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, 2018

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, 2018 (the "**year under review**"), together with the comparative figures in 2017.

FINANCIAL HIGHLIGHTS

	As at December 31,	
	2018	**2017**
	RMB'000	*RMB'000*
Revenue	383,610	170,675
Gross profit margin	39.7%	52.1%
Adjusted gross profit margin(1)	51.3%	74.2%
(Loss)/profit for the year	(23,421)	9,198
Adjusted profit for the year(2)	92,688	81,646
Loss per share (in RMB)	(0.368)	(0.108)
Adjusted basic earnings per share (in RMB)(3)	0.478	0.483
Adjusted items		
Share-based awards expense(2)(i)	24,265	38,721
Amortization of identifiable intangible assets identified in acquisitions (2)(iii)	20,213	—
Investing and financing related expenses (2)(ii) and (2)(iv)	71,631	47,041
Discontinued operations - gains on disposal of discontinued operations	—	(13,314)

(1) Adjusted gross profit margin is calculated as the gross profit margin for the year, after eliminating the impacts from the amortization of share-based awards and the amortization of identifiable intangible assets identified from acquisition.

(2) The Group recorded a net loss of RMB23.4 million for the year under review. Adjusted profit for the year after eliminating the impact from extraordinary factors comprises (i) share-based awards expense of RMB24.3 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 ("**New Pride**"), 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 ("**Vanguard Glory**"), the Company's parent company, and certain managements of the Company in October 2017, (ii) losses from exchange and related fair value change of RMB65.2 million in relation to translation of the convertible bonds denominated in HK$ issued by the Company into RMB and

gains from fair value change and exchange in relation to other items of RMB5.5 million, (iii) amortization of identifiable intangible assets identified in acquisitions of RMB20.2 million, and (iv) expenses and accrued professional service fees of RMB12.0 million resulting from acquisition and potential acquisition of hospitals and hospital management companies and issuance of convertible bonds (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 year under review amounted to RMB0.368. The adjusted basic earnings per share is calculated as adjusted net profit attributable to the owners of the Company for the year per share, in which neither relevant tax impacts of the adjusted items nor impacts of non-controlling interests were considered.

CEO'S STATEMENT

Dear Shareholders,

In China, the healthcare industry has become one of the industries with the greatest potential for future development. It has already and will continue to brew and form a huge blue ocean market with value of more than RMB10 trillion. Health services have become a national-level major industrial sector related to the national economy and people's livelihood and the overall social happiness index of the future. In recent years, as the state continued to implement the "Healthy China Strategy (健康中國戰略)", significant benefits have been brought to the medical and health industry, medical demands have been continuously released, and a rapid growth trend has been shown in the medical industry. In the future, with the superposition of many favourable factors including the transformation of Chinese economy, upgrading of consumptions, deepening of medical reforms, deepening of aging and comprehensive coverage of medical insurances, the increasing demands of Chinese consumers for content and quality of medical services and the continuous introduction of various policies to promote the development of private hospitals, have brought unprecedented historical opportunities to the medical service industry, especially to the social capital invested medical service industry.

The Group was born in the context of the above-mentioned development of the healthcare industry. It was listed on the main board of the Stock Exchange on March 16, 2017 and has been in the process of rapid development. In 2018, the Group received investment from Legend Holdings Corporation, an internationally renowned enterprise, and assisted "Lenovo Holdings" in assuming the mission to establish a domestic first-class healthcare service industry platform, thus it has laid a solid foundation for the development of the Company. The Group has been focusing on meeting the growing health needs of the public, focusing on common, frequently-occurring and chronic diseases. Through merger and acquisition of hospitals, it will rapidly achieve expansion of scale, focus on areas with more developed economies and higher population density, and build a leading medical and health service network through the integration and interconnection of medical resources among various regions.

Since 2018, the Group has taken the initiative to analyse the policy changes including the "Hierarchical Diagnosis and Treatment System (分級診療)" and "Zero mark-ups on drugs (藥品零加成)" in the medical industry and the market environment of the hospitals, and has relied on the brand and funding advantages of "Lenovo Holdings" and "Hony Capital" and their excellent medical investment, operation and management capabilities in the industry, to further re-arrange the Group's development strategies, closely focus on and be committed to building the core competitiveness of a value-creating "medical investment and operation integration", and be committed to developing a leading medical service industry development platform in China. During the year under review, the Group focused on the following works:

1. We have implemented the general requirements of "successful acquisition, well management, scale expansion (收到管好上量)" proposed by the Board, and have established the strategic goal of building a first-class value-creating medical group in China under the "Three Conforming (三符合)" conditions of conforming to the development patterns of the medical industry, the models of modern corporate governance and the construction standards of affiliated hospitals in universities;

