# 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)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2018

The board of directors (the "**Directors**") (the "**Board**") of Hospital Corporation of China Limited (the "**Company**") is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively, the "**Group**", "**we**" or "**our**") for the six months ended June 30, 2018 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2017 (the "**Corresponding Period**").

## FINANCIAL HIGHLIGHTS

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | **2017** |
| | *RMB'000* | *RMB'000* |
| | *(Unaudited)* | *(Unaudited)* |
| Revenue | 174,459 | 88,209 |
| – Hospital management services | 87,408 | 70,971 |
| – General hospital services | 86,680 | 17,238 |
| – Wholesale of pharmaceutical products | 371 | — |
| Adjusted Gross Profit (1) | 80,386 | 60,399 |
| Adjusted Net Profit (2) | 49,115 | 45,202 |
| Adjusted Gross Profit margin | 46.1% | 68.5% |
| Adjusted Net Profit margin | 28.2% | 51.2% |
| Adjusted basic earnings per share (in RMB) (3) | 0.345 | 0.297 |
| ***Adjusted items*** | | |
| Share-based awards and other one off employee benefit expenses (2)(i) | 31,540 | 18,421 |
| Investing and financing related expenses (2)(ii) and 2 (iii) | 53,751 | 29,214 |

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | **2017** |
| | *RMB'000* | *RMB'000* |
| | *(Unaudited)* | *(Unaudited)* |
| Revenue | 174,459 | 88,209 |
| Gross Profit [(1)] | 53,846 | 41,978 |
| Net Loss [(2)] | (36,176) | (2,433) |
| Loss per share (in RMB) [(3)] | (0.280) | (0.103) |

*Notes:*

(1) The gross profit of the Group for the Reporting Period amounted to RMB53.8 million. The adjusted gross profit is calculated as gross profit for the period, excluding the impact from the amortization and change in fair value of the share-based awards as well as their related expenses ("**Adjusted Gross Profit**").

(2) The Group recorded a net loss of RMB36.2 million for the Reporting Period. The adjusted net profit (the "**Adjusted Net Profit**") is calculated as loss for the period excluding the impact from certain adjustments of expenses, which are considered non-recurring in nature by management, including (i) share-based awards and other one off employee benefit expenses of RMB31.5 million in relation to the Share Subscription Agreement signed by the Company and certain managements of the Company in March 2016, the Pre-IPO Share Appreciation Rights Scheme signed by the Company and certain managements of the Company in November 2016, the Service Contract signed by New Pride Holdings Limited, one of the Company's subsidiaries, and Mr. Lu Wenzuo in December 2016, the Agreement on the Grant of the Company's Share Award Scheme signed by Vanguard Glory Limited, the Company's parent company, and certain managements of the Company in October 2017, and other one off employee benefit expenses, (ii) fair value loss and exchange rate loss in relation to the convertible bonds issued by the Company of RMB43.7 million and exchange rate loss in relation to other items of RMB0.9 million, and (iii) professional service fees resulting from investing and financing activities of RMB9.1 million (collectively, the "**Adjustments of Expenses**"). For the calculation of the Adjusted Net Profit, relevant tax impacts of the adjusted items were not considered.

(3) The loss per share of the Group for the Reporting Period amounted to RMB0.280. The adjusted basic earnings per share is calculated as Adjusted Net Profit attributable to the owners of the Company for the period per share, in which relevant tax impacts of the adjusted items were not considered.

## INTERIM DIVIDEND

The Board has recommended that no interim dividend be declared in respect of the Reporting Period.

## FINANCIAL INFORMATION

The financial information set out below in this announcement represents an extract from the interim condensed consolidated financial information, which is unaudited but has been reviewed by the Group's external auditor, PricewaterhouseCoopers, and by the audit committee of the Company.

## Interim condensed consolidated statement of comprehensive income

| | Note | Six months ended June 30, 2018 RMB'000 (Unaudited) | Six months ended June 30, 2017 RMB'000 (Unaudited) |
|---|---|---|---|
| **Revenue** | 4 | 174,459 | 88,209 |
| Cost of revenue | | (120,613) | (46,231) |
| **Gross profit** | | 53,846 | 41,978 |
| Selling expenses | | (105) | — |
| Administrative expenses | | (32,723) | (28,252) |
| Other losses - net | 5 | (41,344) | (232) |
| Other income | | 1,788 | 1,623 |
| **Operating (loss)/profit** | | (18,538) | 15,117 |
| Finance income | | 423 | 662 |
| Finance expense | | (8,635) | (8,393) |
| **(Loss)/Profit before income tax** | | (26,750) | 7,386 |
| Income tax expense | 6 | (9,426) | (9,819) |
| **Loss for the period** | | (36,176) | (2,433) |
| Other comprehensive income | | — | — |
| **Total comprehensive loss for the period** | | (36,176) | (2,433) |
| **Attributable to:** | | | |
| Owners of the Company | | (38,269) | (12,291) |
| Non-controlling interests | | 2,093 | 9,858 |
| **Total comprehensive loss for the period** | | (36,176) | (2,433) |
| **Loss per share from loss attributable to owners of the Company** | | | |
| – Basic and diluted loss per share (in RMB) | 7 | (0.280) | (0.103) |

