged from 90 to 365 days. Details of the trade and bills receivables of the Group as at December 31, 2022 are set out in note 16 to the financial statements. Up to the date of this report, approximately 90% of the trade and bills receivables from the major customers has been settled.

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

During the year ended December 31, 2022, the Group has not experienced any major disruption of business due to material delay or default of payment by our customers due to their financial difficulties. The Group did not have any material dispute with our customers.

MAJOR CUSTOMERS AND SUPPLIERS

In 2022, Cixi Hospital and Jinhua Guangfu Hospital were our largest customers, and the Group received management service fees from Cixi Hospital and Jinhua Guangfu Hospital in respect of the provision of management and consultancy services to them. In 2022, the management service fees recognized from them (net of value-added tax) were approximately RMB81.6 million (2021: approximately RMB217.5 million), accounting for approximately 7.1% (2021: approximately 41.8%) of our revenue, and the management service fees recognised from the largest customer accounted for approximately 5.2% (2021: approximately 31.6%) of our revenue for the year ended December 31, 2022. Our other customers are patients of Yangsi Hospital and Jiande Hospital, from whom we derive revenue by providing general hospital services.

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

In 2022, our purchases from the top five suppliers of the Group amounted to RMB283.1 million (2021: approximately RMB69.3 million), accounting for approximately 47.5% (2021: approximately 61.9%) of our total purchase, and the amount of purchase from the largest supplier accounted for approximately 25.2% (2021: approximately 27.5%) of our total purchase for the year ended December 31, 2022.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year ended December 31, 2022 was the Company or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

RISK MANAGEMENT

Market Risk

We conduct our business in China, from where we derive our revenue. The functional currency for all of our operating subsidiaries is RMB. In Hong Kong, where the currency is HKD, we accept certain exchange rate risks to meet investment and financing business needs. We are mainly exposed to price risk in respect of convertible bonds hold by the Group, details of the price risk of the Group during the year ended December 31, 2022 are set out in Note 3.1(iv) to the consolidated financial statements. The wealth management products we held in 2022 were classified as financial assets at fair value through profit and loss. In view of the short maturity and relatively stable prices of those wealth management products, we assess its price risk to be low. Borrowings obtained at variable rates expose us to cash flow interest rate risk, which may be offset in part by cash and wealth management products held at variable rates, and also expose us to fair value interest rate risk. As of December 31, 2022, our borrowings amounted to approximately RMB69.4 million bearing no variable interest rates.

Credit risk

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

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

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

The expected loss rates are based on the payment profiles of sales over a period of 12 month before December 31, 2022 or December 31, 2021, respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

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

Details of the credit risk of the Group during the year ended December 31, 2022 are set out in Note 3.1(ii) to the consolidated financial statements.

Liquidity Risk

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

Capital Risk

Our primary objectives when managing capital are to safeguard our ability to continue as a going concern in order to provide returns to our shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. We actively and regularly review and manage our capital structure to maintain a balance between the higher equity shareholders' returns that may be achieved with higher levels of borrowings and the advantage and security afforded by a sound capital position, and make adjustments to our capital structure in light of changes in economic conditions. In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debt. We monitor our capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. Our liability-to-asset ratio was approximately 64% as of December 31, 2021 and approximately 82% as of December 31, 2022. Neither our Company nor any of our subsidiaries is subject to externally imposed capital requirements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

It is our corporate and social responsibility to promote sustainable development and foster an environmentally-friendly environment. The Group has implemented internal policies and procedures with respect to environmental protection at the Group Hospitals and has engaged qualified service providers to dispose of our Group Hospitals' medical waste. The Group has established a hospital infection management committee that sets out annual work plans and carries out supervision on preventing hospital infections. For the year ended December 31, 2022, the Group incurred approximately RMB708,642 (2021: approximately RMB323,702) in environmental compliance costs. The Group integrates international standards, national regulations and industry standards into its medical services, and procurement and business management activities. The specific tasks are performed by the Group's subsidiaries and medical institutions. The Group's functional departments are connected to ensure that daily operations are in line with the environmental, social and governance regulations. During the year ended December 31, 2022 and up to the date of this report, none of our management received reports concerning environmental claims, lawsuits, penalties or administrative sanctions.

Further discussions on the Group's environmental policy and our relationships with various stakeholders are covered by a separate environmental, social and governance report which will be available on the Group's website under the "Investor Relations" section and the website of the Stock Exchange on or before April 30, 2023.

COMPLIANCE WITH LAWS AND REGULATIONS

Our operations are mainly carried out by the Company's subsidiaries in China while the Company's shares are listed on the Stock Exchange. Our operations shall comply with relevant laws and regulations in China, Hong Kong and the Cayman Islands. During the year ended December 31, 2022 and up to the date of this report, the Group has complied with all the relevant laws and regulations in China, Hong Kong and the Cayman Islands in all material respects.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

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

AUDITOR

On June 22, 2022, PricewaterhouseCoopers retired as auditor of the Company and KPMG was appointed as the Company's auditor until the conclusion of the next annual general meeting of the Company.

A resolution for the re-appointment of KPMG as auditor of the Company will be proposed at the forthcoming annual general meeting.

The consolidated financial statements of the Company for the previous two years ended December 31, 2021 and 2020 were audited by PricewaterhouseCoopers.

On behalf of the Board

Chen Shuai
Chairman and Acting Chief Executive Officer

Hong Kong
March 27, 2023

DIRECTORS

Chen Shuai（陳帥）

Chairman and Acting Chief Executive Officer

Mr. Chen, aged 49, was appointed as a non-executive Director, the Chairman of the Board and the acting Chief Executive Officer of the Company in June 2020 and was re-designated as an executive Director on November 20, 2020. Currently, Mr. Chen is the chairman of the Nomination Committee of the Company. Mr. Chen has extensive experience in investment management, supplier management and retail business. He joined Hony Capital (a series of private equity investment funds, together with their respective management companies/ general partners, "**Hony Capital**") in 2003 and has served as a managing director of Hony Capital since 2011. Mr. Chen also currently serves as the deputy general manager of the private equity investment department and a member of the private equity business steering committee of Hony Capital, as well as general manager of Hony Capital's Shanghai platform. Prior to joining Hony Capital, Mr. Chen was the senior financial manager of Wumart Stores, Inc., general manager of the vendor management department of Beijing Jiahe Group（北京家和集團）, and senior investment manager of the investment management department and urban strategic circulation department of D'Long International Strategic Investment Company.

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

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

Pu Chengchuan (蒲成川)

Executive Director

Mr. Pu, aged 36, was appointed as an executive Director of the Company on June 22, 2021. Currently, Mr. Pu is a member of the Remuneration Committee of the Company Mr. Pu currently serves as a chief investment officer of the private equity investment department of Hony Capital, focusing on the investment in medical and healthcare-related fields. Prior to joining Hony Capital, Mr. Pu worked in the investment department of CITIC Private Equity Funds Management Co., Ltd. from 2012 to 2016, and in the strategic investment department of Beijing Cathay Health Technology Co, Ltd.* (北京國泰智慧醫療科技有限公司) from 2016 to 2018.

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

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

* *For identification purpose only*

Pan Jianli (潘建麗)

Executive Director

Ms. Pan, aged 45, was appointed as the Chief Financial Officer of the Company in April 2021, and was appointed as an executive Director of the Company on March 29, 2022. Currently, she is responsible for the supervision and management of the Company in the fields such as finance, investment and financing, risk control and auditing. Ms. Pan has over 20 years of work experience in the field of financial management and investment, and has extensive experience in financial auditing, merger, acquisition and reorganization, and cross-border investment and financing of listed companies. From April 2007 to December 2017, Ms. Pan served as the assistant to president, company secretary, and head of the finance department and investment management department of China Glass Holdings Limited (whose shares are listed on the Main Board of the Stock Exchange, Stock Code: 03300), and was responsible for capital operation, compliance, financial management and corporate external auditing of listed companies. From December 2017 until before joining the Company, she served as a partner of a cross-border investment institution, responsible for cross-border mergers and acquisitions and financing consulting business based on the Hong Kong capital market. Since December 6, 2019, Ms. Pan has been serving as an independent non-executive director of China Singyes New Materials Holdings Limited (whose shares are listed on the GEM of the Stock Exchange, Stock Code: 08073), and as the chairperson of the Audit Committee and a member of the Remuneration Committee of the company.

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

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

Liu Lu（劉路）

Non-executive Director

Ms. Liu Lu（劉路）, aged 49, was appointed as a non-executive Director of the Company on May 26, 2017. Ms. Liu is mainly responsible for overseeing the corporate development and strategic planning of our Group. From November 2008 to March 2015, Ms. Liu served as an assistant to the general manager and subsequently a deputy general manager at Anhui Venture Capital Investment Co., Ltd.（安徽省創業投資有限公司）. From March 2015 to February 2016, Ms. Liu was a deputy general manager at Anhui Hi-Tech Industry Investment Co., Ltd.（安徽省高新技術產業投資公司）. Since December 2015, Ms. Liu has been the general manager of Anhui Zhong'an Health Investment Management Co., Ltd.（安徽中安健康投資管理有限公司）. She currently serves as a director of Anhui Sunhere Pharmaceutical Excipients Co., Ltd.（安徽山河藥用輔料股份有限公司）, a company listed on the Shenzhen Stock Exchange (Shenzhen Stock Exchange Stock Code: 300452). For directorships held by Ms. Liu in substantial shareholders of the Company within the meaning of Part XV of the SFO, please refer to the section headed "Report of the Directors – Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company" in this annual report.

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

Wang Nan（王楠）

Non-executive Director

Ms. Wang Nan（王楠）, aged 46, was appointed as a non-executive Director of the Company on May 26, 2017. Ms. Wang is mainly responsible for overseeing the corporate development and strategic planning of our Group. Since August 1995, Ms. Wang has been serving in Neusoft Corporation（東軟集團股份有限公司）(a company listed on the Shanghai Stock Exchange with stock code 600718), where she holds various positions, including the head of the mobile internet division, a deputy director of the advanced automotive electronic technology research center and the general manager of the strategic alliance and international business development division. Ms. Wang has been serving as a senior vice president and the secretary to the board of directors at Neusoft Corporation since May 2011 and December 2011, respectively.

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

Dang Jinxue（党金雪）

Independent non-executive Director

Mr. Dang Jinxue（党金雪）, aged 68, was appointed as an independent non-executive Director on March 9, 2020. Currently, Mr. Dang is the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee of the Company. He has extensive experience as a hospital director, has outstanding ability in handling all aspects of hospital development and management, and also has in-depth knowledge of the medical capital market. Mr. Dang served as the dean of sales of Xijing Hospital（西京醫院）from December 2003 to 2010, and the dean of Weinan Economic Development Zone People's Hospital (private)（渭南經開區人民醫院（民營））from 2011 to 2014. He served as the dean of Xi'an Chang'an Hospital (private)（西安長安醫院（民營））from July 2013 to December 2016 and the medical director of Xi'an Xin Chang'an Medical Investment Company Limited（西安新長安醫療投資有限公司）from January 2017 to January 2018. Since March 2018 and up to the date of this report, Mr. Dang has been serving as the deputy general manager of Beijing Kangjia Yongjian Medical Investment Management Company Limited（北京康嘉永健醫療投資管理有限公司）and since August 2019, he has been serving as the dean of preparation of Yulin Rehabilitation Hospital (Youfang Hospital)（榆林康復醫院（友芳醫院））.

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

Shi Luwen (史錄文)

Independent non-executive Director

Mr. Shi Luwen (史錄文), aged 59, was appointed as an independent non-executive Director on December 13, 2016 with effect from the Listing Date. Currently, Mr. Shi is a member of each of the Audit Committee and Nomination Committee of the Company. Mr. Shi has served as a professor of the Department of Pharmacy Administration and Clinical Pharmacy of Peking University School of Pharmaceutical Sciences (北京大學藥學院) since 2000 and as the director of the International Research Center for Medical Administration of Peking University (北京大學醫藥管理國際研究中心) since 2002. Mr. Shi currently holds positions in various organizations, including those set out below:

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

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

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

Zhou Xiangliang (周向亮)

Independent non-executive Director

Mr. Zhou Xiangliang (周向亮), aged 42, was appointed as an independent non-executive Director on December 13, 2016 with effect from the Listing Date. Currently, Mr. Zhou is the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Zhou has served as the chief financial officer of Beijing Science Technology Co., Ltd. (北京中環信科科技股份有限公司) since July 2010 and has also held the position of board secretary since August 2011. Prior to working in Beijing Science Technology Co., Ltd., Mr. Zhou worked as a consultant in KPMG Huazhen LLP.

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

SENIOR MANAGEMENT

Wu Yuanzhi (吳遠志)

Deputy general manager of the Company

Mr. Wu Yuanzhi (吳遠志), aged 63, was appointed as deputy general manager of the Company in January 2021. He is primarily responsible for supervising the healthcare quality management of our Company. He joined our Group in September 2019 and served as the healthcare director of the Group and was later promoted to be the deputy general manager. Prior to joining the Group, Mr. Wu successively served as the head of the surgical department, vice hospital administrator and hospital administrator and secretary of the party committee of Wugang No.2 Hospital (武鋼二醫院), vice hospital administrator of Wugang General Hospital (武鋼總醫院), deputy general manager of the China Resources Wugang Hospital Management Co., Ltd. (華潤武鋼醫院管理公司) and etc. under China Resources Healthcare Group Limited (華潤醫療集團有限公司) from 1982 to 2019.

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

Lang Xiaofeng (郎曉峰)

Chief company development officer of the Company

Mr. Lang Xiaofeng (郎曉峰), aged 40, was appointed as the assistant to the Chairman and the chief company development officer (公司發展部總監) of the Company in September 2020. He is primarily responsible for strategic research, branding affairs, public relations and government affairs of the Company. Prior to joining our Group, Mr. Lang served as a senior manager of Hony Capital from 2014 to September 2020; and a sales manager of China Railway Investment Co., Ltd. from 2009 to 2014.

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

Ding Yue (丁玥)

Chief quality management/nursing officer of the Company

Ms. Ding Yue (丁玥), aged 50, was appointed as the chief quality management/nursing officer (品質管理╱護理總監) of our Company in March 2014. She is primarily responsible for supervising the healthcare quality management of our Company. Currently, she is an executive council member of Beijing Nursing Association (北京護理學會) and a member of administration committee of the Chinese Nursing Association (中華護理學會). She joined our Group in March 2014. Prior to joining our Group, Ms. Ding served as nursing supervisor (護理主管) of the hospital management office in Peking University Health Science Center (北京大學醫學部醫院管理處) from July 2012 to February 2014. From August 1996 to June 2012, Ms. Ding worked at Beijing Cancer Hospital as the head of the nursing department and the deputy head of the nursing department.

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

Zhang Lixin (張立新)

Chief supply chain management officer of the Company

Mr. Zhang Lixin (張立新), aged 49, was appointed as the chief supply chain management officer (供應鏈管理部總監) of the Company in December 2020. He is primarily responsible for the strategic research and operation management of supply chain. Prior to joining the Group, Mr. Zhang served as a senior consultant and a senior investment management manager of Hony Capital from 2010 to 2020, respectively. He was also the chief logistic management officer of Greater China in Lenovo Group (聯想集團) from 1997 to 2010.

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

Yang Su (楊蘇)

Chief performance officer of the Company

Ms. Yang Su (楊蘇), aged 43, is an accountant and has served as the chief performance officer of the Company since September 2018. She is mainly responsible for conducting hospital administrators' annual performance appraisal across all Group Hospitals, devising performance proposals for every hospital, and evaluating the capital expenditure. Prior to joining our Group, Ms. Yang served as a deputy senior staff member of the finance department of the Guangdong 999 Neurology Hospital (廣東三九腦科醫院) under China Resources Healthcare Group Limited (華潤醫療集團) from 2005 to February 2017. She was also the manager of finance department of Foresea Life Insurance Hospital (前海人壽醫院) under Baoneng Group (寶能集團) from 2017 to 2018.