2. We have introduced the implementation of eight management instruments including "6S management system (6S管理體系)", "discipline assessment (學科評估)", "business plan (商業計劃)", "operation analysis (運營分析)" and "performance integrated management (績效綜合管理)" in the hospitals within the Group, started the construction of the group operation and management system, improved the systems operation and management capabilities of the hospitals in the Group, and formed the core competitiveness of long-term sustainable development of the Group;

3. We have actively reserved medical merger and acquisition resources, formed the value-creating investment value judgment standards of "three internal focuses, three external focuses and one core (內三看、外三看、一核心)" and explored to build an investment, merger and acquisition system with "integration of investment and operation (投資運營一體化)"; ("Three internal focuses" means to focus on factors like hospital discipline construction, future space for development and core management team of the project; "Three external focuses" means to focus on the economic development, population and market competition factors of the place where the project is located from an external perspective; and "One core" means to focus on the fairness of the acquisition price of the project.)

4. We have systematically sorted out the talents for the headquarter and the hospitals of the Group, built the overall talent system layout, explored the interactive group-based professional operation and management mode of the headquarter and the hospitals of the Group, re-established the "investment and management integration" team of the Group, and supplemented the key first-tier operation and management staff for the hospitals, and built an excellent team with good industry background, rich management experience and strong work capacity;

5. Through strengthening the management of the Group and the hospitals within the system and the construction of various professional talents, strengthening the construction of special and advantageous disciplines, strengthening the construction of key technology projects, strengthening the construction of demonstrated base, strengthening the academic (technical) communication and the information exchange among the institutions within the system, strengthening the implementation of multi-site practice of experts according to the national regulations, strengthening comprehensive measures such as technical output of professional teams, we have realized the integration of resources of hospitals in the Group and the sharing of core experts and technologies. For example, the rehabilitation and treatment disciplines of the hospitals being constructed into a value-creating rehabilitation and treatment demonstration base that meets the criterion of "three interventions and two integrations (三介入兩融合)", and with the important specialist technical support and the profit growth;

6. We have started the construction of the information management platform of the hospitals in the Group, and the information management centre of the headquarter of the Group has been allocated to the hospitals, which provides professional informational services to the Group and the hospitals with the group informational management base as the core;

7. We have established a procurement management model that combines centralised procurement with purchases by the hospitals under the guidance of the supply chain management department of the Group, effectively increasing the profitability and profit of the enterprise; and

8. We have established the professional operation teams for the hospitals under the guidance of the Group, and have initially formed a professional comprehensive business expansion model for the hospitals.

2018 is the first year of the systematic construction of the Group. Under the joint efforts of all the staff, the Group has comprehensively and rapidly promoted the development of its every business, has completed the main business and income indicators, and the Group has a good development momentum. The project market follow-up, project selection, due diligence and project audit and evaluation models related to hospital investments, mergers and acquisitions have become mature, and the Company has entered a stage of steady progress. In the next three years, the Group will improve the operation and the management of hospitals, condense the core competitiveness of the hospitals, and comprehensively enhance the hospital scale and brand advantages, so as to maintain its long-term competitive advantages in strategy, talent, management, technologies, capital and brand. The Company will strive to create a first-class value-creating medical group that is respected by patients and the industry under the "Three Conforming (三符合)" conditions, so as to provide quality medical and health services to the public and create values for our Shareholders and the society.

ACKNOWLEDGMENT

I would like to take this opportunity to express my sincere gratitude to our Directors, management and all employees for their dedication and contribution to our Group during the past year. I would also like to express my appreciation for the trust and enduring support from our Shareholders as well as business partners and friends from the banking and investment sectors.

Shan Guoxin
Chief Executive Officer

Beijing, China
March 29, 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2018 *RMB'000*	2017 *RMB'000*
Continuing operations			
Revenue	3	383,610	149,158
Cost of revenue		(231,478)	(61,320)
Gross profit		152,132	87,838
Selling expenses		(204)	—
Administrative expenses		(63,322)	(53,706)
Other income		2,874	3,742
Other losses - net	4	(57,635)	(120)
Operating profit		33,845	37,754
Finance income		2,618	2,701
Finance costs		(18,580)	(21,227)
Finance costs - net		(15,962)	(18,526)
Profit before income tax		17,883	19,228
Income tax expense	5	(41,304)	(22,912)
Loss from continuing operations		(23,421)	(3,684)
Profit from discontinued operations		—	12,882
(Loss)/profit for the year		(23,421)	9,198
Other comprehensive income		—	—
Total comprehensive (loss)/income for the year		(23,421)	9,198
Attributable to:			
Owners of the Company		(50,490)	(13,749)
Non-controlling interests		27,069	22,947
Total comprehensive (loss)/income for the year		(23,421)	9,198
Total comprehensive (loss)/income for the year attributable to owners of the Company from:			
Continuing operations		(50,490)	(24,055)
Discontinued operations		—	10,306
		(50,490)	(13,749)
Losses per share for loss from continuing operations attributable to owners of the Company:			
– Basic and diluted losses per share (in RMB)	6	(0.368)	(0.189)
Losses per share for loss attributable to owners of the Company			
– Basic and diluted losses per share (in RMB)	6	(0.368)	(0.108)