**Interim condensed consolidated balance sheet**

| | Note | June 30, 2018 *RMB'000* *(Unaudited)* | December 31, 2017 *RMB'000* *(Audited)* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | 146,746 | 18,383 |
| Intangible assets | | 2,039,964 | 1,059,402 |
| Land use right | | 39,957 | — |
| Deferred income tax assets | | 4,403 | — |
| Other receivables, deposits and prepayments | | — | 483,506 |
| **Total non-current assets** | | 2,231,070 | 1,561,291 |
| **Current assets** | | | |
| Available-for-sale financial assets | | — | 17,396 |
| Financial assets at fair value through profit or loss | | 146,661 | — |
| Inventories | | 9,695 | — |
| Contract assets | | 13,099 | — |
| Trade receivables | 8 | 28,768 | — |
| Other receivables, deposits and prepayments | | 1,761 | 80,202 |
| Amounts due from related parties | | 79,718 | 45,840 |
| Cash and cash equivalents | | 264,805 | 260,787 |
| **Total current assets** | | 544,507 | 404,225 |
| **Total assets** | | 2,775,577 | 1,965,516 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | 123 | 123 |
| Share premium | | 432,993 | 404,021 |
| Treasury shares | | —[1] | (3) |
| Reserves | | 1,125,939 | 1,070,628 |
| Retained earnings | | 1,075 | 39,344 |
| | | 1,560,130 | 1,514,113 |
| **Non-controlling interests** | | 196,604 | 48,012 |
| **Total equity** | | 1,756,734 | 1,562,125 |

(1) The balance stated above was less than RMB500.

**Interim condensed consolidated balance sheet (Continued)**

| | Note | June 30, 2018 *RMB'000* *(Unaudited)* | December 31, 2017 *RMB'000* *(Audited)* |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | 192,417 | 214,618 |
| Convertible bonds | 10 | 422,388 | — |
| Deferred income tax liabilities | | 169,641 | 35,633 |
| Accruals and other payables | | 2,217 | 3,311 |
| **Total non-current liabilities** | | 786,663 | 253,562 |
| **Current liabilities** | | | |
| Borrowings | | 86,418 | 23,846 |
| Amounts due to related parties | | 36,103 | 3,186 |
| Contract liabilities | | 470 | — |
| Trade payables | 9 | 16,491 | — |
| Accruals and other payables | | 86,166 | 113,662 |
| Current income tax liabilities | | 6,532 | 9,135 |
| **Total current liabilities** | | 232,180 | 149,829 |
| **Total liabilities** | | 1,018,843 | 403,391 |
| **Total equity and liabilities** | | 2,775,577 | 1,965,516 |

## Notes to the condensed consolidated interim financial information

### 1 General information

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

The Company, together with its subsidiaries (collectively referred to as 'the Group'), are principally engaged in (i) operation and management of its privately owned hospital; (ii) provision of management and consultation services to not-for-profit hospitals and (iii) wholesale 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 Company has its primary listing on The Stock Exchange of Hong Kong Limited on March 16, 2017.

The condensed consolidated interim financial information is presented in Renminbi ('RMB'), unless otherwise stated.

### 2 Basis of preparation

This condensed consolidated interim financial information for the six months ended June 30, 2018 has been prepared in accordance with International Accounting Standard ('IAS') 34, 'Interim financial reporting'. The condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial report and thus should be read in conjunction with the annual financial information of the Group for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards ('IFRS').

The accounting policies adopted are consistent with those of the annual financial statements for the year ended December 31, 2017, as described in those annual financial statements, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- IFRS 9 Financial Instruments, and
- IFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 3 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(b) Impact of standards issued but not yet applied by the Group

IFRS 16 Leases

IFRS 16 was issued in January 2016. It will results in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments amounting to RMB3,133,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2019. The Group does not intend to adopt the standard before its effective date.

## 3 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from January 1, 2018, where they are different to those applied in prior periods.

### *(a) Impact on the financial statements*

As explained in Note 3(b) and 3(d) below, IFRS 9 and IFRS 15 were generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new classification rules of financial instruments are therefore recognised in the opening balance sheet on January 1, 2018. The adjustment arising from new impairment rules of IFRS 9 is not recognised as the impact is immaterial.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

| Balance sheet(extract) | December 31, 2017 As originally presented | Reclassification under IFRS 9 | Reclassification under IFRS 15 | January 1, 2018 Restated |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Current assets** | | | | |
| Financial assets at fair value through profit or loss ('FVPL') | — | 17,396 | — | 17,396 |
| Available-for-sale financial assets | 17,396 | (17,396) | — | — |
| **Total assets** | 1,965,516 | — | — | 1,965,516 |

### *(b) IFRS 9 Financial Instruments – Impact of adoption*

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 3(c) below. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated with the exception of certain aspects of hedge accounting.