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

Liu Hui (劉輝)

Chief legal officer and secretary to the Board

Mr. Liu Hui (劉輝), aged 33, served as senior legal manager of the Company from 2017 to September 2018, re-joined in July 2020, and was subsequently appointed as chief legal officer and secretary to the Board. He is primarily responsible for the Company's domestic and overseas compliance services. Prior to joining our Group, Mr. Liu served as a practicing lawyer of the securities department in DeHeng Law Offices, Beijing (北京德恒律師事務所公司) from 2015 to July 2017 and successively served as a senior legal consultant of Haier Group (Qingdao) Financial Holdings Ltd. (海爾集團(青島)金融控股有限公司) and the legal officer of HAI Cloud Exchange (HK) Ltd. (海雲匯(香港)有限公司) from 2018 to June 2020.

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

Code Provision C.2.1

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

BOARD OF DIRECTORS

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

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

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

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

The biographical information of the Directors is set out in the section headed "Biographies of Directors and Senior Management" on pages 70 to 79 of this annual report.

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

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

Continuous Professional Development of Directors

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

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

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

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

A summary of the Directors' participation in training and continuous professional development during the year ended December 31, 2022 according to the records provided by the Directors is as follows:

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

Notes:

1. Mr. Lu Wenzuo resigned as an executive Director on December 26, 2022 due to the reason of age.

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

3. Ms. Shi Wenting resigned as a non-executive Director on March 29, 2022 due to other work commitments.

Insurance for Directors

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

Chairman and Chief Executive Officer

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

Independent Non-executive Directors

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

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

Directors' Re-election

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

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

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

ATTENDANCE RECORD OF BOARD AND BOARD COMMITTEE MEETINGS AND GENERAL MEETINGS

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

The attendance records of each Director while holding such offices at Board and Board committee meetings and general meetings of the Company held during the year ended December 31, 2022 are set out in the table below:

	Number of meetings attended/held				
	Board Meeting(s)	Audit Committee Meeting(s)	Remuneration Committee Meeting(s)	Nomination Committee Meeting(s)	General Meeting(s)
Executive Directors					
Mr. Chen Shuai	6/6*	–	–	1/1*	1/1
Mr. Lu Wenzuo *(Note 1)*	6/6	–	–	–	1/1
Mr. Pu Chengchuan	6/6	–	1/1	–	1/1
Ms. Pan Jianli *(Note 2)*	6/6	–	–	–	1/1
Non-executive Directors					
Ms. Shi Wenting *(Note 3)*	2/2	1/1	–	–	1/1
Ms. Liu Lu	6/6	–	–	–	1/1
Ms. Wang Nan	6/6	–	–	–	1/1
Independent non-executive Director					
Mr. Dang Jinxue *(Note 4)*	6/6	2/2	1/1*	1/1	1/1
Mr. Shi Luwen	6/6	3/3	–	1/1	1/1
Mr. Zhou Xiangliang	6/6	3/3*	1/1	–	1/1

* *the chairman of the Board or the committees*

Notes:

1. Mr. Lu Wenzuo resigned as an executive Director on December 26, 2022 due to the reason of age.

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

3. Ms. Shi Wenting resigned as a non-executive Director and ceased to be a member of the Audit Committee of the Company on March 29, 2022 due to other work commitments.

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

BOARD COMMITTEES

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

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

Audit Committee

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

The Audit Committee held 3 meetings during the year. The following matters have been discussed and considered:

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

(b) the annual results announcement and annual report of the Company for the year ended December 31, 2021, and the interim results announcement and interim report of the Company for the six months ended June 30, 2022;

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

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

(e) the change of the external auditor of the Company for 2022; and

(f) the Company's continuing connected transactions.

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors, non-executive Directors and senior management, the remuneration policy and structure for all Directors and senior management, establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, and reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules.

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

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

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

The annual remuneration of the members of the senior management by band for the year ended December 31, 2022 is set out below:

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

Nomination Committee

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

The Nomination Committee held 1 meeting during the year and reviewed the structure, size and composition of the Board, assessed the independence of independent non-executive Directors, and considered and made recommendations to the Board on the appointment or re-appointment of Directors.

Nomination Procedures and Policy

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

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

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

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

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

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

Corporate Governance Functions

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

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

COMPANY SECRETARY

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

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct regarding the transactions of securities of the Company by the Directors and the relevant employees (who likely possess inside information of the Company) (the "**Securities Dealing Code**") on terms no less stringent than the required standard set out in the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiries with all Directors and relevant employees of the Company, the Company confirms that all Directors and relevant employees of the Company have complied with the Model Code and the Securities Dealing Code throughout the year ended December 31, 2022.

RISK MANAGEMENT, INTERNAL CONTROLS AND INTERNAL AUDIT

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

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

Procedures on Identifying, Evaluating and Managing Significant Risks

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

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

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

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

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

The Board of Directors reviews the effectiveness of the Group's risk management and internal control system once a year. During the reporting period ended December 31, 2022, the Company's risk management and internal control system was effective and sufficient, and there were no matters of major concerns relating to financial, operational or compliance controls.

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

PROCEDURES ON AND INTERNAL CONTROLS FOR HANDLING AND DISSEMINATING INSIDE INFORMATION

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

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

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2022.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 95 to 102 of this annual report.

AUDITORS' REMUNERATION

An analysis of the remuneration paid to the external auditor of the Company, KPMG, in respect of audit services and non-audit services for the year ended December 31, 2022 is set out below:

Service Category	**Fees paid/ payable** RMB'000
Audit services for annual report	2,144
Non-audit services	–
Total	2,144

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "**Board Diversity Policy**") to achieve and maintain diversity on the Board in order to strengthen the performance of the Board, promote effective decision-making and better corporate governance and monitoring. The Company considers that the Board Diversity Policy is beneficial for enhancing the Company's comprehensive performance and operating capability, and provides support for the Company in achieving strategic goals and maintaining sustainable and balanced development.

For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

1. Independence: The Board should consist of both executive and non-executive members, including independent non-executive Directors, in order to maintain balance and independence. The independent non-executive Directors should be of high caliber and have sufficient stature for their opinions to carry weight.

2. Skills and experience: The Board is composed of a group of Directors who possess a balance of skills that are appropriate for the requirements of the Company's business. The Directors have a range of backgrounds in finance, academia, and management, which, when taken together, provide the Company with considerable experience in a variety of activities.

3. Gender equality: The Board currently consists of three female directors. The Board aims to maintain/increase the ratio of female representation in the Board to no less than 35% by or before 2023.

Apart from the above objectives, the Board Diversity Policy has complied with the following objectives with the Listing Rules:

1. Rules 3.10(1): at least one third of the members of the Board shall be independent non-executive Directors;

2. Rules 3.10(2): at least one of the members of the Board shall have obtained appropriate professional qualifications or accounting or related financial management expertise; and

3. Rules 3.10A: at least three of the members of the Board shall be independent non-executive Directors.

The Board has achieved the measurable objectives in the Board Diversity Policy and complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules.

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

In respect of the gender diversity of the Board, as at the date of this report, 5 Directors are male and 3 Directors are female. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance, and sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. It is expected that the ratio of female Directors will reach more than 35% in the following years. The Company will achieve this goal through active nomination of suitable candidates with no gender limitation to be newly appointed Directors in the next few years.

Moreover, the current gender ratio of the Company's workforce (including senior management) is 486 males per 936 females, which has increased from 468 males per 954 females of past year. As at the end of the Reporting Period, there were 6 senior management members with 2 female members. Female employees accounted for 65.8% of the Company's workforce, while male employees accounted for 34.2%. The Company strives to achieve employee diversity, with gender diversity being considered in staff recruitment. The Company is committed to promoting gender diversity at all levels, including the Board and senior management levels, and developing a pipeline of female senior management and potential successors to the Board. Hence, the Company will continue focusing on the area because workforce gender diversity is associated with resources that can provide a sustained competitive advantage to the Company, which includes market insight, creativity and innovation ability, and improved problem-solving ability. Men's and women's different experiences may provide insights into the different needs of male and female customers. Further, men and women may have different cognitive abilities. Therefore, a mix of cognitive abilities in a gender diverse team may enhance the team's overall creativity and innovation ability as proved by research. Moreover, a gender diverse team produces high quality decisions. The Company will keep focusing on the workforce gender diversity to maintain its current strength as well as to further improve its competitiveness in the future.

Mechanisms to Ensure Independent Views

The Company makes certain that the Board has access to independent views and input through the mechanisms listed below:

1. The Nomination Committee should review the Board composition and the independence of the independent non-executive Directors annually, in particular the portion of the independent non-executive Directors and the independence of the independent non-executive Director who has served for more than nine years.

2. A written confirmation was received by the Company under Rule 3.13 of the Listing Rules from each of the independent non-executive Directors in relation to his/her independence to the Company. The Company considers all its independent non-executive Directors to be independent.

3. In view of good corporate governance practices and to avoid conflict of interests, the Directors who are also Directors and/or senior management of the Company's controlling shareholders and/or certain subsidiaries of the controlling shareholders, would abstain from voting in the relevant Board resolutions on the transactions with the controlling shareholders and/or its associates.

4. The chairman of the Board shall meet with independent non-executive Directors at least once annually.

5. All members of the Board can seek independent professional advice when necessary to perform their responsibilities in accordance with the Company's policy.

The mechanisms to ensure independent views are reviewed by the Nomination Committee for ensuring independent views and input are available to the Board on an annual basis, whether in terms of proportion, recruitment and independence of independent non-executive Directors, and their contribution and access to external independent professional advice.

DIVIDEND POLICY

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

The Dividend Policy will be reviewed on a regular basis.

SHAREHOLDERS' RIGHTS

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

Convening an Extraordinary General Meeting by Shareholders

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

Putting Forward Proposals at General Meetings

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

Putting Forward Enquiries to the Board

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

Contact Details

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

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

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

Shareholders' Communication Policy

Purpose

The Company recognises the importance of providing current and relevant information to its shareholders (the "**Shareholders**"). This shareholders' communication policy (the "**Shareholders' Communication Policy**") aims to set out the provisions with the objective to ensure that the Shareholders and potential investors are provided with equal and timely access to balanced and understandable information about the Company, in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and potential investors to engage actively with the Company.

General Policy

The Board shall maintain an on-going dialogue with Shareholders and will regularly review the Shareholders' Communication Policy to ensure its effectiveness.

Information is communicated to the Shareholders as well as the stakeholders through periodic disclosure through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and other corporate publications on the website of the Stock Exchange and corporate communications, on the website of the Stock Exchange at www.hkex.com.hk and the Company's website at www.hcclhealthcare.com.

Effective and timely dissemination of information to Shareholders shall be ensured at all times. Any questions, requests and comments can be addressed to the Company by mail to Suite 10, 70/F., Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong or through the Company's share registrar.

The Company believes that communication with Shareholders by electronic means, particularly through its website, is an efficient way to distribute information in a timely and convenient manner. Shareholders are encouraged to access to the corporate communications posted on the Company's website to help reduce the quantity of printed copies and hence reduce the impact on the environment.

The Company's website will be updated with material posted to the website of the Stock Exchange immediately thereafter. Such material includes but not limited to financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

Shareholders shall be provided with designated contacts, email addresses and enquiry lines of the Company in order to enable them to make any query in respect of the Company.

The Company has reviewed the Shareholders' Communication Policy conducted for the year ended December 31, 2022 and considered that the Shareholders' Communication Policy has been well implemented and effective.

Constitutional Documents

During the year ended December 31, 2022, the Company has not made any changes to the Articles. An up-to-date version of the Articles is also available on the Company's website and HKEX's website.

KPMG

Independent auditor's report to the shareholders of
Hospital Corporation of China Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Hospital Corporation of China Limited (the "Company") and its subsidiaries (the "Group") set out on pages 103 to 208, which comprise the consolidated statement of financial position as at December 31, 2022, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS – *continued*

Assessment of goodwill impairment

Refer to Note 14 to the consolidated financial statements and the accounting policies in Note 2.8(i).

The Key Audit Matter	How the matter was addressed in our audit
As at December 31, 2022, the goodwill arising from the acquisitions of subsidiaries of the Group amounted to RMB745,868,000 were allocated to cash generating unit ("CGU") or CGU groups among segments of hospital management services and general hospital services. Management reviews the business performance and monitors goodwill on the CGU or CGU groups. Goodwill impairment assessments were undertaken annually or more frequently if events or changes in circumstances indicated a potential impairment. The recoverable amount of the CGU or CGU groups was determined based on the higher of fair value less costs of disposal and value in use. These calculations required the use of estimates and judgments. Management assessed and determined the recoverable amount of the CGU or CGU groups with the assistance from an external valuer, which involved the use of key assumptions including compound growth rate of revenue within forecast period, long-term growth rate and post-tax discount rate.	Our audit procedures to assess goodwill impairment included the following: • obtaining an understanding of and evaluating the design and implementation of key internal controls in relation to the assessment goodwill impairment; • assessing the competence, capabilities and objectivity of the external valuer; • discussing future operating plans with management and assessing the reasonableness of compound growth rate of revenue used in the discounted cash flow forecasts with reference to historical revenue growth rate; • involving our internal valuation specialist in assessing the appropriateness of the methodology applied with reference to the prevailing accounting standards and the reasonableness of other assumptions used in determining the recoverable amount of each CGU or CGU groups, which included comparing long-term growth rate with the long-term inflation rate of China and post-tax discount rate with reference to those of comparable companies;

KEY AUDIT MATTERS – *continued*

Assessment of goodwill impairment – *continued*

Refer to Note 14 to the consolidated financial statements and the accounting policies in Note 2.8(i).

The Key Audit Matter	How the matter was addressed in our audit
The operating results of certain subsidiaries involved in the provision of hospital management services for the year ended December 31, 2022 were below management's previous forecasts. Based on the management's assessment, goodwill impairment losses of RMB362,822,000 have been recognized in hospital management services. We identified the assessment of goodwill as a key audit matter because the estimation of recoverable amount involved significant judgments and estimates, which is inherently uncertain.	• testing the mathematical accuracy of the calculations on the impairment losses performed by management and external valuer; • evaluating the sensitivity analysis performed by management and external valuer on the above key assumptions, considering the resulting impact on the valuation results and whether there were any indicators of management bias; and • considering the reasonableness of the disclosures in the consolidated financial statements in respect of impairment assessment with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS – *continued*

Fair value estimation of convertible bonds

Refer to Note 30 to the consolidated financial statements and the accounting policies in Note 2.18.

The Key Audit Matter	How the matter was addressed in our audit
The convertible bonds issued by the Company are designated as financial liabilities at fair value through profit or loss. The fair value of these convertible bonds was determined by management with reference to the valuation report issued by a professional valuer, using valuation techniques. Judgments and estimates were applied in determining valuation method and assumptions. The key assumptions included risk-free rate of interest, volatility, dividend yield and time to expiration. We identified the fair value of convertible bonds as a key audit matter because the fair value determination of convertible bonds involved significant judgments and estimates, which is inherently uncertain.	Our audit procedures to assess fair value of convertible bonds included the following: • obtaining an understanding of and evaluating the design and implementation of the key internal controls in relation to the fair value estimation of convertible bonds; • assessing the competence, capabilities and objectivity of the professional valuer; • assessing the appropriateness of the valuation method with reference to the requirements of the prevailing accounting standards and the reasonableness of the key assumptions with the assistance from internal valuation specialist, which included comparing: – risk-free rate of interest with the market yield of Hong Kong government bond with a term close to time to maturity of the convertible bonds as of the valuation date; – volatility with the annualized standard deviation of the daily return embedded in historical stock prices of the Company with a time horizon close to the expected term; – dividend yield with the dividend policy of the Group; and – time to expiration with the terms of the convertible bond instruments;

KEY AUDIT MATTERS – *continued*

Fair value estimation of convertible bonds – *continued*

Refer to Note 30 to the consolidated financial statements and the accounting policies in Note 2.18.