CONSOLIDATED BALANCE SHEET

		As at December 31,	
	Notes	**2018**	**2017**
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		143,940	18,383
Intangible assets		2,936,539	1,059,402
Land use right		39,487	—
Deferred income tax assets		933	—
Other receivables, deposits and prepayments		3,243	483,506
Total non-current assets		3,124,142	1,561,291
Current assets			
Available-for-sale financial assets		—	17,396
Financial assets at fair value through profit or loss		249,767	—
Inventories		8,664	—
Trade receivables	7	33,822	—
Other receivables, deposits and prepayments		2,895	80,202
Amounts due from related parties		191,040	45,840
Cash and cash equivalents		195,521	260,787
Total current assets		681,709	404,225
Total assets		3,805,851	1,965,516
EQUITY			
Equity attributable to owners of the Company			
Share capital		123	123
Share premium		432,993	404,021
Treasury shares		—	(3)
Reserves		910,458	1,070,628
(Accumulated losses)/retained earnings		(19,172)	39,344
		1,324,402	1,514,113
Non-controlling interests		343,582	48,012
Total equity		1,667,984	1,562,125

CONSOLIDATED BALANCE SHEET(Continued)

	Notes	As at December 31, 2018	2017
		RMB'000	*RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings		173,923	214,618
Convertible bonds	9	1,073,856	—
Deferred income tax liabilities		350,512	35,633
Accruals and other payables		1,466	3,311
Total non-current liabilities		1,599,757	253,562
Current liabilities			
Borrowings		89,692	23,846
Trade payables	8	16,885	—
Contract liabilities		549	—
Accruals and other payables		137,836	113,662
Amounts due to related parties		40,136	3,186
Financial liability at amortised cost		221,800	—
Current income tax liabilities		31,212	9,135
Total current liabilities		538,110	149,829
Total liabilities		2,137,867	403,391
Total equity and liabilities		3,805,851	1,965,516

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 (i) operation and management of its privately owned hospital; (ii) provision of management and consultation services to three 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, a subsidiary of Hony Capital Fund V, L.P., which is considered as the ultimate holding company of the Company.

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

The consolidated financial statements is presented in RMB and rounded to nearest thousand yuan, unless otherwise stated.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

(i) *Compliance with IFRS and Hong Kong Companies Ordinance*

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

(ii) *Historical cost convention*

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

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

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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018:

- IFRS 9 Financial Instruments

- IFRS 15 Revenue from Contracts with Customers

The Group also elected to adopt the following amendments early.

- Annual Improvements to IFRS Standards 2015-2017 Cycle, and

The Group had to change its accounting policies following the adoption of IFRS 9 and IFRS 15. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iv) *New standards and interpretation not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 Leases

IFRS 16 was issued in January 2016. It will results in almost all leases being recognized on the balance sheet by lessees, 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 Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of RMB1,612,000. Of these commitments, approximately RMB602,000 relate to short-term leases and RMB8,000 to low value leases which will both be recognised on a straight-line basis as expense in profit or loss.

The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The Group expects to recognise lease liabilities of approximately RMB875,000 and right-of-use assets of approximately RMB1,109,000 on January 1, 2019 after adjustments for prepayments and accrued lease payments recognised as at December 31, 2018. Overall prepayments for lease agreements, accrued rental payable and the net profit of the Group will increase in 2019 as a result of adopting the new rules. Operating cash flows will increase and financing cash flows decrease as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 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 consolidated financial statements.

(i) *Impact on the consolidated financial statements*

As explained in Note 2.2(ii) and 2.2(iii) 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

(ii) *IFRS 9 Financial Instruments*

IFRS 9 replaces the provisions of IAS 39 that relates 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 2.3 below. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

The total impact on the Group's retained earnings and equity is immaterial.

(a) *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 effect resulting from this reclassification is that investments in monetary funds with floating rates with a fair value of RMB17,396,000 were reclassified from available-for-sale financial assets to FVPL, as the contractual cash flows of these investments do not represent solely payments of principal and interest.

Other financial assets as at January 1, 2018 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.

(b) *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 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.

(c) *Trade receivables*

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

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.

(iii) *IFRS 15 Revenue from Contracts with Customers*

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.

2.3 Investments and other financial assets

Classification

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 fair value through other comprehensive income ('FVOCI').

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

Recognition and derecognition

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

Measurement

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

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

Debt instruments

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

- 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 consolidated statement of comprehensive income.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are 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 consolidated statement of comprehensive income.

- 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. 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 consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

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 and its receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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.