*(i) Classification and measurement*

On January 1, 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification is the investment in monetary funds with floating rates with a fair value of RMB17,396,000 were reclassified from available for sale to financial assets at FVPL, as the contractual cash flows of these investments do not represent solely payments of principal and interest.

Other financial assets including receivables are required to be classified as financial assets at amortised cost under IFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of IFRS 9.

*(ii) Impairment of financial assets*

The Group has three types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables from the provision of general hospital services
- trade receivables for wholesales of pharmaceutical products
- trade receivables and contract assets relating to hospital management contracts

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is immaterial.

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

Trade receivables and contract assets

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 contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

As the impact of adoption of IFRS 9 is immaterial, the adjustment is therefore not restated in the balance sheet as at December 31, 2017 but are recognised in the opening balance sheet on January 1, 2018.

***(c) IFRS 9 Financial Instruments – Accounting policies applied from January 1, 2018***

*(i) Initial recognition*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recoginsed on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus, in the case of a financial asset or financial liability not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset or financial liability. Transaction costs of financial assets and financial liability carried at FVPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss ('ECL') allowance is recoginsed for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income ('FVOCI'), which results in an accounting loss being recoginsed in profit or loss.

*(ii) Classification and subsequent measurement*

Financial assets

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

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

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

For assets measured at fair value, gains and losses will either be recorded 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 FVOCI.

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

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change.

Debt instruments

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

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

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

Equity instruments

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI.

At initial recognition, the Group may make an irrevocable election to present in OCI subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor contingent consideration recogised by an acquirer in a business combination.

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 profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss 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.

Financial liabilities

In both the current and prior period, financial liabilities of the Group are classified as subsequently measured at amortised cost.

*(iii) Derecognition*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecoginsed (i.e., removed from the Group's consolidated balance sheet) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognised an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability.

*(iv) Impairment*

From January 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost, receivables and contract assets. The Group recognises a loss allowance for such losses at each reporting date.

At each reporting date, the Group shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

***(d) IFRS 15 Revenue from Contracts with Customers – Impact of adoption***

The Group has adopted IFRS 15 Revenue from Contracts with Customers from January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The adoption of IFRS 15 has no impact on the Group's retained earnings or the presentation of assets and liabilities related to contracts with customers as at January 1, 2018. Thus, no reclassification or adjustment was recognised in the opening balance sheet on January 1, 2018.

***(e) IFRS 15 Revenue from Contracts with Customers – Accounting policies***

*Revenue Recognition*

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

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

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

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

- direct measurements of the value of individual services transferred by the Group to the customer; or
- the Group's efforts or inputs to the satisfaction of the performance obligation

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

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

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

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

(i) Hospital Management Services

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

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

Relevant revenue is recoginsed 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 us.

The Group receives the payment on a quarterly basis. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

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 profit or loss in the period in which the circumstances that give rise to the revision become known by management.

(ii) General hospital services

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

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

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

(iii) Wholesale of pharmaceutical products

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

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

## 4 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 and the Group's operating and reportable segments for segment reporting purpose are as follows:

The Group assesses the performance of the operating segments based on a measure of earnings before interests, income tax, depreciation and amortisation ('EBITDA').

***(a) 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') for the six months ended June 30, 2018 and Shanghai Fuhua Hospital Co., Ltd. ('Fuhua Hospital') for the six months ended June 30, 2017.

Fuhua Hospital was disposed and ceased to be a subsidiary of the Group on and after August 29, 2017. The segment information for the period ended June 30, 2017 represented the operating results of Fuhua Hospital for the period from January 1, 2017 to June 30, 2017.

Jiande Hospital was a new subsidiary of the Group due to the acquisition of Jiande Hexu Enterprise Management Co., Ltd. (Jiande Hexu) completed on January 11, 2018. The segment information for the period ended June 30, 2018 represented the operating results of Jiande Hospital for the period from January 11, 2018 to June 30, 2018.

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 periods ended June 30, 2018 and 2017, respectively.

***(b) 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 Weikang Investment Management Co., Ltd. ('Weikang Investment'), Tibet Dazi Honghe Ruixin Business Management Co., Ltd. ('Honghe Ruixin') and Cixi Honghe Medical Management Co., Ltd. ('Cixi Honghe').

