



弘和仁愛

Hospital Corporation of China Limited

弘和仁愛醫療集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3869)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED DECEMBER 31, 2022**

The board (the “**Board**”) of directors (the “**Directors**”) of Hospital Corporation of China Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**” or “**we**”) for the year ended December 31, 2022 (the “**year under review**”), together with the comparative figures in 2021.

FINANCIAL HIGHLIGHTS

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	
Revenue	1,142,951	520,290
Gross profit margin	13.2%	41.2%
Adjusted gross profit margin ⁽¹⁾	15.2%	45.5%
Loss for the year	(528,597)	(362,396)41.2%

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2022**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2022 (continued)

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

1 GENERAL INFORMATION

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

The Company, together with its subsidiaries (collectively referred to as “the Group”), are principally engaged in the provision of hospital services.

The Company is controlled by Vanguard Group Limited (Vanguard Group”) and its subsidiaries.

(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.

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

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.

3 SEGMENT INFORMATION

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

The CODM considers the business from both the service and product perspective. When the Group companies have similar economic characteristics, and the segments are similar in each of the following

(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).

(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	Hospital management services	Sale of pharmaceutical products	Elimination	Unallocated	Total
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	<u>1,049,374</u>	<u>81,603</u>	<u>11,124</u>	<u>–</u>	<u>850</u>	<u>1,142,951</u>
Timing of revenue recognition						
– At a point in time	518,718	53,552	11,124	–	–	583,394
– Over time	<u>530,656</u>	<u>28,051</u>	<u>–</u>	<u>–</u>	<u>850</u>	<u>559,557</u>
	<u>1,049,374</u>	<u>81,603</u>	<u>11,124</u>	<u>–</u>	<u>850</u>	<u>1,142,951</u>
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	<u>(1,185)</u>	<u>138</u>	<u>(25)</u>	<u>–</u>	<u>6,432</u>	<u>5,360</u>
Unallocated expense, net					<u>(157,872)</u>	<u>(157,872)</u>
Profit/(loss) before income tax	<u>72,345</u>	<u>(458,611)</u>	<u>5,857</u>	<u>–</u>	<u>(152,219)</u>	<u>(532,628)</u>
As at December 31, 2022						
Segment assets	784,635	674,829	19,603	(86,688)	297,317	1,689,696
Goodwill	<u>58,495</u>	<u>687,373</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>745,868</u>
Total assets	<u>843,130</u>	<u>1,362,202</u>	<u>19,603</u>	<u>(86,688)</u>	<u>297,317</u>	<u>2,435,564</u>
Total liabilities	<u>506,604</u>	<u>151,755</u>	<u>3,415</u>	<u>(86,688)</u>	<u>1,417,050</u>	<u>1,992,136</u>

	General hospital services	Hospital management services	Sale of pharmaceutical products	Elimination	Unallocated	Total
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	<u>298,436</u>	<u>217,479</u>	<u>4,375</u>	<u>–</u>	<u>–</u>	<u>520,290</u>
Timing of revenue recognition						
– At a point in time	155,526	21,045	4,375	–	–	180,946
– Over time	<u>142,910</u>	<u>196,434</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>339,344</u>
	<u>298,436</u>	<u>217,479</u>	<u>4,375</u>	<u>–</u>	<u>–</u>	<u>520,290</u>
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	<u>(4,109)</u>	<u>(110)</u>	<u>(26)</u>	<u>–</u>	<u>(9,783)</u>	<u>(14,028)</u>
Unallocated expense, net					(6,186)	(6,186)
Loss before income tax	<u>(8,265)</u>	<u>(414,574)</u>	<u>(8,967)</u>	<u>–</u>	<u>(17,296)</u>	<u>(449,102)</u>
As at December 31, 2021						
Segment assets	847,666	835,467	4,447	(100,322)	427,766	2,015,024
Goodwill	<u>58,495</u>	<u>1,050,195</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,108,690</u>
Total assets	<u>906,161</u>	<u>1,885,662</u>	<u>4,447</u>	<u>(100,322)</u>	<u>427,766</u>	<u>3,123,714</u>
Total liabilities	<u>465,676</u>	<u>178,956</u>	<u>2,616</u>	<u>(100,322)</u>	<u>1,440,961</u>	<u>1,987,887</u>

4 OTHER (LOSSES)/GAINS, NET

	2022 RMB'000	2021
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	<u>(22,737)</u>	<u>1,390</u>
	<u>(137,156)</u>	<u>19,854</u>

5 INCOME TAX

Subsidiaries established and operating in Mainland China are subject to the PRC corporate income tax at the rates of 25% or 15% for the year ended December 31, 2022 (2021: 25% or 15%).

	2022	2021
	<i>RMB'000</i>	
Current income tax:		
– PRC corporate income tax	23,682	42,303
Deferred income tax	(27,713)	(129,009)
	(4,031)	(86,706)

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	2021
	<i>RMB'000</i>	
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)	(3,878 28w -

7 TRADE RECEIVABLES

	As at December 31,	
	2022	2021
	RMB'000	
Trade receivables	79,179	121,533
Less: loss allowance	(7,636)	(6,739)
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Trade receivables, net of loss allowance	71,543	114,794
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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	
1 – 90 days	78,040	114,536
91 – 180 days	221	4,033
181 days – 1 year	619	2,697
Over 1 year	299	

BUSINESS OVERVIEW

Business positioning

- **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

INDUSTRY OVERVIEW

Policy review

During the year under review, 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.

龍 乃 鯨 鎮 齊 鈞 以 雲 梅 次 德 賜 坡 印 發 深 化 醫 藥 衛 生 體 制 改 革 2022 年 重 點 工 作 任 務 的 通 知 積 謬 去 越 向 離 需 請 地 際 委 繼 廉 歸 耗 伊 鐘 潮 區 委 黎 吳 子 誠

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 under review, 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 Enterprise Management Company Limited* (杭州靜有智企業管理有限公司) (“ 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 ”

Time	Event
April 2022	<p>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</p>

Time	Event
September 27, 2022	<p>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.</p>

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**”).

Time	Event
	<p>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”)</p>

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
	<i>RMB'000</i>	
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

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.

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.

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
	<hr/>
Closing balance	129,848
	<hr/> <hr/>

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

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.

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 RMB92.4 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	
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

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 11 to the consolidated financial statements.

FINAL DIVIDEND

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

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

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.

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 below, the Board considers that, during the year under review, the Company has complied with the applicable code provisions set out in the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

COMPLIANCE WITH THE MODEL CODE

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

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) with written terms of reference. The Audit Committee consists of three independent non-executive Directors, namely Mr. Zhou Xiangliang (Chairman), Mr. Dang Jinxue and Mr. Shi Luwen. The final results of the Group for the year ended December 31, 2022, including the accounting principles and practices adopted by the Group, have been reviewed by all the members of the Audit Committee. The Audit Committee is of the