Accounting policies applied until December 31, 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until December 31, 2017 the Group classifies its financial assets in the following categories:

- Loans and receivables, and
- Available-for-sale financial assets.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

Reclassifications

The Group could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Group could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

Subsequent measurement

The measurement at initial recognition did not change an adoption of IFRS 9, see description above.

Subsequent to the initial, recognition loans and receivables and held-to-maturity investments were subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- For financial assets at FVPL – in profit or loss within other gains/(loss), and
- For other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as gains and other losses from investment securities.

Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

Assets classified as available-for-sale

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – was removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss were not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for -sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss.

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 seqments, 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.

The Group assesses the performance of the operating segments based on a measure of earnings before interests, income tax, depreciation and amortisation ('EBITDA'). The Group's operating and reportable segments for segment reporting purpose are as follows:

(i) General hospital services

Revenue from this segment is generated in the PRC and derived from hospital services provided by Jiande Hospital of Traditional Chinese Medicine Co., Ltd. ('Jiande Hospital') and Jiande Xinlin Pharmacy Co., Ltd. ('Xinlin Pharmacy') in 2018.

Jiande Hospital was a new subsidiary of the Group due to the acquisition of Jiande Hexu completed on January 11, 2018. Xinlin Pharmacy was a subsidiary of the Group due to the acquisition completed on August 31, 2018. The segment information for the year ended December 31, 2018 represented the operating results of Xinlin Pharmacy for the period from September 1, 2018 to December 31, 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 years ended December 31, 2018 and 2017, respectively.

(ii) Hospital management services

Revenue from this segment is generated in the PRC and derived from providing comprehensive management services and receiving management service fee by Shanghai Weikang Investment Management Co., Ltd. (上海維康投資管理有限公司) ("**Weikang Investment**"), Tibet Dazi Honghe Ruixin Business Management Co., Ltd. (西藏達孜弘和瑞信企業管理有限公司) ("**Honghe Ruixin**"), Cixi Honghe Medical Management Co., Ltd. (慈溪弘和醫療管理有限公司) ("**Cixi Honghe**") and Zhejiang Guangsha Medical Technology Co., Ltd (浙江廣廈醫療科技有限公司) ("**Guangsha Medical**").

Pursuant to the hospital management framework agreement and the letter of intent signed by Weikang Investment and Shanghai Yangsi Hospital (上海楊思醫院) ("**Yangsi Hospital**") on January 1, 2013 and October 8, 2014 respectively, the long-term hospital management agreement signed by Weikang Investment, 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. (慈溪弘愛醫療管理有限公司) ("**Cixi Hongai**") was completed. Cixi Honghe, a subsidiary of Cixi Hongai, had entered into a letter of intent with Cixi Union Hospital (慈溪協和醫院) ("**Cixi Hospital**") on February 1, 2018 and signed a supplemental 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 5-year hospital management agreement with Cixi Hospital, covering the period from 2018 to 2022. Pursuant to the hospital management agreement, Cixi Honghe can derive management fee based on pre-set formulas set out in the 5-year hospital management agreement.

On August 7, 2018, the acquisition of Oriental Ally Holdings Limited ("**Oriental Ally**") was completed. Guangsha Medical, a subsidiary of Oriental Ally, entered into a 50-year hospital management letter of intent with Zhejiang Jinhua Guangfu Oncological Hospital (浙江金華廣福腫瘤醫院) ("**Jinhua Hospital**"), covering the period from January 1, 2017 to December 31, 2066. Pursuant to the Jinhua Hospital letter of intent, Guangsha Medical agreed to provide consultancy and management services to Jinhua Hospital, and Jinhua Hospital agreed to pay Guangsha Medical management service fees. The detailed service content and pricing are concluded and effective in a separate 3-year hospital management agreement which was signed by Guangsha Medical and Jinhua Hospital on June 30, 2017, covering the period from January 1, 2017 to January 1, 2020. Pursuant to the 3-year hospital management agreement, the management fee will be calculated based on pre-set formulas.

(iii) Wholesale of pharmaceutical products

Revenue from this segment is generated in the PRC and is derived from wholesale of pharmaceutical products by Zhejiang Dajia Medicines Co., Ltd. (浙江大佳醫藥有限公司) ("**Dajia Medicines**"), a new subsidiary of the Group due to the acquisition of Jiande Hexu Enterprise Management Co., Ltd. (建德和煦企業管理有限公司) ("**Jiande Hexu**").

(iv) Unallocated

The 'Unallocated' category represents the headquarter expenses.