Pursuant to the hospital management framework agreement and the letter of intent signed by Weikang Investment and Shanghai Yangsi Hospital ('Yangsi Hospital') on January 1, 2013 and October 8, 2014 respectively, the long-term hospital management agreement signed by Honghe Ruixin and Yangsi Hospital on January 1, 2016 and the annual hospital management agreement signed by Weikang Investment and Honghe Ruixin with Yangsi Hospital on January 1, 2018 and 2017, Weikang Investment and Honghe Ruixin will provide management and consultancy services to Yangsi Hospital with a period of 50 years from 2016 to 2065 and the management fee will be calculated based on pre-set formulas set out in the annual hospital management agreement accordingly.

On March 14, 2018, the acquisition of Cixi Hongai Medical Management Co., Ltd. ('Cixi Hongai') was completed. Cixi Honghe, the subsidiary of Cixi Hongai, entered into a letter of intent with Cixi Union Hospital ('Cixi Hospital') on February 1, 2018 and signed a supplemental agreement of the letter of intent with Cixi Hospital on March 7, 2018. Pursuant to the letter of intent, Cixi Honghe will provide management and consultancy services to Cixi Hospital with a period of 50 years from 2018 to 2067.

On March 26, 2018, Cixi Honghe entered into a hospital management agreement with Cixi Hospital, pursuant to the hospital management agreement, Cixi Honghe will provide management and consultancy services to Cixi Hospital with a period of 5 years from 2018 to 2022, and Cixi Honghe can derives management fee based on pre-set formulas set out in hospital management agreement.

### *(c) Wholesale of pharmaceutical products*

Revenue from this segment is generated in the PRC and is derived from wholesale of pharmaceutical products at Zhejiang Dajia Medicines Co., Ltd. ('DJ Medicines'), a new subsidiary of the Group due to the acquisition of Jiande Hexu.

### *(d) Unallocated*

The 'Unallocated' category represents the headquarter expenses.

Segment information about the Group's reportable segment is presented below:

| | **General hospital services** *RMB'000* | **Hospital management services** *RMB'000* | **Wholesale of pharmaceutical products** *RMB'000* | **Elimination** *RMB'000* | **Unallocated** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|---|---|
| **(Unaudited)** | | | | | | |
| **Six months ended June 30, 2018** | | | | | | |
| Segment revenue | 86,680 | 87,408 | 16,100 | (15,729) | — | 174,459 |
| Inter-segment revenue | — | — | (15,729) | 15,729 | — | — |
| Revenue from external customers | 86,680 | 87,408 | 371 | — | — | 174,459 |
| Timing of revenue recognition | | | | | | |
| - At a point in time | 42,364 | — | 371 | — | — | 42,735 |
| - Over time | 44,316 | 87,408 | — | — | — | 131,724 |
| | 86,680 | 87,408 | 371 | — | — | 174,459 |
| **EBITDA** | 2,110 | 42,396 | 3,218 | (771) | — | 46,953 |
| Depreciation | (3,320) | (1,034) | (114) | — | (54) | (4,522) |
| Amortization | (3,680) | (2,768) | (190) | — | (32) | (6,670) |
| Finance (expense)/income | (717) | 304 | 12 | — | (6,852) | (7,253) |
| Headquarter expenses excluding depreciation and amortization | | | | | (55,258) | (55,258) |
| (Loss)/Profit before tax | (5,607) | 38,898 | 2,926 | (771) | (62,196) | (26,750) |

| | General hospital services *RMB'000* | Hospital management services *RMB'000* | Wholesale of pharmaceutical products *RMB'000* | Elimination *RMB'000* | Unallocated *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| **(Unaudited)** | | | | | | |
| **As at June 30, 2018** | | | | | | |
| Segment assets | 394,197 | 735,749 | 13,123 | (657) | 206,783 | 1,349,195 |
| Goodwill | 299,588 | 1,117,529 | 9,265 | — | — | 1,426,382 |
| Total assets | 693,785 | 1,853,278 | 22,388 | (657) | 206,783 | 2,775,577 |
| Total liabilities | 153,875 | 138,885 | 8,445 | — | 717,638 | 1,018,843 |
| **(Unaudited)** | | | | | | |
| **Other Segment information for the six months ended June 30, 2018** | | | | | | |
| Depreciation, amortization and impairment | (6,423) | (3,802) | (304) | — | (86) | (10,615) |
| Additions of non-current assets excluding goodwill and deferred income tax assets | 360,235 | 322,930 | 1,281 | — | 161 | 684,607 |