The Key Audit Matter	How the matter was addressed in our audit
	• testing the mathematical accuracy of the calculation of fair value of the convertible bonds with the assistance from our internal valuation specialist; • evaluating the sensitivity analysis performed by management and independent valuer on the above key assumptions, considering the resulting impact on the valuation results and whether there were any indicators of management bias; and. • considering the reasonableness of the disclosures in the consolidated financial statements in respect of fair value estimation of convertible bonds with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – *continued*

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – *continued*

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

The engagement partner on the audit resulting in this independent auditor's report is Wan Chi Yau, Charles.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

March 27, 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2022
(Expressed in Renminbi ("RMB"))

	Notes	2022 RMB'000	2021 RMB'000
Revenue	5	**1,142,951**	520,290
Cost of revenue		**(992,073)**	(306,063)
Gross profit		**150,878**	214,227
Selling expenses		**(344)**	(2,006)
Administrative expenses		**(95,158)**	(95,872)
Net impairment losses on financial assets	3.1(ii)	**(1,867)**	(26,477)
Impairment losses on intangible assets	14	**(460,283)**	(551,981)
Other income	6	**5,942**	7,181
Other (losses)/gains, net	7	**(137,156)**	19,854
Operating loss		**(537,988)**	(435,074)
Finance income	8(a)	**14,599**	6,733
Finance costs	8(a)	**(9,239)**	(20,761)
Loss before taxation	8	**(532,628)**	(449,102)
Income tax	10	**4,031**	86,706
Loss for the year		**(528,597)**	(362,396)
Other comprehensive income			
Item that will not be subsequently reclassified to profit or loss			
– Remeasurement of defined benefit obligations	28	**(2,781)**	–
Total comprehensive income for the year		**(531,378)**	(362,396)
Attributable to:			
Owners of the Company		**(480,948)**	(280,709)
Non-controlling interests		**(50,430)**	(81,687)
Total comprehensive income for the year		**(531,378)**	(362,396)
Loss per share:			
– Basic and diluted loss per share (in RMB)	11	**(3.480)**	(2.031)

The notes on pages 109 to 208 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2022
(Expressed in RMB)

		As at December 31,	
		2022	2021
	Notes	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**218,933**	250,715
Right-of-use assets	13	**44,877**	48,458
Intangible assets	14	**1,162,237**	1,637,308
Deferred income tax assets	29	**9,312**	9,284
Other receivables, deposits and prepayments	18	**466**	2,374
Amounts due from related parties	19	**156,726**	–
Total non-current assets		**1,592,551**	1,948,139
Current assets			
Inventories	17	**57,068**	48,033
Trade receivables	16	**71,543**	114,794
Other receivables, deposits and prepayments	18	**15,340**	9,975
Amounts due from related parties	19	**71,457**	222,802
Financial assets at fair value through profit or loss	20	**129,848**	338,905
Term deposits		**696**	638
Cash and cash equivalents	21	**497,061**	440,428
Total current assets		**843,013**	1,175,575
Total assets		**2,435,564**	3,123,714
EQUITY			
Equity attributable to owners of the Company			
Share capital	22	**123**	123
Share premium	22	**435,304**	435,304
Other reserves	24	**870,779**	929,345
Accumulated losses		**(1,050,496)**	(566,799)
		255,710	797,973
Non-controlling interests		**187,718**	337,854
Total equity		**443,428**	1,135,827

At December 31, 2022
(Expressed in RMB)

	Notes	As at December 31, 2022 RMB'000	2021 RMB'000
LIABILITIES			
Non-current liabilities			
Convertible bonds	30	**–**	906,916
Lease liabilities	13	**6,240**	7,607
Employment benefit obligations	28	**49,111**	42,798
Deferred income tax liabilities	29	**151,056**	178,741
Accruals, other payables and provisions	27	**–**	325,804
Total non-current liabilities		**206,407**	1,461,866
Current liabilities			
Trade payables	25	**136,855**	124,300
Convertible bonds	30	**1,026,407**	–
Accruals, other payables and provisions	27	**520,757**	287,419
Amounts due to related parties	19	**10,757**	13,246
Contract liabilities		**2,148**	1,494
Current income tax liabilities		**17,849**	27,030
Borrowings	26	**69,429**	71,018
Lease liabilities	13	**1,527**	1,514
Total current liabilities		**1,785,729**	526,021
Total liabilities		**1,992,136**	1,987,887
Total equity and liabilities		**2,435,564**	3,123,714

Approved and authorized for issue by the board of directors on March 27, 2023.

Chen Shuai

Pu Chengchuan

The notes on pages 109 to 208 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2022
(Expressed in RMB)

	Notes	Attributable to owners of the Company					Attributable to non-controlling interests	Total equity
		Share capital	Share premium	Other reserves	Accumulated losses	Sub-total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2021		123	435,304	928,111	(283,382)	1,080,156	287,084	1,367,240
Comprehensive income								
– Loss for the year		–	–	–	(280,709)	(280,709)	(81,687)	(362,396)
Exercise of put option		–	–	(2,150)	–	(2,150)	–	(2,150)
Share-based payments								
– share incentive scheme	23	–	–	676	–	676	–	676
Transfer of reserves	24(a)	–	–	2,708	(2,708)	–	–	–
Dividends provided for or paid	9(iii)	–	–	–	–	–	(30,791)	(30,791)
Changes as a result of business combination		–	–	–	–	–	163,248	163,248
Balance at December 31, 2021		123	435,304	929,345	(566,799)	797,973	337,854	1,135,827
Balance at January 1, 2022		**123**	**435,304**	**929,345**	**(566,799)**	**797,973**	**337,854**	**1,135,827**
Comprehensive income								
– Loss for the year		**–**	**–**	**–**	**(480,948)**	**(480,948)**	**(47,649)**	**(528,597)**
– Remeasurement of defined benefit obligations		**–**	**–**	**–**	**–**	**–**	**(2,781)**	**(2,781)**
Share-based payments								
– share incentive scheme	23	**–**	**–**	**130**	**–**	**130**	**–**	**130**
Transfer of reserves	24(a)	**–**	**–**	**2,749**	**(2,749)**	**–**	**–**	**–**
Dividends provided for or paid	9(iii)	**–**	**–**	**–**	**–**	**–**	**(42,151)**	**(42,151)**
Acquisition of non-controlling interests of subsidiaries		**–**	**–**	**(61,445)**	**–**	**(61,445)**	**(57,555)**	**(119,000)**
Balance at December 31, 2022		**123**	**435,304**	**870,779**	**(1,050,496)**	**255,710**	**187,718**	**443,428**

The notes on pages 109 to 208 form part of these financial statements.

For the year ended December 31, 2022
(Expressed in RMB)

	Notes	2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Cash generated from operations	32(i)	**170,485**	167,006
Income tax paid		**(30,852)**	(35,554)
Interest received		**3,502**	1,617
Net cash generated from operating activities		**143,135**	133,069
Cash flows from investing activities			
Payments for property, plant and equipment		**(15,583)**	(12,416)
Payments for intangible assets		**(1,066)**	(3,380)
Proceeds from sale of property, plant and equipment		**3,332**	2,019
Payments for financial assets at fair value through profit or loss	3.3(iii)	**(407,961)**	(405,850)
Proceeds from sale of financial assets at fair value through profit or loss	3.3(iii)	**618,818**	381,735
Interest received on financial assets at fair value through profit and loss	3.3(iii)	**3,922**	2,710
Placement of term deposits with initial terms over three months		**(696)**	(638)
Redemption of term deposits with initial terms over three months		**638**	–
Interest received on term deposits		**959**	1,212
Loans to related parties	35(iii)	**(30,000)**	(9)
Loans repayment from related parties	35(iii)	**10,000**	–
Loans interest received from related parties	35(iii)	**4,800**	4,138
Net cash received from business combination		**–**	44,434
Net cash generated from investing activities		**187,163**	13,955

CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED

For the year ended December 31, 2022
(Expressed in RMB)

	Notes	2022 RMB'000	2021 RMB'000
Cash flows from financing activities			
Proceeds from borrowings	32(ii)	**69,000**	40,000
Repayment of borrowings	32(ii)	**(82,410)**	(104,715)
Principal elements of lease payments	32(ii)	**(1,354)**	(2,057)
Interest elements of lease payments	32(ii)	**(408)**	–
Redemption of convertible bonds	32(ii)	**(103,128)**	(453,145)
Loans from related parties	32(ii)	**119**	–
Loans repayment to related parties	32(ii)	**(13)**	(112)
Dividends paid to non-controlling interests of subsidiaries		**(41,149)**	(30,791)
Payment for acquisition of non-controlling interests of subsidiaries		**(120,000)**	–
Net cash used in financing activities		**(279,343)**	(550,820)
Net increase/(decrease) in cash and cash equivalents		**50,955**	(403,796)
Cash and cash equivalents at the beginning of the year		**440,428**	860,726
Effects of exchange rate changes on cash and cash equivalents		**5,678**	(16,502)
Cash and cash equivalents at the end of the year		**497,061**	440,428

The notes on pages 109 to 208 form part of these financial statements.

1 GENERAL INFORMATION

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

(i) Compliance with IFRSs and Hong Kong Companies Ordinance

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

(ii) Historical cost convention

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

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

– Convertible bonds – measured at fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(iii) *Going concern basis*

The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern basis, which assumes that the Group will be able to meet its obligations and continue its operations for the next twelve months, notwithstanding that for the year ended December 31, 2022, the Group recorded net loss of RMB528,597,000 and net current liabilities of RMB942,716,000 as at December 31, 2022, including certain convertible bonds of RMB1,026,407,000 which will mature in 2023 (see Note 30).

The bondholders are Vanguard Glory, a substantial shareholder holding 70.19% of the Company's issued share capital, and Hony Capital Fund VIII (Cayman), L.P. In regard to the existing terms and conditions, the Group commences discussion with both bondholders to propose extensions of the two convertible bonds for at least one year. The directors of the Company are of the opinion that the convertible bonds are likely to be successfully extended for at least one year upon their maturity based on its past experience for the extension of its convertible bond.

Besides, the directors of the Company has reviewed the Group's cash flow forecast for the next twelve months after December 31, 2022, and are of the opinion that the Group will have sufficient cash flows to meet its liabilities. Accordingly, the directors of the Company consider it is appropriate to prepare the consolidated financial statements on a going concern basis.

(iv) *New and amended standards adopted by the Group*

The Group has applied the following amendments to IFRSs issued by the IASB to these financial statement for the current accounting period:

– Amendments to IAS 16, *Property, plant and equipment: Proceeds before intended use*

– Amendments to IAS 37, *Provisions, contingent liabilities and contingent assets, Onerous contracts – cost of fulfilling a contract*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

None of these developments has had a material effect on how to the Group's results and financial position for the current period have been prepared or presented in these financial statement.

(Expressed in RMB unless otherwise indicated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

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

		Effective Date
IFRS 17	*Insurance Contracts*	January 1, 2023
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*	January 1, 2023
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*	January 1, 2023
Amendments to IAS 8	*Definition of Accounting Estimates*	January 1, 2023
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	January 1, 2023

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for December 31, 2022 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Principles of consolidation

Subsidiaries

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.3 Business combinations

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

– Fair values of the assets transferred,

– Liabilities incurred to the former owners of the acquired business,

– Equity interests issued by the Group,

– Fair value of any asset or liability resulting from a contingent consideration arrangement, and

– Fair value of any pre-existing equity interest in the subsidiary.

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

Acquisition-related costs are expensed as incurred.

The excess of the

– Consideration transferred,

– Amount of any non-controlling interest in the acquired entity, and

– Acquisition-date fair value of any previous equity interest in the acquired entity

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.3 Business combinations

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

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

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

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

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

2.4 Separate financial statements

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.5 Segment reporting

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

2.6 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.7 Property, plant and equipment

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

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

Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling any such items and the related costs are recognized in profit or loss.

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.8 Intangible assets

(i) Goodwill

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

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

(ii) Medical licences

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

(iii) Contractual rights to provide management services

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

(iv) Computer software

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Right-of-use assets – land use right

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

2.10 Impairment of non-financial assets

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

2.11 Investments and other financial assets

(i) Classification

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

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

– Those to be measured at amortized cost.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.11 Investments and other financial assets – *continued*

(ii) Recognition and derecognition

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

(iii) Measurement

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

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

Debt instruments

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.11 Investments and other financial assets – *continued*

(iii) Measurement – continued

Debt instruments – *continued*

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

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

Equity instruments

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.11 Investments and other financial assets – *continued*

(iv) Impairment

Measurement of expected credit losses (ECLs)

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and amounts due from related parties (trade in nature) are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.11 Investments and other financial assets – *continued*

(iv) Impairment – continued

Measurement of expected credit losses (ECLs) – *continued*

For all other financial instrument, the Group recognizes a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition.

In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.11 Investments and other financial assets – *continued*

(iv) Impairment – continued

Significant increases in credit risk – *continued*

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognized in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognized in accordance with Note 2.24 is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.11 Investments and other financial assets – *continued*

(iv) Impairment – continued

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2.12 Offsetting financial instruments

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

2.13 Inventories

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.14 Trade and other receivables

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

Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Note 16 for further information about the Group's accounting for trade receivables and Note 3.1(ii) for a description of the Group's impairment policies.

2.15 Cash and cash equivalents

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

2.16 Share capital

Ordinary shares are classified as equity.

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

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

2.17 Trade and other payables

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.18 Borrowings

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

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

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

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

2.19 Borrowing costs

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.20 Current and deferred income tax

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

Current income tax

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

Deferred income tax

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.21 Employee benefits

(i) Short-term obligations

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

(ii) Post-employment obligation

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

(a) Defined contribution plan

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.21 Employee benefits – *continued*

(ii) Post-employment obligation – continued

(b) Defined benefit plan

Certain subsidiary of the Group provided defined benefit plan to its certain employees after retirement. The liability or asset recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

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

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

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

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

(iii) Termination benefits

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.22 Share-based payments

(i) Equity-settled share-based payment transactions

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

– Including any market performance conditions;

– Excluding the impact of any service and non-market performance vesting conditions (for example, remaining an employee of the entity over a specified time period); and

– Including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

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

(ii) Cash-settled share-based payment transactions

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.22 Share-based payments – *continued*

(iii) Share-based payment transactions among group entities

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

(iv) Modification and cancellation

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

2.23 Revenue recognition

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

– Provides all of the benefits received and consumed simultaneously by the customer;

– Creates and enhances an asset that the customer controls as the Group performs; or

– Does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.23 Revenue recognition – *continued*

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

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.23 Revenue recognition – *continued*

(i) Hospital Management Services

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

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

Relevant revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. The progress towards the complete satisfaction of performance obligation is measured by direct measurements of the value to the customer of service transferred by the Group. The Group also offers supply chain service to non-for-profit hospitals, revenue is recognized when the customer takes possession of and accepts the products.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.23 Revenue recognition – *continued*

(ii) General hospital services

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

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

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

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

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

(iii) Sale of pharmaceutical products

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.24 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains on these assets, see Note 7 below. Interest income on financial assets at amortized cost and financial assets at FVOCI calculated using the effective interest method is recognized in the consolidated statement of comprehensive income as part of other income.

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

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 8(a) below. Any other interest income is included in other income.

2.25 Leases

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

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

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

– Fixed payments (including in-substance fixed payments), less any lease incentives receivable;

– Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;

– Amounts expected to be payable by the Group under residual value guarantees;

– The exercise price of a purchase option if the Group is reasonably certain to exercise that option; and

– Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.25 Leases – *continued*

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

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

To determine the incremental borrowing rate, the Group:

– where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;

– uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing; and

– makes adjustments specific to the lease, e.g. term, country, currency and security.