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

	General hospital services	**Hospital management services**	**Wholesale of pharmaceutical products**	**Elimination**	**Unallocated**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended December 31, 2018						
Segment revenue	183,823	199,194	32,425	(31,832)	—	383,610
Inter-segment revenue	—	—	(31,832)	31,832	—	—
Revenue from external customers	183,823	199,194	593	—	—	383,610
Timing of revenue recognition						
– At a point in time	90,611	—	593	—	—	91,204
– Over time	93,212	199,194	—	—	—	292,406
	183,823	199,194	593	—	—	383,610
EBITDA	12,237	146,453	3,505	(373)	—	161,822
Depreciation	(6,582)	(2,053)	(242)	—	(117)	(8,994)
Amortization	(7,538)	(13,365)	(383)	—	(69)	(21,355)
Finance (expense)/income	(1,653)	421	20	—	(14,750)	(15,962)
Headquarter expenses excluding depreciation and amortization					(97,628)	(97,628)
(Loss)/Profit before tax	(3,536)	131,456	2,900	(373)	(112,564)	17,883
As at December 31, 2018						
Segment assets	385,417	1,586,238	22,788	(386)	194,027	2,188,084
Goodwill	301,995	1,306,506	9,266	—	—	1,617,767
Total assets	687,412	2,892,744	32,054	(386)	194,027	3,805,851
Total liabilities	154,280	407,985	8,947	—	1,566,655	2,137,867
Other Segment information for the year ended December 31, 2018						
Depreciation, amortization and impairment	(14,510)	(15,418)	(625)	—	(186)	(30,739)
Additions of non-current assets excluding goodwill and deferred income tax assets	360,940	1,042,230	2,171	—	338	1,405,679

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

	General hospital services	Hospital management services	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended December 31, 2017				
Revenue from external customers	21,517	149,158	—	170,675
EBITDA	18,831	85,058	—	103,889
Depreciation	(450)	(2,053)	(389)	(2,892)
Amortization	(767)	(2,306)	(39)	(3,112)
Finance income on deposit	5	743	1,958	2,706
Unallocated expenses excluding depreciation and amortization			(63,744)	(63,744)
Profit before tax	17,619	81,442	(62,214)	36,847
As at December 31, 2017				
Segment assets	—	326,404	688,196	1,014,600
Goodwill	—	950,916	—	950,916
Total assets	—	1,277,320	688,196	1,965,516
Total liabilities	—	113,824	289,567	403,391
Other Segment information for the year ended December 31, 2017				
Depreciation, amortization and impairment	(1,179)	(4,359)	(428)	(5,966)
Additions of non-current assets excluding goodwill and deferred income tax assets	517	765	483,035	484,317

4 OTHER LOSSES - NET

	Year ended December 31, 2018 *RMB'000*	2017 *RMB'000*
Net fair value losses on convertible bonds	(65,150)	—
Net fair value gains on financial assets at FVPL	5,045	—
Foreign exchange losses	(853)	(183)
Others	3,323	63
	(57,635)	(120)

5 INCOME TAX EXPENSE

Subsidiaries established and operating in Mainland China are subject to the PRC corporate income tax at the rates of 25% and 15% for the years ended December 31, 2018 (2017: 25% and 9%).

	Year ended December 31, 2018 *RMB'000*	2017 *RMB'000*
Current income tax:		
–PRC corporate income tax	40,155	25,559
Deferred income tax	1,149	2,090
	41,304	27,649

Income tax is attributable to:

	Year ended December 31, 2018 *RMB'000*	2017 *RMB'000*
Profit from continuing operations	41,304	22,912
Profit from discontinued operations	—	4,737
	41,304	27,649

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:

	Year ended December 31,	
	2018	**2017**
	RMB'000	*RMB'000*
Profit from continuing operations before income tax	17,883	19,228
Profit from discontinued operations before income tax	—	17,619
Calculated at taxation rate of 25%	4,471	9,212
Effect of different tax rates available to different subsidiaries of the Group	(9,098)	(12,546)
Expenses not tax deductible	32,132	25,441
Tax effect of unrecognized tax losses	4,796	203
Withholding tax	9,003	5,339
Income tax expense	41,304	27,649

(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% (2017: 16.5%) for the year ended December 31, 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 years ended December 31, 2018 and 2017.

(c) PRC Corporate Income Tax ("CIT")

The income tax rate of Tibet Honghe Zhiyuan Business Management Co., Ltd. (西藏弘和志遠企業管理有限公司) ("**Honghe Zhiyuan**") and Honghe Ruixin was 15% (2017: 9%) for the year ended December 31, 2018. The income tax rate of other subsidiaries was 25% (2017: 25%) for the year ended December 31, 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, Bliss Success Holding Limited (妙榮控股有限公司) ("**Bliss Success**") and Impeccable Success Limited (成臻有限公司) ("**Impeccable Success**")was 10% pursuant to PRC Enterprise Income Tax based on the remittance of dividends from subsidiaries in the PRC in the foreseeable future, respectively.

6 Losses per share

(i) Basic losses per share

Basic losses per share is calculated by dividing:

- The losses attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares.
- By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding shares held for employee share scheme.