| | General hospital services | Hospital management services | Unallocated | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **(Unaudited)** | | | | |
| **Six months ended June 30, 2017** | | | | |
| Revenue from external customers | 17,238 | 70,971 | — | 88,209 |
| EBITDA | 1,033 | 41,630 | — | 42,663 |
| Depreciation | (361) | (1,023) | (324) | (1,708) |
| Amortization | (575) | (1,153) | (18) | (1,746) |
| Finance income on deposit | 5 | 526 | 131 | 662 |
| Headquarter expenses excluding depreciation and amortization | | | (32,485) | (32,485) |
| Profit/(loss) before tax | 102 | 39,980 | (32,696) | 7,386 |
| **(Unaudited)** | | | | |
| **As at June 30, 2017** | | | | |
| Segment assets | 26,155 | 309,715 | 424,454 | 760,324 |
| Goodwill | 7,948 | 950,916 | — | 958,864 |
| Total assets | 34,103 | 1,260,631 | 424,454 | 1,719,188 |
| Total liabilities | 8,829 | 80,431 | 64,954 | 154,214 |
| **(Unaudited)** | | | | |
| **Other Segment information for the six months ended June 30, 2017** | | | | |
| Depreciation, amortization and impairment | (807) | (2,176) | (342) | (3,325) |
| Additions of non-current assets excluding goodwill and deferred income tax assets | 269 | 796 | — | 1,065 |

## 5 Other losses —net

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | **2017** |
| | *RMB'000* | *RMB'000* |
| | *(Unaudited)* | *(Unaudited)* |
| Fair value change resulting from change in convertible bond value | (43,682) | — |
| Fair value change resulting from change in monetary funds value | 2,415 | — |
| Others | (77) | (232) |
| | (41,344) | (232) |

## 6 Income tax expense

Subsidiaries established and operating in Mainland China are subject to the PRC corporate income tax at the rates of 15% and 25% (six months ended June 30, 2017: 9% and 25%) for the six months ended June 30, 2018.

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | **2017** |
| | *RMB'000* | *RMB'000* |
| | *(Unaudited)* | *(Unaudited)* |
| Current income tax: | | |
| – PRC corporate income tax | 12,793 | 8,877 |
| Deferred income tax | (3,367) | 942 |
| | 9,426 | 9,819 |

### *(a) 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.

### *(b) Hong Kong Profits Tax*

Hong Kong profits tax rate was 16.5% (six months ended June 30, 2017: 16.5%) for the six months ended June 30, 2018. 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 periods ended June 30, 2018 and 2017.

### (c) *PRC Corporate Income Tax ('CIT')*

The income tax rate of Tibet Honghe Zhiyuan Business Management Co., Ltd. ('Honghe Zhiyuan') and Honghe Ruixin was 15% (six months ended June 30, 2017: 9%) for the six months ended June 30, 2018. The income tax rate of other subsidiaries was 25% (six months ended June 30, 2017: 25%) for the six months ended June 30, 2018.

Honghe Zhiyuan and Honghe Ruixin are eligible for a preferential 9% income tax rate for the period from January 1, 2015 to December 31, 2017, and then 15% from January 1, 2018 in accordance with the Measures for the Implementation of Preferential Enterprise Income Tax Policies of Tibet Autonomous Region (西藏自治區企業所得稅政策實施辦法) promulgated by the Tibet Autonomous Regional Government on May 1, 2014.

### (d) *Withholding Tax*

The withholding tax rate of New Pride and Bliss Success was 10% pursuant to PRC Enterprise Income Tax based on the remittance of dividends from Honghe Ruixin and Weikang Investment in the foreseeable future.

## 7 Loss per share

### (a) *Basic and diluted loss per share*

| | Six months ended June 30, | |
|---|---|---|
| | **2018** | **2017** |
| | *(Unaudited)* | *(Unaudited)* |
| Total loss attributable to owners of the Company (RMB'000) | (38,269) | (12,291) |
| Weighted average number of ordinary shares in issue (thousands) | 136,457 | 118,860 |
| Basic and diluted loss per share (in RMB) | (0.280) | (0.103) |

## 8 Trade receivables

| | **As at June 30, 2018** | **As at December 31, 2017** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | *(Unaudited)* | *(Audited)* |
| Trade receivables | 28,990 | — |
| Less: provision for impairment of trade receivables | (222) | — |
| Trade receivables – net | 28,768 | — |

The carrying amounts of the Group's trade receivables are denominated in RMB and approximate their fair values.

As at June 30, 2018 and December 31, 2017, the ageing analysis based on invoice date of the trade receivables was as follows:

| | **As at June 30, 2018** *RMB'000* *(Unaudited)* | **As at December 31, 2017** *RMB'000* *(Audited)* |
|---|---|---|
| 1 - 90 days | 20,810 | — |
| 91 - 180 days | 1,152 | — |
| 181 days – 1 year | 5,614 | — |
| Over 1 year | 1,192 | — |
| | 28,768 | — |

**9 Trade payables**

An ageing analysis, based on invoice date, of trade payables as at the consolidated balance sheet dates are as follows:

| | **As at June 30, 2018** *RMB'000* *(Unaudited)* | **As at December 31, 2017** *RMB'000* *(Audited)* |
|---|---|---|
| Less than 90 days | 10,782 | — |
| 91 to 180 days | 2,936 | — |
| 181 days to 1 year | 1,201 | — |
| Over 1 year | 1,572 | — |
| | 16,491 | — |

The carrying amounts of trade payables are denominated in RMB. The carrying amounts approximate their fair values due to their short-term maturities.