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

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

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16 Leases. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.25 Leases – *continued*

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

– the amount of the initial measurement of lease liability;

– any lease payments made at or before the commencement date less any lease incentives received;

– any initial direct costs; and

– restoration costs.

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

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

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

2.26 Dividends distribution

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.27 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Note 6 provides further information on how the Group accounts for government grants.

2.28 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

– the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares.

– by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

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

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

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(i) Market risk

(a) Foreign exchange risk

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

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

As at December 31, 2022, the Group was exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US dollars (USD) and HK dollars (HKD).

The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

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

	As at December 31, 2022		As at December 31, 2021	
	USD	**HKD**	USD	HKD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Amounts due from related parties	**365**	**–**	340	–
Cash and cash equivalents	**2,215**	**16,752**	3,001	92,726
Term deposits	**696**	**–**	638	–
Borrowings	**–**	**–**	–	(31,018)
Convertible bonds	**–**	**(1,026,407)**	–	(906,916)
Accruals, other payables and provisions	**–**	**(102,294)**	–	(188,105)
Amounts due to related parties	**(1,514)**	**–**	(1,393)	–
	1,762	**(1,111,949)**	2,586	(1,033,313)

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(i) Market risk – continued

(a) Foreign exchange risk – *continued*

As at December 31, 2022, if RMB had weakened/strengthened by 5% against USD, with all other variable held constant, post-tax loss for the year of the Group would have been RMB88,000 lower/higher (2021: RMB125,000 lower/higher).

As at December 31, 2022, if RMB had weakened/strengthened by 5% against HKD, with all other variable held constant, post-tax loss for the year of the Group would have been RMB55,530,000 higher/lower (2021: RMB51,618,000 higher/lower).

(b) Cash flow and fair value interest rate risk

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

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

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

	As at December 31, 2022		As at December 31, 2021	
	RMB'000	**% of total loans**	RMB'000	% of total loans
Fixed rate borrowings	**69,429**	**100%**	40,000	56%
Other borrowings – repricing dates:				
3 months or less	**–**	**–**	31,018	44%
	69,429	**100%**	71,018	100%

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(i) Market risk – continued

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

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

Since the Group has no borrowings with variable interest rates at the end of 2022, no sensitivity analysis about interest rates risk is prepared. At the end of 2021, if interest rates on borrowings with variable interest rates had been 100 basis points higher/lower with all other variables held constant, post-tax loss for the year ended December 31,2021 would have been RMB637,000.

(ii) Credit risk

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

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

(a) Impairment of financial assets

Trade receivables from the provision of general hospital services and sales of pharmaceutical products and amounts due from related parties (trade in nature) are subject to the ECL model.

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

Financial assets measured at FVPL are not subject to the ECL assessment.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(ii) Credit risk – continued

(a) Impairment of financial assets – ***continued***

Except for the financial guarantee given by the Group as set out in Note 35(v), the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of this financial guarantee at the end of the reporting period is disclosed in Note 35(v).

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

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

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

The Group, being a provider of healthcare service to patients, has a highly diversified customer base, without any single customer contributing material revenue. However, the Group has concentrated debtor's portfolio, as majority patients will claim their medical bill from public medical insurance program. The reimbursement from these organizations may take one to twelve months. The Group has policy in place to ensure the treatments and medicines prescribed and provided to such insured patients are in line with respective organizations' policy.

The expected loss rates are based on the payment profiles of sales over a period of 24 month before December 31, 2022 or December 31, 2021, respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

(Expressed in RMB unless otherwise indicated)

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(ii) Credit risk – continued

(a) Impairment of financial assets – *continued*

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

On that basis, the loss allowance of trade receivable and amounts due from related parties (trade in nature) as at December 31, 2022 and 2021 was determined as follows:

	Lifetime expected credit loss rate	Gross carrying amount	Lifetime expected credit loss	Net carrying Amount
December 31, 2022				
Provision on trade receivables	**9.64%**	**79,179**	**(7,636)**	**71,543**
Provision on amounts due from related parties (trade in nature)	**20.55%**	**160,875**	**(33,064)**	**127,811**
		240,054	**(40,700)**	**199,354**
December 31, 2021				
Provision on trade receivables	5.54%	121,533	(6,739)	114,794
Provision on amounts due from related parties (trade in nature)	18.51%	174,799	(32,347)	142,452
		296,332	(39,086)	257,246

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(ii) Credit risk – continued

(a) Impairment of financial assets – ***continued***

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

The loss allowances for trade receivables and amounts due from related parties (trade in nature) as at December 31, 2022 and 2021 reconcile to the opening loss allowances as follows:

	Trade receivables	
	2022	2021
	RMB'000	RMB'000
Opening loss allowance as at January 1	**6,739**	3,000
Changes as a result of business combination	**–**	3,085
Increase in loss allowance for trade receivables recognized in the consolidated statement of comprehensive income during the year	**1,150**	3,475
Receivables written off during the year as uncollectible	**(253)**	(2,821)
Closing loss allowance as at December 31	**7,636**	6,739

	Amounts due from related parties (trade in nature)	
	2022	2021
	RMB'000	RMB'000
Opening loss allowance as at January 1	**32,347**	9,345
Increase in loss allowance for amounts due from related parties (trade in nature) recognized in the consolidated statement of comprehensive income during the year	**717**	23,002
Closing loss allowance as at December 31	**33,064**	32,347

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(ii) Credit risk – continued

(a) Impairment of financial assets – ***continued***

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

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

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

Other financial assets at amortized cost

Other financial assets at amortized cost include other receivables, deposits and prepayments and amounts due from related parties (others). The directors of the Group consider the Group's exposure to credit risk arising from other receivables, deposits and prepayments and amounts due from related parties (others) was low, taking into account the counterparties' credit rating and the remaining term and period covered by these deposits. Thus, no loss allowance provision was recognized.

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair values at 31 December 2022 and 2021.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(iii) Liquidity risk

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

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At December 31, 2022					
Borrowing and interests	**70,771**	**–**	**–**	**–**	**70,771**
Lease liabilities	**1,702**	**1,209**	**3,984**	**2,090**	**8,985**
Trade payables	**136,855**	**–**	**–**	**–**	**136,855**
Accruals, other payables and provisions (excluding accrued employee benefits, share-based payments and other tax liabilities)	**370,059**	**–**	**–**	**–**	**370,059**
Amounts due to related parties	**10,757**	**–**	**–**	**–**	**10,757**
Convertible bonds	**1,026,407**	**–**	**–**	**–**	**1,026,407**
	1,616,551	**1,209**	**3,984**	**2,090**	**1,623,834**
At December 31, 2021					
Borrowing and interests	73,573	–	–	–	73,573
Lease liabilities	1,880	1,702	3,802	2,733	10,117
Trade payables	124,300	–	–	–	124,300
Accruals, other payables and provisions (excluding accrued employee benefits, share-based payments and other tax liabilities)	148,201	346,747	–	–	494,948
Amounts due to related parties	13,246	–	–	–	13,246
Convertible bonds	–	906,916	–	–	906,916
	361,200	1,255,365	3,802	2,733	1,623,100

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(iv) Price risk

The Group is mainly exposed to price risk in respect of convertible bonds held by the Group. The significant inputs in the valuation model related to convertible bonds were listed in Note 30.

The sensitivity analysis is performed by the management. If the fair values of convertible bonds held by the Group had been 5% higher/lower, the profit before income tax for the year ended December 31, 2022 would have been approximately RMB51,320,000 (2021: RMB45,346,000) lower/higher.

If the Company's share price had increased/decreased by 5% with all other variables held constant, the profit before income tax for the year ended December 31, 2022 would have been approximately nil as the near maturity of the convertible bonds (2021: RMB5,668,000 lower or RMB4,048,000 higher).

3.2 Capital Risk Management

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

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

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

The Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Group as at December 31, 2022 was 82% (2021: 64%).

There were no changes in the Group's approach to capital management for the years ended December 31, 2022 and 2021.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation

(i) Fair value hierarchy

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

The following table presents the Group's financial assets that are measured at fair value at December 31, 2022 and 2021.

At December 31, 2022	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Assets				
Financial assets at FVPL				
– Monetary funds (Note 20)	**–**	**129,848**	**–**	**129,848**
Total assets	**–**	**129,848**	**–**	**129,848**
Liabilities				
Financial liabilities at FVPL				
– Convertible bonds (Note 30)	**–**	**–**	**1,026,407**	**1,026,407**
Total liabilities	**–**	**–**	**1,026,407**	**1,026,407**

At December 31, 2021	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at FVPL				
– Monetary funds (Note 20)	–	338,905	–	338,905
Total assets	–	338,905	–	338,905
Liabilities				
Financial liabilities at FVPL				
– Convertible bonds (Note 30)	–	–	906,916	906,916
Total liabilities	–	–	906,916	906,916

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation – *continued*

(i) Fair value hierarchy – continued

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

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

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

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

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

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

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

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation – *continued*

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

The following table presents the changes in level 2 instruments for the years ended December 31, 2022 and 2021, respectively.

	Monetary funds RMB'000
Opening balance as at January 1, 2021	90,737
Changes as a result of business combination	221,000
Additions	405,850
Settlements	(384,445)
Gains recognized in other (losses)/gains, net*	5,763
Closing balance as at December 31, 2021	338,905
Opening balance as at January 1, 2022	**338,905**
Additions	**407,961**
Settlements	**(622,740)**
Gains recognized in other (losses)/gains, net*	**5,722**
Closing balance as at December 31, 2022	**129,848**

* Includes unrealised gains recognized in the consolidated statement of comprehensive income attributable to balance held at the end of the reporting period

2022	**1,800**
2021	3,053

Financial instruments in level 2 were monetary funds treated as financial assets at FVPL held by the Group. The fair value of monetary funds are the estimated amount that the Group would receive at the end of the reporting period, taking into account current market interest rates of debt instruments with similar risk profile.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation – *continued*

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

The following table presents the changes in level 3 instruments for the years ended December 31, 2022 and 2021, respectively.

	Convertible bonds (Note 30) RMB'000
Opening balance as at January 1, 2021	(1,558,245)
Redemption of convertible bonds	689,644
Losses recognized in other (losses)/gains, net	(38,315)
Closing balance as at December 31, 2021	(906,916)
Opening balance as at January 1, 2022	**(906,916)**
Losses recognized in other (losses)/gains, net	**(119,491)**
Closing balance as at December 31, 2022	**(1,026,407)**

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(i) Estimation of goodwill impairment

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

Cash flows beyond the forecast period are extrapolated using the estimated growth rates stated in Note 14. These growth rates are consistent with management's research and analysis based on industry information and data provided by an independent industry consultant specific to the industry in which each CGU operates.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 14.

(a) Revenue (% compound growth rates)

The revenue compound growth rates over the Forecast Period is based on the relevant CGUs past performance and management's expectation for the market development.

(b) Long-term growth rate

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS – *continued*

(i) Estimation of goodwill impairment – *continued*

(c) Discount rates

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

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

For the sensitivity analysis and other details, please refer to Note 14.

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

Certain not-for-profit hospitals were founded by subsidiaries of the Company. Despite the fact that the subsidiaries founded the not-for-profit hospitals, the subsidiaries are not entitled to the dividend of the not-for-profit hospitals in accordance with relevant PRC laws and regulations. The subsidiaries have entered into agreements with the not-for-profit hospitals in which the subsidiaries obtained contractual rights to provide management services for certain periods and were entitled to receive performance-based management fees for the years ended December 31, 2022 and 2021.

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

After assessment of control over not-for-profit hospitals, the management has concluded that the Group has control over Shanghai Yangsi Hospital* ("Yangsi Hospital")(上海楊思醫院)starting from December 6, 2021 and thus has consolidated it. For other not-for-profit hospitals, based on the assessment, the Group does not have the decision making power over internal governance body to direct the relevant activities of the not-for-profit hospitals, the Group does not control and thus does not consolidate the not-for-profit hospitals. Instead, relevant agreements are considered as management contracts to generate management services income.

* *For identification purpose only*

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS – *continued*

(iii) Convertible bonds

The fair values of the convertible bonds were determined by using valuation techniques. The Group applied judgments to select a variety of methods and made assumptions that were mainly based on market conditions existing at the end of each reporting period. If there was any change in methods or assumptions, the gains or losses relating to fair value changes could be changed. For the details of the valuation method and key assumptions used, please refer to Note 30.

(iv) Estimation of defined benefit obligation

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. Details of key assumptions and impact of possible changes in key assumptions are disclosed in Note 28.

5 SEGMENT INFORMATION

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

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

5 SEGMENT INFORMATION – *continued*

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

(i) General hospital services

Revenue from this segment is generated in the PRC and derived from hospital services provided by Jiande Hospital of Traditional Chinese Medicine Co., Ltd.* ("Jiande Hospital")(建德中醫院有限公司), Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd.* ("DJ Pharmaceutical Technology")(建德大家中醫藥科技有限公司), Jiande Xinlin Pharmacy Co., Ltd.* ("Xinlin Pharmacy")(建德鑫林大藥房有限公司) and Yangsi Hospital.

For general hospital services, revenue primarily derives from highly diversified individual patients and no single patient contributed 1% or more of the Group's respective revenue for the years ended December 31, 2022 and 2021, respectively.

(ii) Hospital management services

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

(iii) Sale of pharmaceutical products

Revenue from this segment is generated in the PRC and is mainly derived from sale of pharmaceutical products by Zhejiang Dajia Medicines Co., Ltd. *("DJ Medicines")(浙江大佳醫藥有限公司) and Honghe (Jinhua) Pharmaceutical Co., Ltd.* ("Jinhua Pharmacy")(弘和(金華)藥業有限公司).