	Year ended December 31,	
	2018	**2017**
(Loss)/Profit attributable to the owners of the Company (RMB'000)		
From continuing operations (RMB'000)	(50,490)	(24,055)
From discontinued operations (RMB'000)	—	10,306
	(50,490)	(13,749)
Weighted average number of ordinary shares in issue (in thousands)	137,242	127,165
Basic (losses)/earnings per share		
From continuing operations	(0.368)	(0.189)
From discontinued operations	—	0.081
	(0.368)	(0.108)

(ii) Diluted losses per share

The Group had potential dilutive shares during the year ended December 31, 2018 related to the shares held for share based payment scheme. Due to the Group's negative financial results during the year ended December 31, 2018, shares held for share based payment scheme have anti-dilutive effect on the Group's losses per share. Thus, diluted losses per share are equivalent to the basic losses per share.

7 Trade receivables

	As at December 31,	
	2018	**2017**
	RMB'000	*RMB'000*
Trade receivables	34,822	—
Less: provision for impairment of trade receivables	(1,000)	—
Trade receivables – net	33,822	—

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

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

	As at December 31,	
	2018	**2017**
	RMB'000	*RMB'000*
1 - 90 days	28,843	—
91 - 180 days	2,150	—
181 days – 1 year	2,795	—
Over 1 year	1,034	—
	34,822	—

8 Trade payables

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

	As at December 31,	
	2018	**2017**
	RMB'000	*RMB'000*
Less than 90 days	10,474	—
91 to 180 days	4,807	—
181 days to 1 year	713	—
Over 1 year	891	—
	16,885	—

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

9 Convertible bonds

The movement of the convertible bonds are as follows:

	Convertible bonds issued at		
	March 5, 2018	August 7, 2018	Total
	RMB'000	*RMB'000*	*RMB'000*
As at January 1, 2018	—	—	—
Issuance of convertible bonds during the period	378,706	630,000	1,008,706
Difference between fair value and principal amount at initial recognition	2,318	(7,633)	(5,315)
Fair value change resulting from change in convertible bonds value	50,893	14,251	65,144
Aggregate difference yet to be recognised in loss at December 31, 2018	(1,676)	6,997	5,321
As at December 31, 2018	430,241	643,615	1,073,856

(i) Convertible bonds issued on March 5, 2018

On March 5, 2018, the Company issued convertible bonds in an aggregate principal amount of HKD468,000,000 (equivalent to approximately RMB378,706,000) in registered form in the denomination of HKD1,000,000 each. The convertible bonds 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 to 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 FVPL. The fair value of the convertible bonds on March 5, 2018 was HKD470,864,000, which is determined by an independent qualified valuer and approximated its principal amount.

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 as at December 31, 2018.

As at December 31, 2018, the fair value of the convertible bonds is approximately HKD492,942,000, equivalent to approximately RMB431,917,000, which is determined by an independent qualified valuer and the aggregate difference yet to be recognised in loss was HKD1,913,000, equivalent to approximately RMB1,676,000.

(ii) Convertible bonds issued on August 7, 2018

On May 29, 2018, the Company and Hony Capital Fund VIII (Cayman), L.P. (the "**Vendor**") entered into a shares purchase agreement (the "**Share Purchase Agreement**") in relation to the sale and purchase of the entire equity interest in Oriental Ally with a cash consideration of RMB630,000,000 (equivalent to approximately HKD773,879,717).

The consideration was satisfied by the issuance of the convertible bonds in the aggregate principal amount of HKD773,879,717 by the Company to the Vendor on the completion date of the acquisition pursuant to the Share Purchase Agreement. On August 7, 2018, the convertible bonds were issued in registered form in the denomination of HKD1.00 each provided that in no event shall any bonds be transferred, exchanged, converted or purchased in an aggregate principal amount that is less than HKD1.00. The convertible bonds do not bear any interest. The convertible bonds will mature five years from the issuance at its principle amount or can be converted into ordinary shares of the Company at the holder's option upon conversion at the conversion price of HKD20.00 per conversion share (subject to adjustments to the conversion price).

The fair value of the convertible bonds on August 7, 2018 was HKD764,504,000, which is determined by an independent qualified valuer and approximated its principal amount.

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 as at December 31, 2018.

As at December 31, 2018, the fair value of the convertible bonds was approximately HKD726,568,000, equivalent to approximately RMB636,618,000, which is determined by an independent qualified valuer and the aggregate difference yet to be recognised in gain was HKD7,986,000, equivalent to approximately RMB6,997,000.

10 DIVIDENDS

Pursuant to a resolution of the board of directors' meeting of Weikang Investment on August 31, 2018, dividends, including withholding tax, of RMB41,523,000 to its majority shareholders and RMB10,380,000 to its minority shareholders were declared. The dividend to its minority shareholders had been settled before November 30, 2018.