## 10 Convertible bonds

On March 5, 2018, the Company issued convertible bonds in an aggregate principal amount of HKD468,000,000 (equivalent to approximately RMB378,705,000) in registered form in the denomination of HKD1,000,000 each. The convertible bond do not bear any interest. The convertible bonds may be converted into ordinary shares of the Company, at the option of holder thereof, at any time on or after March 5, 2018 (the 'Issue Date') up to the close of business on March 5, 2021 (the 'Maturity Date') or if such convertible bonds shall have been called or put for redemption at any time on or after the Issue Date then up to the close of business on a date no later than five business days prior the date fixed for redemption thereof. The initial conversion price was HKD18.00 and is subject to adjustment for among other things, consolidation and subdivision or reclassification of shares, capitalization of profits or reserves, capital distribution, dividends, right issues, modification of rights of conversion and certain other dilutive events.

The convertible bonds are designated as financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value at initial recognition with transaction cost charge to the profit or loss accounts. Subsequently, the fair values are remeasured, gains and losses from changes therein are recognised in the profit or loss account.

None of convertible bonds were converted into ordinary shares of the Company during the period.

The movement of the convertible bonds are as follows:

| | **Convertible Bonds** *RMB'000* |
|---|---|
| As at January 1,2018 | — |
| Issuance of convertible bonds during the period | 378,706 |
| Difference between fair value and principal amount at initial recognition | 2,318 |
| Fair value change resulting from change in convertible bond value | 43,489 |
| Aggregate difference yet to be recognised in loss at June 30, 2018 | (2,125) |
| As at June 30, 2018 | 422,388 |

The fair value of the convertible bonds on March 5, 2018 was HKD470,864,000, which approximated its principal amount.

As at June 30, 2018, the fair value of the convertible bonds is approximately HKD503,514,000, equivalent to approximately RMB424,513,000, which is determined by an independent qualified valuer and the aggregate difference yet to be recognised in loss was HKD2,625,000, equivalent to approximately RMB2,125,000.

## 11 Dividends

The board of directors of the Company does not declare any dividends for the six months ended June 30, 2018 (six months ended June 30, 2017: nil).

## BUSINESS REVIEW AND PROSPECTS

Following China's steady economic growth, the per capita disposable income of Chinese residents has further increased. With the basic medical insurance becoming prevalent and the population ageing intensified, Chinese residents' willingness and ability to pay for medical services have increased notably. At the same time, China's medical policies reform has continued to advance, and policies in the direction of the three medical linkages among "medical care, medical insurance and medicines" ("三醫聯動") have been gradually implemented. China's medical system is undergoing tremendous changes, and the development opportunities arising therefrom will create a good development environment for medical groups with rich experience, scale and economic advantages.

The Group closely followed the mainstream of the national healthcare reforms in response to the "Healthy China Plan" and seized the historic development opportunity of founding hospitals with non-governmental capital. During the Reporting Period, the Group's business development achieved promising results. Guided by the strategy of "acquiring, managing and scaling up (收到、管好、上量)":

**The Group conducted continuous and rapid mergers and acquisitions to expand the business of the Group.**

Significant progress was made by the Group in mergers and acquisitions activities in the first half of 2018, the acquisition of Jiande Hospital of Traditional Chinese Medicine Co., Ltd.* (建德中醫院有限公司) ("**Jiande Hospital**") was completed and the provision of hospital management services to Cixi Union Hospital* (慈溪協和醫院) has commenced, both of these hospitals are class II general hospitals in Zhejiang. In early August 2018, we completed the acquisition of Oriental Ally Holdings Limited, whose indirect subsidiary Zhejiang Guangsha Medical Technology Co., Ltd.* (浙江廣廈醫療科技有限公司) currently provides hospital management services to Zhejiang Jinhua Guangfu Oncological Hospital* (浙江金華廣福腫瘤醫院), and is expected to provide hospital management services to Dongyang Guangfu Hospital* (東陽廣福醫院) and Yongkang Hospital* (永康醫院) in Zhejiang. The number of beds managed by hospitals owned or managed by the Group has expanded from 800 at the beginning of the year to 3,000. In the future, the Group will continue to focus on hospitals with advanced and specialized services located in areas with large population and good economic condition.