* *For identification purpose only*

5 SEGMENT INFORMATION – *continued*

(iv) Unallocated

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

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

	General hospital services RMB'000	Hospital management services RMB'000	Sale of pharmaceutical products RMB'000	Elimination RMB'000	Unallocated RMB'000	Total RMB'000
Year ended December 31, 2022						
Segment revenue	1,053,374	191,087	11,124	(113,484)	850	1,142,951
Inter-segment revenue	(4,000)	(109,484)	–	113,484	–	–
Revenue from external customers	1,049,374	81,603	11,124	–	850	1,142,951
Timing of revenue recognition						
– At a point in time	518,718	53,552	11,124	–	–	583,394
– Over time	530,656	28,051	–	–	850	559,557
	1,049,374	81,603	11,124	–	850	1,142,951
EBITDA	123,962	(446,748)	5,949	–	–	(316,837)
Depreciation	(42,050)	(3,622)	(67)	–	(743)	(46,482)
Amortization	(8,382)	(8,379)	–	–	(36)	(16,797)
Finance (costs)/income	(1,185)	138	(25)	–	6,432	5,360
Unallocated expense, net					(157,872)	(157,872)
Profit/(loss) before income tax	72,345	(458,611)	5,857	–	(152,219)	(532,628)
As at December 31, 2022						
Segment assets	784,635	674,829	19,603	(86,688)	297,317	1,689,696
Goodwill	58,495	687,373	–	–	–	745,868
Total assets	843,130	1,362,202	19,603	(86,688)	297,317	2,435,564
Total liabilities	506,604	151,755	3,415	(86,688)	1,417,050	1,992,136

5 SEGMENT INFORMATION – *continued*

(iv) Unallocated – *continued*

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

6 OTHER INCOME

	2022 RMB'000	2021 RMB'000
Government grants and subsidies (a)	4,810	5,021
Others	1,132	2,160
	5,942	7,181

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

7 OTHER (LOSSES)/GAINS, NET

	2022 RMB'000	2021 RMB'000
Net (losses)/gains on convertible bonds	(119,491)	12,843
Net fair value gains on financial assets at FVPL	5,722	5,763
Net losses on disposal of property, plant and equipment	(650)	(142)
Others	(22,737)	1,390
	(137,156)	19,854

8 LOSS BEFORE TAXATION

(a) Finance income and costs

	2022 RMB'000	2021 RMB'000
Finance income		
Interest income on bank deposits	4,461	2,829
Interest income on loan to related parties	4,529	3,904
Foreign exchange gains, net	5,609	–
	14,599	6,733

8 LOSS BEFORE TAXATION – *continued*

(a) Finance income and costs – *continued*

	2022 RMB'000	2021 RMB'000
Finance costs		
Interest expense on bank borrowings	**(4,501)**	(5,706)
Interest expense on lease liabilities	**(408)**	(386)
Finance cost on other financial liability at amortized cost	**–**	(1,250)
Finance expense on redemption of convertible bond	**(4,273)**	–
Foreign exchange losses, net	**–**	(13,345)
Others	**(57)**	(74)
	(9,239)	(20,761)

(b) Employee benefit expense

	2022 RMB'000	2021 RMB'000
Wages, salaries, bonuses and other benefits	**350,475**	129,356
Defined benefit obligation (Note 28)	**3,532**	42,798
Share-based compensation expenses (Note 23)	**(621)**	108
Contribution to pension plans and others	**27,448**	14,978
	380,834	187,240

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

8 LOSS BEFORE TAXATION – *continued*

(b) Employee benefit expense – *continued*

(i) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2021: one) directors of the Company whose emolument is reflected in the analysis shown in Note 37. The emoluments payables to the remaining three (2021: four) individuals during the year are as follows:

	2022	2021
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**2,350**	3,443
Contribution to pension scheme	**173**	105
Discretionary bonuses	**1,157**	1,422
Compensation for loss of office:		
– Other payments	**–**	958
Share-based compensation expenses	**–**	69
	3,680	5,997

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

	2022	2021
	no. of individual	no. of individual
Emolument band		
HKD1,000,000 – HKD1,499,999	**2**	1
HKD1,500,000 – HKD1,999,999	**1**	2
HKD2,000,000 – HKD2,499,999	**–**	–
HKD2,500,000 – HKD2,999,999	**–**	1
	3	4

8 LOSS BEFORE TAXATION – *continued*

(c) Other items

	2022 RMB'000	2021 RMB'000
Cost of inventories	**556,113**	143,331
Amortization and depreciation	**63,279**	41,145
Operating lease rental expenses	**5,015**	1,730
Auditor's remuneration		
– Audit Services	**2,144**	2,142
– Non-audit Services	**–**	1,409
Impairment loss on intangible assets	**460,283**	551,981

(Expressed in RMB unless otherwise indicated)

9 SUBSIDIARIES

The Group's principal subsidiaries at December 31, 2022 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place and date of incorporation/establishment/ kind of legal entity	Principal activities/ place of operation	Registered/ Issued and paid-up capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2022	2021	**2022**	2021
				%	%	**%**	%
Directly owned:							
Acute Sky Holdings Limited	The BVI, on January 2, 2014	Investment holding, the BVI	US$1	**100%**	100%	**–**	–
Ever Surpass Investments Limited	The BVI, on December 10, 2013	Investment holding, the BVI	US$1	**100%**	100%	**–**	–
Oriental Ally Holdings Limited ("Oriental Ally")	The BVI, on May 2, 2014	Investment holding, the BVI	US$1	**100%**	100%	**–**	–
Indirectly owned:							
Bliss Success Holdings Limited	Hong Kong, on December 20, 2011	Investment holding, Hong Kong	HK$1	**100%**	100%	**–**	–
New Pride Holdings Limited	Hong Kong, on April 11, 2012	Investment holding, Hong Kong	HK$1	**100%**	100%	**–**	–
Impeccable Success Limited ("Impeccable Success")	Hong Kong, on June 9, 2014	Investment holding, Hong Kong	US$1	**100%**	100%	**–**	–
Honghe Yixin Investment Management (Shanghai) Co., Ltd.* (弘和醫信投資管理(上海)有限公司)	The PRC, limited liability company, on July 29, 2014#	Investment holding, the PRC	RMB 30,000,000	**100%**	100%	**–**	–
Tibet Honghe Zhiyuan Business Management Co., Ltd.* ("Honghe Zhiyuan") (西藏弘和志遠企業管理有限公司)	The PRC, limited liability company, on October 10, 2014	Management services, the PRC	RMB 30,000,000	**100%**	100%	**–**	–
Tibet Dazi Honghe Ruixin Business Management Co., Ltd.* ("Honghe Ruixin") (西藏達孜弘和瑞信企業管理有限公司)	The PRC, limited liability company, joint venture, on December 23, 2014	Hospital management, the PRC	RMB 500,000	**77%**	77%	**23%**	23%
Shanghai Weikang Investment Management Co., Ltd.* ("Weikang Investment") (上海維康投資管理有限公司)	The PRC, limited liability company, joint venture, on April 15, 2002@	Hospital management, the PRC	RMB 30,000,000	**77%**	77%	**23%**	23%

* *For identification purpose only*

(Expressed in RMB unless otherwise indicated)

9 SUBSIDIARIES – *continued*

Name of entity	Place and date of incorporation/establishment/ kind of legal entity	Principal activities/ place of operation	Registered/ Issued and paid-up capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2022	2021	**2022**	2021
				%	%	**%**	%
Yangsi Hospital	The PRC, limited liability company, joint venture, on April 15, 2002*	Hospital management, the PRC	RMB 30,000,000	**–**	–	**100%**	100%
Shanghai Pudong Siyang Optical Equipment Co., LTD* (上海浦東思楊光學器材有限公司)	The PRC, limited liability company, joint venture, on October 29, 2020	Hospital management, the PRC	RMB 2,000,000	**–**	–	**100%**	100%
Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd.* ("Zhejiang Honghe Zhiyuan") (浙江弘和致遠醫療科技有限公司)	The PRC, limited liability company, joint venture, on October 29, 2014@	Hospital management, the PRC	RMB 200,000,000	**75%**	75%	**25%**	25%
Jiande Heyue Enterprise Management Co., Ltd. * ("Jiande Heyue") (建德和悦企業管理有限公司)	The PRC, limited liability company, on September 20, 2017	Investment holding, the PRC	RMB 80,000,000	**100%**	100%	**–**	–
Jiande Hexu Enterprise Management Co., Ltd.* ("Jiande Hexu") (建德和煦企業管理有限公司)	The PRC, limited liability company, on September 19, 2017#	Investment holding, the PRC	RMB 80,000,000	**100%**	100%	**–**	–
Jiande Hospital	The PRC, limited liability company, joint venture, on September 19, 2016	General hospital services, the PRC	RMB 10,000,000	**100%**	70%	**–**	30%
DJ Pharmaceutical Technology	The PRC, limited liability company, joint venture, on November 12, 2014	Property management provided to Jiande Hospital, the PRC	RMB 40,000,000	**100%**	70%	**–**	30%
DJ Medicines	The PRC, limited liability company, joint venture, on August 11, 2005	Wholesale of pharmaceutical products, the PRC	RMB 10,000,000	**100%**	70%	**–**	30%
Cixi Hongai Medical Management Company Limited* ("Cixi Hongai") (慈溪弘愛醫療管理有限公司)	The PRC, limited liability company, on November 22, 2017#	Investment holding, the PRC	RMB 24,500,000	**100%**	100%	**–**	–
Cixi Honghe Medical Management Company Limited* ("Cixi Honghe") (慈溪弘和醫療管理有限公司)	The PRC, limited liability company, joint venture, on November 22, 2017	Hospital management, the PRC	RMB 35,000,000	**70%**	70%	**30%**	30%
Xinlin Pharmacy	The PRC, limited liability company, on October 10, 2015	Sale of pharmaceutical products, the PRC	RMB 5,000,000	**100%**	70%	**–**	30%
Cixi Honghe Hospital Company Limited* (慈溪弘和醫院有限公司)	The PRC, limited liability company, on March 1, 2019	General hospital services, the PRC	RMB 35,000,000	**70%**	70%	**30%**	30%

* *For identification purpose only*

(Expressed in RMB unless otherwise indicated)

9 SUBSIDIARIES – *continued*

Name of entity	Place and date of incorporation/establishment/ kind of legal entity	Principal activities/ place of operation	Registered/ Issued and paid-up capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2022 %	2021 %	**2022** %	2021 %
Tibet Hongai Business Management Co., Ltd.* ("Tibet Hongai") (西藏弘愛企業管理有限公司)	The PRC, limited liability company, on December 13, 2019	Management services, the PRC	RMB 1,000,000	**100%**	100%	**-**	–
Jinhua Pharmacy	The PRC, limited liability company, on March 18, 2020	Sale of pharmaceutical products, the PRC	RMB 100,000	**100%**	100%	**-**	–
Beijing Hongyuan Zhiying Enterprise Management Consulting Co., Ltd.* ("Beijing Hongyuan Zhiying") (北京弘遠智盈企業管理諮詢有限公司)	The PRC, limited liability company, on September 10, 2020	Management services, the PRC	RMB 1,000,000	**100%**	100%	**-**	–
Honghe Medicines (Zhejiang) Co., Ltd* (弘和醫藥(浙江)有限公司)	The PRC, limited liability company, on February 22, 2021	Wholesale of pharmaceutical products, the PRC	RMB 10,000,000	**100%**	100%	**-**	–
Honghe (Yongkang) Medical Instrument Co., Ltd. * ("Yongkang Hospital") (弘和(永康)醫療器械有限公司)	The PRC, limited liability company, on October 10, 2021	Wholesale of medical consumables, the PRC	RMB 100,000	**100%**	100%	**-**	–
Hangzhou Jingyouzhi Enterprise Management Company Limited* ("Hangzhou Jingyouzhi") (杭州靜有智企業管理有限公司)	The PRC, limited liability company, on March 31, 2022	Investment holding, the PRC	RMB 500,000	**100%**	100%	**-**	–
Hangzhou Jinhoupu Management Company Limited* ("Hangzhou Jinhoupu") (杭州金厚樸企業管理有限公司)	The PRC, limited liability company, on March 31, 2022	Investment holding, the PRC	RMB 500,000	**100%**	100%	**-**	–

Registered as wholly foreign owned enterprises under PRC law.

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

* Yangsi Hospital is a not-for-profit hospital and Weikang Investment is the founder of the hospital. Given that no part of the earnings of a not-for-profit hospital registered in China constitutes "distributable profits" and no entity or individual may occupy, privately share or misappropriate the assets of not-for-profit hospital, Weikang Investment is not entitled to the dividends and the residual assets upon the liquidation of Yangsi Hospital in accordance with relevant PRC laws and regulations. Therefore, the operating profits and net assets of Yangsi Hospital are not distributable to its founder and thus presented as attributable to non-controlling interests.

* *For identification purpose only*

9 SUBSIDIARIES – *continued*

(i) Investment in subsidiaries

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

(ii) Significant restrictions

Cash and cash equivalents of RMB454,924,000 (2021: RMB230,754,000) is held in the PRC and is subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

(iii) Material non-controlling interests ("NCI")

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

Summarized statement of financial position

	Weikang Investment As at December 31,		Honghe Ruixin As at December 31,		Jiande Hospital As at December 31,	Cixi Honghe As at December 31,		Zhejiang Honghe Zhiyuan As at December 31,		Yangsi Hospital As at December 31,	
	2022	2021	**2022**	2021	2021	**2022**	2021	**2022**	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current assets	**91,024**	128,789	**93,427**	133,802	120,630	**29,771**	25,610	**18,859**	137,381	**330,141**	341,431
Current liabilities	**(50,446)**	(75,832)	**(40,101)**	(47,261)	(127,320)	**(3,978)**	(10,642)	**(109,530)**	(114,549)	**(289,814)**	(320,859)
Current net assets/ (liabilities)	**40,578**	52,957	**53,326**	86,541	(6,690)	**25,793**	14,968	**(90,671)**	22,832	**40,327**	20,572
Non-current assets	**1,004**	2,578	**–**	–	240,431	**54,618**	56,273	**328,938**	316,430	**90,102**	113,795
Non-current liabilities	**–**	–	**–**	–	(45,768)	**(13,654)**	(14,068)	**(51,031)**	(77,086)	**(49,111)**	(115)
Non-current net assets	**1,004**	2,578	**–**	–	194,663	**40,964**	42,205	**277,907**	239,344	**40,991**	113,680
Net assets	**41,582**	55,535	**53,326**	86,541	187,973	**66,757**	57,173	**187,236**	262,176	**81,318**	134,252
Accumulated NCI	**28,496**	31,706	**11,073**	18,712	56,392	**20,023**	17,148	**46,808**	65,543	**81,318**	134,252

Note:

The Company controls and consolidates 100% financial statements of Jiande Hospital On April 2, 2022.

9 SUBSIDIARIES – *continued*

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

Summarized statement of comprehensive income

	Weikang Investment		Honghe Ruixin		Jiande Hospital		Cixi Honghe		Zhejiang Honghe Zhiyuan		Yangsi Hospital	
						Period from January 1 to April 1,						Period from December 6 to December 31,
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue	**9,190**	53,146	**87,845**	125,767	**44,963**	185,553	**21,036**	14,812	**4,656**	17,453	**846,495**	107,933
Profit/(loss) before income tax	**14,818**	30,957	**85,773**	120,841	**(937)**	6,311	**12,778**	(173,322)	**(99,919)**	(270,286)	**(50,199)**	(28,992)
Income tax	**(3,704)**	17,365	**(12,959)**	(17,652)	**–**	(1,950)	**(3,194)**	43,515	**24,980**	66,661	**–**	(4)
Profit/(loss) for the year	**11,114**	48,322	**72,814**	103,189	**(937)**	4,361	**9,584**	(129,807)	**(74,939)**	(203,625)	**(50,199)**	(28,996)
Other comprehensive income	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(2,781)**	–
Total comprehensive income	**11,114**	48,322	**72,814**	103,189	**(937)**	4,361	**9,584**	(129,807)	**(74,939)**	(203,625)	**(52,980)**	(28,996)
Profit/(loss) allocated to NCI	**2,556**	11,114	**16,747**	24,358	**(939)**	1,309	**2,875**	(38,942)	**(18,735)**	(50,906)	**(52,934)**	(28,996)
Dividends paid to NCI	**5,766**	6,363	**24,386**	24,428	**11,999**	–	**–**	–	**–**	–	**–**	–

9 SUBSIDIARIES – *continued*

(iii) Material non-controlling interests ("NCI")

Summarized statement of cash flows

	Weikang Investment		Honghe Ruixin		Jiande Hospital		Cixi Honghe		Zhejiang Honghe Zhiyuan		Yangsi Hospital	
	2022	2021	**2022**	2021	**2022**	Period from January 1 to April 1, 2021	**2022**	2021	**2022**	2021	**2022**	Period from December 6 to December 31, 2021
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Net cash generated from/(used in) operating activities	**68,817**	36,887	**66,780**	128,134	**(16,513)**	23,318	**21,538**	2,057	**(6,332)**	13,768	**38,402**	(57,821)
Net cash generated/(used in) from investing activities	**68,677**	(21,226)	**25,678**	(20,485)	**11**	(8,771)	**(13,969)**	(5,264)	**2,402**	(16,024)	**41,829**	47,535
Net cash used in from financing activities	**(41,731)**	(4,937)	**(101,042)**	(99,697)	**(3,444)**	(2,993)	**(7,407)**	–	**-**	(3,000)	**-**	(35)
Net increase/(decrease) in cash and cash equivalents	**95,763**	10,724	**(8,584)**	7,952	**(19,946)**	11,554	**162**	(3,207)	**(3,930)**	(5,256)	**80,231**	(10,321)

10 INCOME TAX

Subsidiaries established and operating in the PRC are subject to the PRC corporate income tax at the rates of 25% or 15% for the year ended December 31, 2022 (2021: 25% or 15%).