Pursuant to a resolution of the board of directors' meeting of Honghe Ruixin on August 31, 2018, dividends, including withholding tax, of RMB56,372,000 to its majority shareholders and RMB14,092,000 to its minority shareholders were declared. The dividend to its majority shareholders and minority shareholders had been settled before October 31, 2018.

BUSINESS OVERVIEW

Business Positioning: The Group closely follows the general requirements and strategic objectives of "successful acquisition, well management, scale expansion (收到、管好、上量)" proposed by the board of Directors, to actively invest, construct and develop comprehensive or specialized hospitals with strong comprehensive capabilities, distinctive professional characteristics, good growth and synergy, and a high level of group management and governance, build a medical management and operation system with "integration of investment and operation (投資運營一體化)", and create a first-class value-creating medical group in China under the "Three Conforming (三符合)" conditions. ("Three Conforming" means conformities to the development pattern of the medical industry, the management and control patterns of modern enterprises and the construction standard for hospitals affiliated to colleges and universities.)

Business layout: 3 to 5 regional medical centers will be formed in densely populated and economically developed regions, and a three-level medical network will be formed within the regions. At the same time, key development disciplines will be selected according to the characteristics of the regional market invested and the resource advantages of the Group, and a quality medical network that is jointly developed by the regional comprehensive medical system and the Group's specialized system will be built through the coordination of resources and management.

Main businesses: The Company's main businesses focus on building the construction of investment and operation integration system for regional medical care;

- Hospital management: The Group supports the construction of a solid foundation for hospital development through strategic positioning, high-end talent introduction and hospital management instrument implementation. In order to meet the needs of hospital development, the Group has introduced talents with a wide range of industry backgrounds, rich experience in hospital and enterprise management and good resource integration capabilities, including introducing medical discipline construction talents for cancer, respirology, cardiovascular, neurography, rehabilitation, gynaecology and orthopedics, and medical professional operation management talents for brands, performance, operation, information and market to the hospitals of the Group, for providing professional output support to the hospitals, and cooperating with the hospital management teams to build the group medical professional operation and management teams, and to promote the rapid development of hospital business. At the same time, the Group has introduced management instruments such as "discipline assessment (學科評估)", "operation analysis (運營分析)" and "6S management system (6S管理體系)" to guide the hospitals to form scientific and systematic operation and management models; through assisting the hospitals in establishing the scientific management system that conforms to medical pattern and integrates with modern enterprise systems, to provide support and value-added services to the hospitals in a number of key areas; to condense and enhance the core competencies of the hospitals, to enable them to maintain their long-term competitive advantages in strategy, talent, management, technology, capital and brand and to achieve the goals of value enhancement, employees' growth, and social responsibility committment;

- Investment, merger and acquisition: The Company has vigorously expanded the regional medical markets and initially formed a framework for the medical development system in the Yangtze River Delta region through mergers and acquisitions and reorganizations. At the same time, according to its strategic positioning, the Group has actively reserved resources of medical merger and acquisition subject assets, explored cooperation modes for different types of hospitals that are in line with the Group's strategic development positioning, and formed a value-creating investment value judgment system of "three internal focuses, three external focuses and one core (內三看、外三看、一核心)"; ("Three internal focuses" means to focus on factors like hospital discipline construction, future space for development and core management team of the project; "Three external focuses" means to focus on the economic development, population and market competition factors of the place where the project is located from an external perspective; and "One core" means to focus on the reasonableness of the acquisition price of the project.)

- Integrated business: The Group has established a group integrated business support system including human resources, logistics services, administrative support, supply chain, information management and performance management, to implement standardized and systematic operations, improve management level and reduce operating costs, and provide strong support for achieving the Group's goals.

INDUSTRY OVERVIEW

Chinese medical service industry covers medical service institutions, elderly healthcare institutions, health insurances, etc.. Hospitals are the main body of the entire medical service industry. Hospitals belong to a rigid demanding industry with heavy assets and a long-time cycle. In the future, Chinese medical service industry will continue to have huge room for development with the prominence of population aging problem, the improvement of residents' income and health awareness, the government's great investments and the increase in socially-run medical care institutions.

Chinese medical service industry has shown a high degree of sensitivity to policy. In recent years, in order to improve the imbalance in the distribution of medical resources and the lack of quality medical resources, reduce the price of medicines and materials and rectify the existing medical industry issues including "supporting medical industry by pharmaceutical business (以藥養醫)", the state has carried out a series of targeted reforms to guide the healthy development of the medical service industry, including the following policies:

- The Opinions of the General Office of the State Council on Promoting the Development of "Internet + Healthcare", which has provided regulations on internet-based diagnosis and treatment for the first time, which will promote the construction trend of internet hospitals in the future.