**The Group continued to improve management to increase hospital value.**

The Group is committed to build a value-creating operation model of hospital investment and management that conforms to the development patterns of the medical industry, the principles of modern corporate governance and the construction standards of affiliated hospitals in universities. Through continuous strengthening of the culture development of the Group and its hospitals and strategic optimization and improvement of our employees' skill set, we promote healthy and rapid development from various aspects, and in turn continuously unlock the value of our hospitals. We will continue to increase the comprehensive investments in our hospitals, and actively support the hospitals in the development of new businesses, new technologies and new projects. While improving the quality of basic medical treatment, we will also focus on building and developing advanced and specialized services, and strive to build a medical group with industrial influence. Through the introduction of scientific management concepts, technologies and measures, we seek to comprehensively improve the management and governance of the Group and the hospitals in terms of their operational efficiency and brand influence, so that we will be able to effectively control operating costs, increase income and enhance profitability, as well as to create more social benefits and to realise corporate economic value. Regarding merger and acquisition activities, the Group will combine the cutting-edge experience of the Company and the industry, and will adopt comprehensive measures such as strengthening our investment team, integrating the resources from our professional teams, and improving our capabilities in project evaluation and judgment, in order to actively explore channels of new projects, to broaden our project source and to enhance our accuracy and timeliness in project evaluation, to ensure that we are able to complete more valuable acquisition projects, and to guarantee a solid project resource for the healthy and rapid development of the Group.

By adhering to our established strategies, we expanded our medical network and enhanced diversity in our medical services continuously. Our medical quality and management operating capabilities were improved. As at June 30, 2018, the Group managed and/or owned three hospitals in total.

In the first half of 2018, the Group recorded out-patient visits of approximately 1,047,000 persons, representing an increase of 8.7% as compared to the Corresponding Period. The number of in-patient visits was approximately 18,000 persons for the Reporting Period, representing an increase of 13.6% as compared to the Corresponding Period.

| **Number of visits** | **Yangsi Hospital** | | | **Cixi Union Hospital** | | | **Jiande Hospital** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Reporting Period** | **Corresponding Period** | **Growth rate** | **Reporting Period** | **Corresponding Period** | **Growth rate** | **Reporting Period** | **Corresponding Period** | **Growth rate** |
| Out-patients (in ten thousand persons) | 80.1 | 73.5 | 9.0% | 11.6 | 9.8 | 18.4% | 13 | 13 | 0.0% |
| In-patients (persons) | 12,078 | 10,617 | 13.8% | 2,642 | 2,483 | 6.4% | 3,792 | 3,196 | 18.6% |

The Group will continue to step up its management efforts in its hospitals to practically improve operating results, including adopting the following key measures:

(1) continuous development of advanced and specialized services, talents training and equipment upgrading to improve the hospitals' business profit and generate new profit growth point;

(2) reinforcing supervision and inspection of hospitals by the academic committee of the hospitals, strengthening the management of hospital services and quality of medical services;

(3) exploring diversified marketing strategies such as academic marketing and sales marketing to enhance the influence and brand value of the hospitals;

(4) enhancing operating capabilities of the management team through provision of management training; and

(5) invigorating the development of hospitals through optimized performance evaluations and reformed incentive measures.

## FINANCIAL REVIEW

### Results of Operations

Our revenue increased by approximately 97.8% from RMB88.2 million for the Corresponding Period to RMB174.5 million for the Reporting Period, mainly as a result of the increase of management service fee received from Yangsi Hospital and the acquisitions of Jiande Hexu Enterprise Management Co., Ltd.* (建德和煦企業管理有限公司) ("**Jiande Hexu**") and Cixi Hongai Medical Management Co., Ltd.* (慈溪弘愛醫療管理有限公司) ("**Cixi Hongai**").

Revenue from our general hospital services segment increased significantly from RMB17.2 million for the Corresponding Period to RMB86.7 million for the Reporting Period. The increase was mainly attributable to the acquisition of Jiande Hospital of Traditional Chinese Medicine Co., Ltd.* (建德中醫院有限公司) in January 2018, which is owned as to 70% indirectly by Jiande Hexu, and provides a larger revenue base than Fuhua Hospital which was owned by the Group during the Corresponding Period but was later disposed in August 2017.

Revenue from our hospital management services segment, which consists of the provision of hospital management services to Yangsi Hospital and Cixi Union Hospital, increased by 23.1% from RMB71.0 million for the Corresponding Period to RMB87.4 million for the Reporting Period. The increase was mainly attributable to the increase of 19.1% in the management service fees charged from Yangsi Hospital from RMB70.2 million for the Corresponding Period to RMB83.6 million for the Reporting Period, as well as the acquisition of Cixi Hongai in March 2018.

Our Adjusted Gross Profit increased by 33.1% from RMB60.4 million for the Corresponding Period to RMB80.4 million for the Reporting Period. The increase of the Adjusted Gross Profit of RMB20.0 million was mainly due to the increase of management service fees received from Yangsi Hospital, as well as the acquisition of Cixi Hongai and Jiande Hexu.