	2022	2021
	RMB'000	RMB'000
Current income tax:		
– PRC corporate income tax	**23,682**	42,303
Deferred income tax (Note 29)	**(27,713)**	(129,009)
	(4,031)	(86,706)

10 INCOME TAX – *continued*

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

	2022 RMB'000	2021 RMB'000
Loss before income tax	**(532,628)**	(449,102)
Calculated at taxation rate of 25%	**(133,157)**	(112,276)
Effect of different tax rates and income tax exemption available to different entities of the Group	**(9,435)**	(3,049)
Expenses not tax deductible	**90,803**	35,436
Tax effect of unrecognized tax losses	**41,921**	3,330
Utilization of tax losses in previous years	**(28)**	(2,366)
Withholding tax	**–**	8,888
Others	**5,865**	(16,669)
Income tax	**(4,031)**	(86,706)

(i) Cayman Islands Income Tax

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

(ii) Hong Kong Profits Tax

Hong Kong profits tax rate was 16.5% for the year ended December 31, 2022 (2021: 16.5%). No Hong Kong profit tax was provided for as there was no estimated assessable profit that was subject to Hong Kong Profits Tax for the years ended December 31, 2022 and 2021.

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

The income tax rate of Honghe Zhiyuan, Honghe Ruixin and Tibet Hongai was 15% for the year ended December 31, 2022 (2021: 15%). Yangsi Hospital was exempted from income tax due to the nature of not-for-profit hospital. The income tax rate of other subsidiaries was 25% for the year ended December 31, 2022 (2021: 25%).

(iv) Withholding Tax

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

11 LOSS PER SHARE

(i) Basic loss per share

Basic loss per share is calculated by dividing:

– The loss attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares.

– By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year excluding shares held for employee share scheme.

	2022	2021
	RMB'000	RMB'000
Total loss attributable to owners of the Company (RMB'000)	**(480,948)**	(280,709)
Weighted average number of ordinary shares in issue (in thousands)	**138,194**	138,194
Basic loss per share (in RMB)	**(3.480)**	(2.031)

(ii) Diluted loss per share

The Group had potential dilutive shares during the year ended December 31, 2022 and 2021 related to the convertible bonds. Mainly due to the Group's negative financial results during the year ended December 31, 2022 and 2021, relative convertible bonds have anti-dilutive effect on the Group's loss per share. Thus, diluted loss per share is equivalent to the basic loss per share for the year ended December 31, 2022 and 2021.

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Medical equipment RMB'000	Office equipment, furniture and vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2021						
Cost	126,067	5,509	39,104	9,602	2,295	182,577
Accumulated depreciation	(17,737)	(3,151)	(11,647)	(4,917)	–	(37,452)
Net amount	108,330	2,358	27,457	4,685	2,295	145,125
Year ended December 31, 2021						
Net book value						
Opening net book amount	108,330	2,358	27,457	4,685	2,295	145,125
Changes as a result of business combination	12,596	9,700	81,485	6,790	750	111,321
Additions	–	3,655	3,147	1,259	3,840	11,901
Disposals	(2,084)	–	(7)	(70)	–	(2,161)
Transfer upon completion	4,291	985	–	859	(6,135)	–
Depreciation charge	(4,894)	(1,127)	(7,490)	(1,960)	–	(15,471)
Closing net book amount	118,239	15,571	104,592	11,563	750	250,715
At December 31, 2021						
Cost	140,870	19,849	123,729	18,440	750	303,638
Accumulated depreciation	(22,631)	(4,278)	(19,137)	(6,877)	–	(52,923)
Net book amount	118,239	15,571	104,592	11,563	750	250,715
Year ended December 31, 2022						
Net book value						
Opening net book amount	**118,239**	**15,571**	**104,592**	**11,563**	**750**	**250,715**
Additions	**–**	**6,656**	**5,778**	**2,853**	**757**	**16,044**
Disposals	**(1,584)**	**–**	**(711)**	**(1,687)**	**–**	**(3,982)**
Transfer upon completion	**–**	**356**	**–**	**–**	**(356)**	**–**
Depreciation charge	**(6,424)**	**(6,404)**	**(26,910)**	**(4,106)**	**–**	**(43,844)**
Closing net book amount	**110,231**	**16,179**	**82,749**	**8,623**	**1,151**	**218,933**
At December 31, 2022						
Cost	**139,286**	**26,861**	**128,796**	**19,606**	**1,151**	**315,700**
Accumulated depreciation	**(29,055)**	**(10,682)**	**(46,047)**	**(10,983)**	**–**	**(96,767)**
Net book amount	**110,231**	**16,179**	**82,749**	**8,623**	**1,151**	**218,933**

12 PROPERTY, PLANT AND EQUIPMENT – *continued*

Depreciation expense of RMB34,217,000 (2021:RMB11,891,000) was charged in "cost of revenue", and RMB9,627,000 (2021: RMB3,580,000) in "administrative expenses" for the year ended December 31, 2022.

At 31 December 2022, property certificates of certain properties with carrying amounts of RMB20,248,000 are yet to be obtained. The Group is in the process of obtaining ownership certificates for these properties. Any damages or costs incurred in relation to the title defects of the land and building will be indemnified by the controlling shareholder of the Company, thus there will be no significant financial impact on the financial information of the Group.

13 LEASES

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

(i) Amounts recognized in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Right-of-use assets		
Properties	**9,164**	11,802
Land use right	**35,713**	36,656
	44,877	48,458
Lease Liabilities		
Current	**1,527**	1,514
Non-current	**6,240**	7,607
	7,767	9,121

Additions to the right-of-use assets for the year ended December 31, 2022 were nil (2021: RMB15,814,000).

13 LEASES – *continued*

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

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

	2022	2021
	RMB'000	RMB'000
Depreciation charge of right-of-use assets – properties	**2,638**	2,082
Amortization charge of right-of-use assets – land use right	**943**	944
Interest expense (included in finance cost)	**408**	386
Expense relating to short-term and low-value leases (included in cost of revenue and administrative expenses)	**4,950**	708

The total cash outflow for leases for the year ended December 31, 2022 was RMB1,762,000 (2021: RMB3,151,000).

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

The Group leases a warehouse, a parking area, two retail stores, various equipment, offices, apartments and lands. Rental contracts are typically made for fixed periods of 1 year to 20 years.

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

14 INTANGIBLE ASSETS

	Goodwill RMB'000	Contractual rights to provide management services RMB'000	Medical licenses RMB'000	Computer software RMB'000	Total RMB'000
At January 1, 2021					
Cost	1,617,767	1,158,200	186,900	1,913	2,964,780
Accumulated amortization	(467,083)	(267,789)	(20,521)	(830)	(756,223)
Net book amount	1,150,684	890,411	166,379	1,083	2,208,557
Year ended December 31, 2021					
Opening net book amount as at January 1, 2021	1,150,684	890,411	166,379	1,083	2,208,557
Changes as a result of business combination	99,280	(99,280)	–	–	–
Additions	–	–	–	3,380	3,380
Amortization charge	–	(15,807)	(6,474)	(367)	(22,648)
Impairment charge	(141,274)	(410,707)	–	–	(551,981)
Closing net book amount as at December 31, 2021	1,108,690	364,617	159,905	4,096	1,637,308
At December 31, 2021					
Cost	1,717,047	1,042,200	186,900	5,293	2,951,440
Accumulated amortization and impairment	(608,357)	(677,583)	(26,995)	(1,197)	(1,314,132)
Net book amount	1,108,690	364,617	159,905	4,096	1,637,308
Year ended December 31, 2022					
Opening net book amount as at January 1, 2022	**1,108,690**	**364,617**	**159,905**	**4,096**	**1,637,308**
Additions	**–**	**–**	**–**	**1,066**	**1,066**
Amortization charge	**–**	**(8,413)**	**(6,474)**	**(967)**	**(15,854)**
Impairment charge	**(362,822)**	**(97,461)**	**–**	**–**	**(460,283)**
Closing net book amount as at December 31, 2022	**745,868**	**258,743**	**153,431**	**4,195**	**1,162,237**
At December 31, 2022					
Cost	**1,717,047**	**1,042,200**	**186,900**	**6,359**	**2,952,506**
Accumulated amortization and impairment	**(971,179)**	**(783,457)**	**(33,469)**	**(2,164)**	**(1,790,269)**
Net book amount	**745,868**	**258,743**	**153,431**	**4,195**	**1,162,237**

14 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill

Goodwill of RMB1,717,047,000 is mainly resulted from the acquisitions of subsidiaries, among which RMB950,916,000 was arising from the acquisition of Weikang Investment on September 30, 2014, RMB308,854,000 was arising from the acquisition of Jiande Hexu on January 11, 2018, RMB166,613,000 was arising from the acquisition of Cixi Hongai on March 14, 2018, RMB188,977,000 was arising from the acquisition of Oriental Ally on August 7, 2018, RMB2,407,000 was arising from the acquisition of Xinlin Pharmacy on August 31, 2018, and RMB99,280,000 was arising from the consolidation of Yangsi Hospital on December 6, 2021.

Management reviews the business performance and monitors goodwill of the CGU or CGU groups.

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

Goodwill arising from the acquisition of Jiande Hexu was allocated to general hospital services segment which represented the Jiande Hospital operating CGU and sale of pharmaceutical products which represented the DJ Medicine operating CGU. The goodwill allocated to DJ Medicine operating CGU was fully impaired for the year ended December 31, 2021.

Goodwill arising from the acquisition of Cixi Hongai and Oriental Ally was fully allocated to hospital management services segment which including Cixi Honghe operating CGU and Zhejiang Honghe Zhiyuan operating CGU. The relevant goodwill was fully impaired for the year ended December 31, 2021.

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

14 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

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

	Opening RMB'000	Addition RMB'000	Impairment RMB'000	Closing RMB'000
Year ended December 31, 2022				
General hospital services segment	**58,495**	**–**	**–**	**58,495**
Hospital management services segment	**1,050,195**	**–**	**(362,822)**	**687,373**
	1,108,690	**–**	**(362,822)**	**745,868**
Year ended December 31, 2021				
General hospital services segment	58,495	–	–	58,495
Hospital management services segment	1,082,923	99,280	(132,008)	1,050,195
Sale of pharmaceutical products segment	9,266	–	(9,266)	–
	1,150,684	99,280	(141,274)	1,108,690

As at December 31, 2022, the management of the Group had set up a cash flow forecasts including future investments covering an eight-year period based on reasonable and supportable assumptions. These assumptions and estimates are considered reliable and are supported by management's research and analysis based on industry information and data specific to the industry in which each CGU or a group of CGUs operates. Cash flows beyond the eight-year period are extrapolated using the estimated growth rates stated below.

Management reviews business performance of each CGU or a group of CGUs. The recoverable amount of each CGU or a group of CGUs is determined based on the higher of fair value less costs of disposal (FVLCOD) and value in use (VIU) calculations of the underlying assets with reference to valuation reports issued by an independent valuer. The valuation is considered to be level 3 in fair value hierarchy due to unobservable inputs used in the valuation. These calculations use cash flow projections based on forecasts approved by management covering an eight-year-forecast-period since January 1, 2023. The management considers that the eight-year-forecast-period that has been used in the goodwill impairment test is appropriate because the investment cycle in the healthcare industry is longer than other industries, and the useful lives of the licenses of related subsidiaries are longer than eight years. Cash flows beyond the eight-year period are extrapolated using the estimated long-term growth rate of 2.5% by reference to the long-term inflation rate of China as at December 31, 2022 (2021: 3.0%).

(Expressed in RMB unless otherwise indicated)

14 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

(a) Goodwill of Weikang Investment and Honghe Ruixin group of CGUs ("Weikang CGUs")

Hospital Management Service Segment

Due to the impact of the implementation plan of the medical reform policies, the operation of hospital management services provided by Weikang CGUs during the year ended December 31, 2022 was below the management's forecast. Management engaged an independent valuer in determining the recoverable amount of the Weikang CGUs as at December 31, 2022.

The impairment loss on goodwill of RMB362,822,000 during the year ended December 31, 2022 solely relates to Weikang CGUs. As the CGUs have been reduced to its recoverable amount of RMB1,032,000,000, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

As at December 31, 2022 and 2021, the key assumptions used for Weikang CGUs were as follows:

	2022	2021
Revenue (% compound growth rate)	**6.10%**	8.07%
Post-tax discount rate	**13.50%**	13.50%

As a result of the implementation plan of the medical reform policies in relation to DIP published in Shanghai in the first half of 2022, the management is of the view that the continuous impact of the change in the DIP policy is irreversible and that patients' average medical expenses will have to be adjusted gradually in the future. Meanwhile, the future income growth of the hospital will also be affected by the medical insurance coverage in China.

The management is of the view that the above factor may continue to impact the hospitals' operations in the next few years. As a result, the forecast of revenue for the next few years has been adjusted.

(Expressed in RMB unless otherwise indicated)

14 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

(b) Goodwill of Jiande Hospital operating CGU ("Jiande CGU")

General Hospital Services Segment

As at December 31, 2022 and 2021, the key assumptions used for Jiande CGU were as follows:

	2022	2021
Revenue (% compound growth rate)	**5.75%**	9.78%
Post-tax discount rate	**15.00%**	15.00%

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

	Year ended December 31, 2022	
	Key Assumption	**Breakeven Point**
Percentage of the compound growth rate of revenue	**5.75%**	**3.10%**
Percentage of the post-tax discount rate	**15.00%**	**15.60%**

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

As at December 31, 2022, the recoverable amount of Jiande CGU was estimated to be RMB272,800,000 which exceeded the carrying amount of the Jiande CGU by RMB9,842,000, accordingly, no impairment of goodwill was recognized during the year ended December 31, 2022 (2021: nil).

(Expressed in RMB unless otherwise indicated)

14 INTANGIBLE ASSETS – *continued*

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

Contractual rights to provide management services are the rights to provide management services to Zhejiang Jinhua Guangfu Oncological Hospital*("Jinhua Hospital")(浙江金華廣福腫瘤醫院)and Cixi Union Hospital*("Cixi Hospital")(慈溪弘和醫院)with finite useful life. These contractual rights acquired in business combinations are recognized at fair value as at the acquisition date.

Due to the similar reason as mentioned in goodwill impairment, the operating results of certain hospitals were below management's forecasts. Management engaged an independent valuer in determining the recoverable amount of contractual rights to provide management services to Jinhua Hospital and Cixi Hospital as at December 31, 2022. Impairment loss of RMB97,461,000 was recognized for contractual rights to provide management services to Jinhua Hospital, reducing its carrying amount to RMB204,125,000. No impairment was recognized for contractual rights to provide management services to Cixi Hospital (2021: RMB233,455,000 and RMB177,252,000 were impaired for the contractual rights to provide management services to Jinhua Hospital and Cixi Hospital, respectively).

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

As at December 31, 2022 and 2021, the key assumptions for contractual right to provide management service by Zhejiang Honghe Zhiyuan to Jinhua Hospital were as follows.

	2022	2021
Revenue (% compound growth rate)	**6.11%**	9.97%
Post-tax discount rate	**14.00%**	14.00%

* *For identification purpose only*

(Expressed in RMB unless otherwise indicated)

14 INTANGIBLE ASSETS – *continued*

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

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

As at December 31, 2022 and 2021, the key assumptions for contractual right to provide management service by Cixi Honghe to Cixi Hospital were as follows.