We recorded an adjusted administrative expenses of RMB18.6 million for the Reporting Period, which is calculated as administrative expenses for the Reporting Period excluding the impact from professional service fees resulting from investing and financing activities and other one off employee benefit expenses of RMB14.1 million, representing an increase from RMB7.4 million for the Corresponding Period, primarily due to administrative expenses of RMB10.9 million incurred by Jiande Hexu which was acquired by the Group in January 2018.

We recorded an adjusted financial expenses (net) of RMB7.3 million for the Reporting Period, which is calculated as financial expenses for the Reporting Period excluding the impact from exchange loss in relation to other items of RMB0.9 million, representing a turn from financial income of RMB0.7 million for the Corresponding Period, mainly due to the financing interest expense incurred in relation to the acquisition of Jiande Hexu.

We recorded an Adjusted Net Profit of RMB49.1 million for the Reporting Period, representing an increase of 8.6% from the Adjusted Net Profit of RMB45.2 million for the Corresponding Period, primarily due to the increase of management service fees received from Yangsi Hospital as well as the acquisition of Cixi Hongai and Jiande Hexu.

**Liquidity and Capital Resources**

Our total equity as at June 30, 2018 was RMB1,756.7 million (as at December 31, 2017: RMB1,562.1 million). As at June 30, 2018, we had current assets of RMB544.5 million (as at December 31, 2017: RMB404.2 million) and current liabilities of RMB232.2 million (as at December 31, 2017: RMB149.8 million). The current ratio was 2.34 as at June 30, 2018 as compared to 2.70 as at December 31, 2017.

Our current assets have increased by RMB140.3 million from RMB404.2 million as at December 31, 2017 to RMB544.5 million as at June 30, 2018, primarily due to the improvement of operating performance. Besides, in order to improve capital efficiency, we purchased more financial assets of monetary funds with floating rates. Our current liabilities have increased by RMB82.4 million from RMB149.8 million as at December 31, 2017 to RMB232.2 million as at June 30, 2018 which was mainly due to increase in short term borrowings and amounts due to related parties of Jiande Hexu.

Our primary uses of cash in the Reporting Period were for investment in hospitals and as working capital. As at June 30, 2018, we had borrowings of RMB278.8 million (as at December 31, 2017: RMB238.5 million) and we had cash and cash equivalents of RMB264.8 million (as at December 31, 2017: RMB260.8 million). Our Directors believe that, after taking into account the financial resources available to us, including internally generated funds and the net proceeds from the global offering of the Company, we have sufficient working capital for our requirements. As at June 30, 2018, the Group did not have any material contingent liabilities or guarantees.

## EVENTS AFTER THE REPORTING PERIOD

The Company acquired the entire issued share capital of Oriental Ally Holdings Limited at the consideration of RMB630 million (equivalent to approximately HK$773,879,717), which shall be satisfied by the issue of convertible bonds in the principal amount of HK$773,879,717. The transaction was approved by extraordinary general meeting of the Company on July 10, 2018.

Save as disclosed, there is no material subsequent event undertaken by the Company or by the Group after June 30, 2018 and up to the date of this announcement.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**"). Except for the disclosed below, the Board considered that, during the Reporting Period, 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.

Following the resignation of Mr. Zhang Xiaopeng as Chief Executive Officer with effect from May 23, 2018, Mr. Zhao John Huan, who is the Chairman of the Board, served as the Acting Chief Executive Officer. Upon the appointment of Mr. Shan Guoxin as the Chief Executive Officer of the Company with effect from June 5, 2018, Mr. Zhao John Huan ceased to act as the Acting Chief Executive Officer of the Company. As such, the roles of Chairman and Chief Executive Officer are separated and the Company has re-complied with the provision A.2.1 of the CG Code since then.

## AUDIT COMMITTEE

The unaudited results and the condensed consolidated financial statements of the Group for the Reporting Period have been reviewed by the audit committee of the Company (the "**Audit Committee**"). The Audit Committee consists of two independent non-executive Directors, Mr. Zhou Xiangliang (Chairman) and Mr. Shi Luwen, and a non-executive Director, Mr. Lin Sheng. The Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

## PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.hcclhealthcare.com). The interim report of the Company for the six months ended June 30, 2018 will be dispatched to the shareholders of the Company and made available on the above websites in due course.

On behalf of the Board of
**Hospital Corporation of China Limited**
**Zhao John Huan**
*Chairman*

Hong Kong, August 27, 2018

*As at the date of this announcement, the directors of the Company are Mr. LU Wenzuo being the executive director; Mr. ZHAO John Huan, Mr. LIN Sheng, Ms. LIU Lu and Ms. WANG Nan being the non-executive directors; Ms. CHEN Xiaohong, Mr. SHI Luwen and Mr. ZHOU Xiangliang being the independent non-executive directors.*

* *For identification purpose only.*