	2022	2021
Revenue (% compound growth rate)	**2.96%**	4.99%
Post-tax discount rate	**14.00%**	14.00%

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

	Year ended December 31, 2022	
	Key Assumption	**Breakeven Point**
Percentage of the compound growth rate of revenue	**2.96%**	**1.74%**
Percentage of the post-tax discount rate	**14.00%**	**15.40%**

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

15 FINANCIAL INSTRUMENTS BY CATEGORY

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Financial assets		
Financial assets at amortized cost		
Trade receivables	**71,543**	114,794
Other receivables and deposits	**2,714**	2,111
Amounts due from related parties	**228,183**	222,802
Cash and cash equivalents	**497,061**	440,428
Term deposits	**696**	638
Financial assets at FVPL		
Monetary funds	**129,848**	338,905
	930,045	1,119,678

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Financial liabilities		
Financial liabilities at amortized cost		
Borrowings	**69,429**	71,018
Trade payables	**136,855**	124,300
Accruals, other payables and provisions (excluding accrued employee benefits, share-based payments and other tax liabilities)	**367,570**	474,005
Amounts due to related parties	**10,757**	13,246
Lease liabilities	**7,767**	9,121
Financial liabilities at FVPL		
Convertible bonds	**1,026,407**	906,916
	1,618,785	1,598,606

16 TRADE RECEIVABLES

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Trade receivables	**79,179**	121,533
Less: loss allowance (Note 3.1(ii))	**(7,636)**	(6,739)
Trade receivables, net of loss allowance	**71,543**	114,794

As at December 31, 2022 and 2021, the aging analysis based on invoice date of the trade receivables was as follows:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
1 – 90 days	**78,040**	114,536
91 – 180 days	**221**	4,033
181 days – 1 year	**619**	2,697
Over 1 year	**299**	267
	79,179	121,533

17 INVENTORIES

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Pharmaceuticals	**51,533**	41,678
Medical consumables	**5,535**	6,355
	57,068	48,033

The cost of inventories recognized as expense and included in "cost of revenue" during the year ended December 31, 2022 amounting to RMB556,113,000 (2021: RMB143,331,000).

18 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Prepayments for service fee	**9,693**	7,152
Other prepayments	**3,399**	3,086
Advances to employees	**584**	521
Deposits for rental	**466**	475
Interest receivables from fixed deposits	**648**	–
Others	**1,016**	1,115
	15,806	12,349
Less: non-current portion	**(466)**	(2,374)
Current portion	**15,340**	9,975

19 BALANCES WITH RELATED PARTIES

As at December 31, 2022 and 2021, the balances with related parties are unsecured, receivable/payable on demand unless otherwise and are denominated in RMB.

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Amounts due from related parties		
– Trade in nature (a)		
Jinhua Hospital	**154,022**	158,524
Cixi Hospital	**5,999**	15,932
Yongkang Hospital	**854**	343
	160,875	174,799
– Others		
Jinhua Hospital (b)	**100,000**	80,000
Vanguard Glory Limited	**365**	335
Yongkang Hospital	**7**	9
Han Prestige Limited	**–**	6
	261,247	255,149
Less: provision for impairment of amounts due from related parties (Note 3.1(ii))	**(33,064)**	(32,347)
Amounts due from related parties, net	**228,183**	222,802
Less: non-current portion	**(156,726)**	–
Current portion	**71,457**	222,802

19 BALANCES WITH RELATED PARTIES – *continued*

(a) As at December 31, 2022 and 2021, the aging analysis based on trading date of the amount due from related parties which are trade in nature was as follows:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Within 90 days	**11,311**	19,195
90 to 180 days	**478**	8,713
Over 180 days	**149,086**	146,891
	160,875	174,799

(b) Honghe Zhiyuan, as a lender, entered into four loan agreements with Jinhua Hospital in July, November, December of 2019 and March of 2022 with the principal amounting to RMB40,000,000, RMB20,000,000, RMB20,000,000, RMB20,000,000 respectively. The loan lended in 2022 bears an interest rate of 4.07% per annum. Other loans bear an interest rate of 5.23% per annum, which is subject to adjustment according to the applicable benchmark interest rates as published by the People's Bank of China from time to time. All the loans will mature within one year. As at December 31, 2022, the outstanding principal amounted to RMB100,000,000 have not been recovered.

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Amounts due to related parties		
– Trade in nature		
Dajia Medical Equipment Co., Ltd.	**–**	5,870
Jinhua Hospital	**3,145**	–
– Others		
Jinhua Hospital	**6,028**	5,971
Vanguard Glory Limited	**1,514**	1,386
Cixi Hospital	**70**	13
Midpoint Honour Ltd.	**–**	6
	10,757	13,246

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Classification of financial assets at FVPL

The Group classifies the following financial assets at FVPL:

– Debt investments that do not qualify for measurement at either amortized cost or FVOCI, and

– Equity investments for which the entity has not elected to recognize fair value gains and losses through OCI.

Financial assets mandatorily measured at FVPL include the following:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Current assets		
Monetary funds	**129,848**	338,905

Monetary funds are the Group's various subscriptions of wealth management products in banks and financial institutions in the PRC.

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

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

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Fair value gains on monetary funds recognized in other gains	**5,722**	5,763

(iii) Risk exposure and fair value measurements

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

21 CASH AND CASH EQUIVALENTS

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Cash at banks	**254,032**	204,490
Cash on hand	**1,496**	659
Term deposits with initial terms within three months	**28,933**	100,000
Deposits held at call with financial institutions	**212,600**	135,279
	497,061	440,428

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

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
US dollars	**2,215**	3,001
Hong Kong dollars	**16,752**	92,726
RMB	**478,094**	344,701
	497,061	440,428

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

22 SHARE CAPITAL, TREASURY SHARES AND SHARE PREMIUM

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

	Number of shares	Share Capital RMB'000	Share premium RMB'000
Issued and Paid			
As at January 1 and December 31, 2022	**138,194,000**	**123**	**435,304**

(Expressed in RMB unless otherwise indicated)

23 SHARE-BASED PAYMENTS

(i) Pre-IPO Share Appreciation Rights Scheme

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

Pursuant to the Pre-IPO SARs Scheme, the Company granted 2,500,000 notional shares to the Pre-IPO SARs Grantees entitling them to receive cash payments based on the appreciation of the notional shares over a vesting period starting from June 30, 2016. As at December 31, 2022, all notional shares were vested for the Pre-IPO SARs Grantees.

The fair value of the notional shares granted to the Pre-IPO SARs Grantee as at December 31, 2022, as determined using the Black-Scholes model by a professional valuation firm, was RMB140,000. The significant inputs in the valuation model were listed as below:

	As at December 31, 2022			
	First Batch Share Options	Second Batch Share Options	Third Batch Share Options	Fourth Batch Share Options
Volatility	23.00%	23.00%	23.00%	23.00%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected option life (month)	20.50	32.50	44.50	56.50
Annual risk-free interest rate	4.14%	4.14%	4.14%	4.14%
Carrying amount of liability	43,750	43,750	26,250	26,250

Share-based compensation expenses related to the Pre-IPO SARs Scheme of RMB749,000 was derecognized as "cost of revenue" for the year ended December 31, 2022 (2021: RMB568,000 was derecognized as "cost of revenue").

(ii) Share Incentive Scheme

On October 24, 2017, Vanguard Glory entered into a share incentive scheme (the "Share Incentive Scheme") with certain members of management (collectively referred to as the "Share Incentive Grantees"), respectively. Pursuant to the Share Incentive Scheme, Vanguard Glory granted 6,412,201 share awards to the Share Incentive Grantees entitling them to subscribe shares held by Vanguard Glory at the exercise price of HKD14.35 per share, subject to certain lock-up restrictions. As at December 31, 2022, all of the share awards granted by Vanguard Glory had been released from the lock-up restrictions and free to be vested.

Share-based compensation expenses related to the Share Incentive Scheme of RMB130,000 was recognized as "cost of revenue" for the year ended December 31, 2022 (2021: RMB676,000).

24 OTHER RESERVES

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Total RMB'000
At January 1, 2021	885,330	42,781	928,111
Share-based payments			
–share incentive scheme (Note 23(ii))	676	–	676
Exercise of put option	(2,150)	–	(2,150)
Transfer of reserves (a)	–	2,708	2,708
At December 31, 2021	883,856	45,489	929,345
At January 1, 2022	**883,856**	**45,489**	**929,345**
Share-based payments			
–share incentive scheme (Note 23(ii))	**130**	**–**	**130**
Transfer of reserves (a)	**–**	**2,749**	**2,749**
Acquisition of non-controlling interests of subsidiaries	**(61,445)**	**–**	**(61,445)**
At December 31, 2022	**822,541**	**48,238**	**870,779**

(a) Statutory surplus reserve

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

25 TRADE PAYABLES

An aging analysis, based on invoice date, of trade payables as at the consolidated statement of financial position dates are as follows:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Within 90 days	**119,820**	112,350
91 to 180 days	**8,383**	6,203
181 days to 1 year	**3,775**	2,581
Over 1 year	**4,877**	3,166
	136,855	124,300

26 BORROWINGS

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Bank borrowing		
– Secured but unguaranteed (a)	**59,000**	31,018
– Unsecured and unguaranteed (b)	**10,429**	40,000
Total borrowings	**69,429**	71,018

Note:

(a) Jiande Hospital entered into seven one-year loan agreements with Agricultural Bank of China Bank Jiande Branch on March 25, April 1, June 24, December 9, December 15 and December 23, 2022 respectively. The outstanding amount of these loans was RMB59,000,000, which consist of the loans amounting to RMB3,000,000 and RMB9,900,000 beared fixed interest rates of 4.300%, RMB9,500,000, RMB9,500,000, RMB9,900,000, RMB9,000,000 and RMB8,200,000 beared fixed interest rates of 4.100%. These bank loans were secured by trade receivables held by Jiande Hospital.

(b) On July 14, 2022, Jiande Hospital entered into an one-year loan agreement with Jiande Nongshang Bank. The remaining amount of this loan was RMB10,000,000, which beared fixed interest rates of 4.100%.

27 ACCRUALS, OTHER PAYABLES AND PROVISIONS

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Accrued employee benefits	**138,885**	97,236
Payables for redemption of convertible bonds	**99,346**	184,553
Payables of undertaking letter (Note)	**239,788**	239,788
Payables to third parties	**–**	20,000
Share-based payments	**140**	14,513
Duty and tax payables other than corporate income tax	**14,162**	27,469
Other payables to suppliers for purchase of plant and equipment	**10,678**	9,991
Accrued professional service fee	**3,939**	5,637
Others	**13,819**	14,036
	520,757	613,223
Less: non-current portion		
Payables of undertaking letter (Note)	**–**	(239,788)
Payables for redemption of convertible bonds	**–**	(85,686)
Others	**–**	(330)
	–	(325,804)
Current portion	**520,757**	287,419

Note:

In May 29, 2018, The Company granted a put option to the minority shareholders of Zhejiang Honghe Zhiyuan under a undertaking letter, pursuant to which the Company undertook to acquire the remaining 25% equity interests of Zhejiang Honghe Zhiyuan at the purchase price of not less than RMB210 million plus other reasonable expenses incurred by the minority shareholders in connection with their investment in Zhejiang Honghe Zhiyuan. The minority shareholders had informed the Company on August 5, 2021 that they intended to exercise the option to require the Company to acquire the remaining interests in accordance with the terms and conditions of the undertaking letter.

28 EMPLOYEE BENEFIT OBLIGATIONS

Post employment benefit plan

Certain subsidiary of the Group operates a post employment benefit plan during the year ended December 31, 2021. The plan is unfunded where the subsidiary meets the benefit payment obligation as it falls due. This plan provided benefits to employees who 1) meets the requirement of performance evaluation after a service period of six years, 2) satisfied certain conditions including compliance, non-disclosure and non-competition agreement after retirement. The level of benefits provided depends on members' length of service and their positions in the final year leading up to retirement as well as the performance of the subsidiary.

(a) Statement of financial position amounts

The amounts recognized in the statement of financial position and the movement in the net defined benefit obligation in 2022 are as follows:

	Present value of obligation RMB'000
At January 1, 2021	–
Past and current service cost	42,798
Total amount recognized in the consolidated statement of comprehensive income	42,798
At December 31, 2021	42,798
At January 1, 2022	**42,798**
Current service cost	**3,532**
Remeasurement of employee benefit obligations	**2,781**
Total amount recognized in the consolidated statement of comprehensive income	**6,313**
At December 31, 2022	**49,111**

(Expressed in RMB unless otherwise indicated)

28 EMPLOYEE BENEFIT OBLIGATIONS – *continued*

Post employment benefit plan – *continued*

(b) The significant actuarial assumptions were as follows:

	2022	2021
Discount rate	**3.20%**	3.35%
Growth rate of adjusted net profit	**3.00%**	3.00%
Rate of accrued benefits	**3.80%**	4.60%
Life expectancy	**87**	86

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

		Impact on defined benefit obligation	
	Change in assumption 2022	**Increase in assumption 2022**	**Decrease in assumption 2022**
Discount rate	**0.25%**	**Decrease by 4.69%**	**Increase by 5.02%**
Growth rate of adjusted net profit	**0.25%**	**Increase by 7.89%**	**Decrease by 7.43%**
Rate of accrued benefits	**0.25%**	**Increase by 0.25%**	**Decrease by 0.24%**
Life expectancy	**+/- 1 year**	**Increase by 5.28%**	**Decrease by 5.19%**

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

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

28 EMPLOYEE BENEFIT OBLIGATIONS – *continued*

Post employment benefit plan – *continued*

(d) Risk exposure

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

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

28 EMPLOYEE BENEFIT OBLIGATIONS – *continued*

Post employment benefit plan – *continued*

(e) Defined benefit liability and employer contributions

The weighted average duration of the post employment benefit plan is 27.92. The expected maturity analysis of undiscounted cash flow of define benefit obligation is as follows:

	Less than a year RMB'000	Between 1 – 2 years RMB'000	Between 2 – 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At December 31, 2021					
Defined benefit obligation	–	17	1,031	140,935	141,983
At December 31, 2022					
Defined benefit obligation	**274**	**2,549**	**3,098**	**190,707**	**196,628**

29 DEFERRED INCOME TAX

	As at December 31, 2022 RMB'000	2021 RMB'000
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**8,087**	8,087
– Deferred income tax assets to be recovered within 12 months	**1,225**	1,197
	9,312	9,284
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**(105,168)**	(132,853)
– Deferred income tax liabilities to be settled within 12 months	**(45,888)**	(45,888)
	(151,056)	(178,741)

29 DEFERRED INCOME TAX – *continued*

Deferred income tax assets

	Provisions RMB'000	Changes in fair value RMB'000	Donation RMB'000	Total RMB'000
Balance at January 1, 2021	3,418	48	369	3,835
Credited/(charged) to statement of comprehensive income	5,818	–	(369)	5,449
Balance at December 31, 2021	9,236	48	–	9,284
Balance at January 1, 2022	**9,236**	**48**	**–**	**9,284**
Credited to statement of comprehensive income	**28**	**–**	**–**	**28**
Balance at December 31, 2022	**9,264**	**48**	**–**	**9,312**

Deferred income tax liabilities

	Fair value adjustments on buildings and intangible assets and subsequent depreciation, amortization and impairment RMB'000	Withholding tax RMB'000	Interest capitalization and subsequent depreciation RMB'000	Total RMB'000
Balance at January 1, 2021	(271,837)	(30,053)	(411)	(302,301)
Credited/(charged) to statement of comprehensive income	132,424	(8,888)	24	123,560
Balance at December 31, 2021	(139,413)	(38,941)	(387)	(178,741)
Balance at January 1, 2022	**(139,413)**	**(38,941)**	**(387)**	**(178,741)**
Credited/(charged) to statement of comprehensive income	**27,661**	**–**	**24**	**27,685**
Balance at December 31, 2022	**(111,752)**	**(38,941)**	**(363)**	**(151,056)**

29 DEFERRED INCOME TAX – *continued*

Deferred income tax liabilities – *continued*

The Group did not recognize deferred income tax assets of RMB47,287,000 in 2022 (2021: RMB5,973,000) in respect of tax losses amounting to RMB246,893,000 (2021: RMB23,891,000) which can be carried forward against future taxable income. The tax losses without recognizing deferred income tax as at December 31, 2022 are mainly accumulated by DJ Pharmaceutical Technology, DJ Medicines, Zhejiang Honghe Zhiyuan and Beijing Hongyuan Zhiying based on management's forecast for their future taxable income.

At 31 December 2022, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB95,230,000. Deferred tax liabilities of RMB9,523,000 have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

30 CONVERTIBLE BONDS

The Company issued certain convertible bonds in 2018 and 2019, which were accounted for financial liabilities at FVPL.

The movement of the convertible bonds is as follows:

	Convertible bonds RMB'000
As at January 1, 2021	1,558,245
Amortization of premium/(discount) with principal amount at initial recognition	(1,527)
Fair value change	39,842
Redemption of convertible bonds during the year	(689,644)
As at December 31, 2021	906,916
As at January 1, 2022	**906,916**
Amortization of premium/(discount) with principal amount at initial recognition	**(1,527)**
Fair value change	**121,018**
As at December 31, 2022	**1,026,407**

(Expressed in RMB unless otherwise indicated)

30 CONVERTIBLE BONDS – *continued*

None of convertible bonds was converted into ordinary shares of the Company during the year ended December 31, 2022.

As at December 31, 2022, the fair value of the convertible bonds is approximately HKD1,148,021,000, equivalent to approximately RMB1,025,492,000 (2021: HKD1,106,256,000, RMB904,499,000), which is determined by an independent qualified valuer.

The fair value of convertible bonds is determined using the binomial model and the significant unobservable inputs were listed below:

	As at December 31,	
	2022	2021
Volatility	**12%**	35%
Time to expiration (years)	**0.60~0.99**	1.60~1.99
Risk free rate of interest	**4.11%~4.35%**	0.47%~0.62%
Dividend yield	**0.00%**	0.00%

31 DIVIDENDS

No dividend has been declared by the Company for the year ended December 31, 2022 (2021: nil).

32 CASH GENERATED FROM OPERATIONS

(i) Cash flow information

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Loss before taxation	**(532,628)**	(449,102)
Adjustments for:		
– Foreign exchange (gains)/losses, net	**(5,609)**	13,345
– Interest (income)/expenses, net	**(4,024)**	683
– Finance cost on other financial liability at amortized cost	**4,273**	1,250
– Provision for impairment of financial assets	**1,867**	26,477
– Amortization and depreciation	**63,279**	41,145
– Share-based compensation expenses	**(621)**	108
– Fair value losses/(gains) on convertible bonds (Note 7)	**119,491**	(12,843)
– Gains on disposal of financial assets at FVPL (Note 7)	**(5,722)**	(5,763)
– Impairment losses on intangible assets	**460,283**	551,981
– Net losses on disposal of property, plant and equipment (Note 7)	**650**	142
Change in operating assets and liabilities and net of effects from business combination		
– Increase in inventories	**(9,035)**	(14,948)
– Decrease/(increase) in trade receivables	**41,384**	(13,439)
– Increase in other receivables, deposits and prepayments	**(3,457)**	(5,645)
– Decrease/(increase) in amounts due from related parties	**13,902**	(26,449)
– Decrease in amounts due to related parties	**(2,595)**	(5,099)
– Increase in trade payables	**12,095**	23,301
– Increase in accruals, other payables and provision	**16,952**	41,862
Cash generated from operations	**170,485**	167,006

32 CASH GENERATED FROM OPERATIONS – *continued*

(ii) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Cash and cash equivalents (Note 21)	**497,061**	440,428
Term deposits	**696**	638
Financial assets at FVPL	**–**	
– Monetary funds (Note 20(i))	**129,848**	338,905
Less: Bank borrowings (Note 26)	**(69,429)**	(71,018)
Lease liabilities (Note 13(i))	**(7,767)**	(9,121)
Amounts due to related parties (non-trade) (Note 19)	**(7,612)**	(7,376)
Convertible bonds (Note 30)	**(1,026,407)**	(906,916)
Net debt	**(483,610)**	(214,460)
Cash and cash equivalents (Note 21)	**497,061**	440,428
Term deposits	**696**	638
Financial assets at FVPL	**–**	
– Monetary funds (Note 20(i))	**129,848**	338,905
Less: Gross debt-interest free	**(1,034,019)**	(914,292)
Gross debt-fixed interest rates	**(77,196)**	(49,121)
Gross debt-variable interest rates	**–**	(31,018)
Net debt	**(483,610)**	(214,460)

32 CASH GENERATED FROM OPERATIONS – *continued*

(ii) Net debt reconciliation – *continued*

	Cash and cash equivalents RMB'000	Term deposits RMB'000	Monetary funds RMB'000	Bank borrowings RMB'000	Lease liabilities RMB'000	Amount due to related parties (non-trade) RMB'000	Convertible bonds RMB'000	Total RMB'000
Net debt as at January 1, 2021	860,726	–	90,737	(131,695)	(958)	(14,382)	(1,558,245)	(753,817)
Cash flows	(403,796)	638	21,405	64,715	2,057	112	453,145	138,276
New leases	–	–	–	–	(15,814)	–	–	(15,814)
Foreign exchange adjustment	(16,502)	–	–	1,668	–	–	(26,594)	(41,428)
Fair value change excluding foreign exchange adjustment	–	–	5,763	–	–	–	64,909	70,672
Changes as a result of business combination	–	–	221,000	–	2,775	6,968	–	230,743
Other changes								
Interest expense	–	–	–	(5,706)	(386)	(74)	–	(6,166)
Net decrease in lease liabilities	–	–	–	–	3,205	–	–	3,205
Redemption	–	–	–	–	–	–	159,869	159,869
Net debt as at December 31, 2021	440,428	638	338,905	(71,018)	(9,121)	(7,376)	(906,916)	(214,460)
Net debt as at January 1, 2022	**440,428**	**638**	**338,905**	**(71,018)**	**(9,121)**	**(7,376)**	**(906,916)**	**(214,460)**
Cash flows	**50,955**	**58**	**(214,779)**	**13,410**	**1,762**	**(106)**	**103,128**	**(45,572)**
Foreign exchange adjustment	**5,678**	**–**	**–**	**(7,320)**	**–**	**(130)**	**(101,601)**	**(103,373)**
Fair value change excluding foreign exchange adjustment	**–**	**–**	**5,722**	**–**	**–**	**–**	**(121,018)**	**(115,296)**
Other changes	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Interest expense	**–**	**–**	**–**	**(4,501)**	**(408)**	**–**	**–**	**(4,909)**
Net debt as at December 31, 2022	**497,061**	**696**	**129,848**	**(69,429)**	**(7,767)**	**(7,612)**	**(1,026,407)**	**(483,610)**

33 CONTINGENCIES

Except for the guarantees given by the Group as set out in note 35(v), the Group does not have other contingencies at the end of the reporting period.

34 CAPITAL COMMITMENTS

Significant capital expenditure contracted for at the end of the reporting period but not recognized as liabilities is as follows:

	2022	2021
	RMB'000	RMB'000
Property, plant and equipment	**580**	7,160
Intangible assets	**3,212**	1,554
	3,792	8,714

35 SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Other parties are also considered to be related if they are subject to common control, common significant influence or joint control. Members of key management and their close family member of the Group are also considered as related parties.

The directors of the Company are of the view that the following parties that had transactions or balances with the Group are related parties:

Name	**Relationship with the Group**
Vanguard Glory Limited	Parent company
Cixi Hospital	Certain employees or directors of the Group are Cixi Hospital's internal governance body members
Jinhua Hospital	Certain employees or directors of the Group are Jinhua Hospital's internal governance body members
Dajia Medical Equipment Co., Ltd. (Note)	Related party which controlled by a non-controlling shareholder of a subsidiary of the Group
Zhejiang Zhongyouli Medicines Co., Ltd. (Note)	Related party which is controlled by a close family member of a non-controlling shareholder of a subsidiary of the Group
Yongkang Hospital	Founded by a subsidiary of the Group

35 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

The following significant transactions were carried out between the Group and its related parties for the years ended December 31, 2022 and 2021. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

Note:

Upon the completion of the acquisition of non-controlling interests on April 2, 2022, Dajia Medical Equipment Co, Ltd. and Zhejiang Zhongyouli Medicines Co, Ltd. were no longer be the related parties of the Group.

(i) Significant transactions with related parties

	2022 **RMB'000**	2021 RMB'000
Management Service fee		
– Yangsi Hospital	**–**	176,927
– Cixi Hospital	**21,036**	14,812
– Jinhua Hospital	**4,656**	17,453
	25,692	209,192
Sales of pharmaceuticals, medical consumables and medical equipment		
– Yangsi Hospital	**–**	425
– Cixi Hospital	**2,271**	544
– Jinhua Hospital	**48,141**	15,397
– Yongkang Hospital	**4,394**	623
	54,806	16,989
Purchase of pharmaceuticals, medical consumables and medical equipment		
– Zhejiang Zhongyouli Medicines Co., Ltd	**6,631**	19,501
– Dajia Medical Equipment Co., Ltd	**3,946**	10,042
	10,577	29,543

35 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(ii) Loans from related parties

	2022 RMB'000	2021 RMB'000
Beginning of the year	**7,376**	14,382
Loans advanced	**119**	–
Loans repaid	**(13)**	(38)
Others	**130**	(6,968)
End of the year	**7,612**	7,376

(iii) Loans to related parties

	2022 RMB'000	2021 RMB'000
Beginning of the year	**80,350**	80,762
Loans advanced	**30,000**	9
Loan repayments received	**(10,000)**	–
Interest charged	**4,800**	4,138
Interest received	**(4,800)**	(4,138)
Others	**23**	(421)
End of the year	**100,373**	80,350

(iv) Key management compensation

Key management includes directors and senior managements. The compensation paid or payables to key management for employee services is shown below:

	2022 RMB'000	2021 RMB'000
Wages, salaries and bonuses (a)	**10,287**	9,213
Welfare and other expense	**434**	1,451
Total	**10,721**	10,664

35 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(iv) Key management compensation – *continued*

(a) Mr. Chen Shuai, appointed as the chairman of the Board and the acting Chief Executive Officer of the Company, works full-time for Hony Capital Fund V, L.P. and part-time for the Group. The compensation paid to him by the Group is nil for the year ended December 31, 2022 (2021: nil).

(v) Guarantees provided for a related party

As at December 31, 2022 and 2021, Impeccable Success has pledged its paid-up equity interests in Zhejiang Honghe Zhiyuan to Industrial and Commercial Bank of China Jinhua Economic Development Zone Branch to secure certain loans granted to Jinhua Hospital to the maximum amount of RMB412.5 million. Zhejiang Honghe Zhiyuan has provided a joint liability guarantee to Industrial and Commercial Bank of China Jinhua Economic Development Zone Branch regarding the same loans granted to Jinhua Hospital to the maximum amount of RMB550 million. As at December 31, 2022, the principal amount of loan balance of Jinhua Hospital was RMB180 million.

As at December 31, 2022, the Company has provided a joint liability guarantee to Nanyang Commercial Bank to secure certain loans granted to Jinhua Hospital to the maximum amount of RMB50 million. As at December 31, 2022, the principal amount of loan balance of Jinhua Hospital was RMB40 million.

36 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

	Notes	As at December 31, 2022 RMB'000	As at December 31, 2021 RMB'000
Assets			
Non-current assets			
Investments in subsidiaries		**1,701,379**	1,702,000
Interest in subsidiaries		**824,861**	755,401
Total non-current assets		**2,526,240**	2,457,401
Current assets			
Cash and cash equivalents		**38,152**	195,167
Total current assets		**38,152**	195,167
Total assets		**2,564,392**	2,652,568
Equity			
Equity attributable to owners of the Company			
Share capital		**123**	123
Share premium		**435,304**	435,304
Other reserves	(a)	**843,087**	842,957
Accumulated losses	(a)	**(84,833)**	(103,012)
Total equity		**1,193,681**	1,175,372

36 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY – *continued*

Statement of financial position of the Company – *continued*

		As at December 31,	
		2022	2021
	Notes	**RMB'000**	RMB'000
Liabilities			
Non-current liabilities			
Convertible bonds		**–**	906,916
Accruals, other payables and provisions		**–**	325,474
Total non-current liabilities		**–**	1,232,390
Current liabilities			
Borrowing		**429**	71,018
Convertible bonds	30	**1,026,407**	–
Accruals, other payables and provisions		**342,354**	62,584
Amounts due to subsidiaries		**–**	109,811
Amounts due to related parties		**1,521**	1,393
Total current liabilities		**1,370,711**	244,806
Total liabilities		**1,370,711**	1,477,196
Total equity and liabilities		**2,564,392**	2,652,568

The statement of financial position of the Company was approved by the Board of Directors on March 27, 2023 and was signed on its behalf.

Chen Shuai

Pu Chengchuan

36 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY – *continued*

	Accumulated losses RMB'000	Other reserves RMB'000
At January 1, 2021	(56,391)	844,431
Loss for the year	(46,621)	–
Payables of undertaking letter	–	(2,150)
Share-based payments	–	676
At December 31, 2021	(103,012)	842,957
At January 1, 2022	**(103,012)**	**842,957**
Loss for the year	**18,179**	**–**
Share-based payments	**–**	**130**
At December 31, 2022	**(84,833)**	**843,087**

37 BENEFITS AND INTERESTS OF DIRECTORS

(i) Directors' and chief executive officers' emoluments

The remuneration of every director and the chief executive is set out below:

	Emoluments paid or receivables in respect of a person's services as a director, whether of the Company or its subsidiary undertaking						
	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Employer's contribution to pension scheme RMB'000	Share-based payments RMB'000	Estimated money value of other benefits RMB'000	Total RMB'000
Year ended December 31, 2022							
Executive directors							
Mr. Chen Shuai	–	–	–	–	–	–	–
Mr. Lu Wenzuo (i)	–	437	3,770	–	–	–	4,207
Mr. Pu Chengchuan	–	–	–	–	–	–	–
Ms. Pan Jianli (ii)	–	1,105	612	15	–	–	1,732
Non-executive directors							
Ms. Liu Lu	–	–	–	–	–	–	–
Ms. Wang Nan	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Shi Luwen	150	–	–	–	–	–	150
Mr. Zhou Xiangliang	150	–	–	–	–	–	150
Mr. Dang Jinxue	150	–	–	–	–	–	150
	450	1,542	4,382	15	–	–	6,389
Year ended December 31, 2021							
Executive directors							
Mr. Chen Shuai	–	–	–	–	–	–	–
Mr. Lu Wenzuo (i)	–	419	4,200	–	–	–	4,619
Mr. Pu Chengchuan	–	–	–	–	–	–	–
Non-executive directors							
Mr. Su Zhiqiang	–	–	–	–	–	–	–
Ms. Liu Lu	–	–	–	–	–	–	–
Ms. Wang Nan	–	–	–	–	–	–	–
Ms. Shi Wenting (iii)	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Shi Luwen	150	–	–	–	–	–	150
Mr. Zhou Xiangliang	150	–	–	–	–	–	150
Mr. Dang Jinxue	150	–	–	–	–	–	150
	450	419	4,200	–	–	–	5,069

37 BENEFITS AND INTERESTS OF DIRECTORS – *continued*

(i) Directors' and chief executive officers' emoluments – *continued*

(i) Mr. Lu Wenzuo resigned as an executive director of the Company on December 26, 2022.

(ii) Ms. Pan Jianli was appointed as an executive director of the Company on March 29, 2022.

(iii) Ms. Shi Wenting resigned as a non-executive director of the Company on March 29, 2022.

(ii) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time for the year ended December 31, 2022 (2021: nil).