- Reforms related to the supply of medicines. First is supply-side reform, which encourages relevant enterprises to innovate and implement the consistency evaluation of generic drugs, accelerates the drug review and approval, and the pharmaceutical market will develop in the direction of high quality and high efficiency in the future; second is the price reduction of drugs. These will be gradually promoted from the hospital end (Zero-markups), channel end (Two-invoice system) and production end (including national drug price negotiation and centralised procurement), and such policies will improve the income structure of the hospitals, reduce dependence on drugs and improve the transparency in pharmaceutical circulation.

- The Hierarchical Diagnosis and Treatment System (分級診療) and the Allocation of Medical Personnel and Medical Resources to Primary Care (雙下沉) policies. The promotion of such policies will lead to the formation of a strong "community healthcare system (醫共體)" network among hospitals, so that excellent medical resources and talents will be allocated to primary care and medical resources will be allocated effectively.

- The establishment of the National Medical Insurance Bureau in 2018. The "integration of three insurances (三保合一)" (including the basic medical insurance for urban workers, the basic medical insurance for urban residents and the new rural cooperative medical system) will be accelerated; and in terms of "medical insurances", payment by disease type and payment by disease diagnosis related group (DRGs) will be vigorously promoted to reduce excessive medical treatments such as "excessive prescription (大處方)" and "excessive inspection (大檢查)", and strengthen control of fees.

The above-mentioned series of policy reforms will bring huge impacts on the operation of private hospitals in China, the profit margin of medicines will be further compressed, the "community healthcare system" network will bring huge impacts on the source of patients of private hospitals, and the medical insurance funds under the model of DRGs require more effective treatment method. However, the overlapping effect of the population increase and the lack of medical resources will continue to promote the public's demand for medical services. Based on the vision of creating a medical industry group integrating domestic first-class investment and operation and meeting the "Three Conforming (三符合)" construction standards, the Company has actively turned to cater to policy requirements and medical market demand, and it will expand the Group's scale through merger and acquisition projects involving high-quality hospitals in the future, focus on building a group of disciplines with good comprehensive strength, distinctive specialty characteristics and differentiated competitive advantages, and promote medical services with high efficiency and high quality, improve the proportion of non-pharmaceutical incomes in hospital medical services, continue to optimize its income structure, strengthen cooperation with public hospitals, private hospitals and other community medical institutions at various levels, establish rich referral channels, and promote the long-term development of the Group's medical network, to give full play to the advantages of group operation and create synergies in strategy, organization and operation.

RECENT DEVELOPMENTS

Time	Event
January 2018	New Pride, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement in relation to the acquisition of the entire equity interest in Jiande Hexu at a total consideration of RMB483,000,000 on October 27, 2017. The completion of this acquisition took place in January 2018.
January 25, 2018	The Company and Vanguard Glory entered into a subscription agreement, pursuant to which Vanguard Glory agreed to subscribe and the Company agreed to issue convertible bonds of the Company in an aggregate principal amount of HK$468,000,000. The transaction was approved by extraordinary general meeting of the Company held on March 2, 2018 and the convertible bonds were issued on March 5, 2018.
February 8, 2018	New Pride entered into an equity transfer agreement in relation to the acquisition of the entire equity interest in Cixi Hongai at a total consideration of RMB336,000,000. The completion of this acquisition took place in March 2018.
May 29, 2018	The Company entered into a share purchase agreement in relation to the acquisition of the entire issued share capital of Oriental Ally at a total consideration of RMB630,000,000 (equivalent to approximately HK$773,879,717), which shall be satisfied by the issuance of convertible bonds in the aggregate principal amount of HK$773,879,717) to Hony Capital Fund VIII(Cayman), L.P. The transaction was approved by extraordinary general meeting of the Company held on July 10, 2018, and the completion of this acquisition took place in August 2018.
December 21, 2018	The Company and Leap Wave Limited (立濤有限公司) (the "**Subscriber**") entered into the subscription agreement (as amended by an amendment agreement dated January 16, 2019), pursuant to which, among other things, the Company agreed to issue, and the Subscriber agreed to subscribe for the convertible bonds in the aggregate principal amount of HK$800,000,000 for a total consideration equal to the aggregate principal amount of the convertible bonds, and with an initial conversion price of HK$20.00 per conversion share. The transaction was approved by extraordinary general meeting of the Company held on February 1, 2019, and the convertible bonds were issued on February 27, 2019

Time	Event
March 12, 2019	Mr. Lin Sheng has tendered his resignation as a non-executive Director of the Company, a member of the audit committee of the Company and a member of the remuneration committee of the Company with effect from March 12, 2019 due to his other work commitment. With effect from March 12, 2019, Mr. Shan Guoxin ("**Mr. Shan**") has been appointed as an executive Director of the Company and Mr. Wei Kai ("**Mr. Wei**") has been appointed as a non-executive Director of the Company. The Board has appointed Mr. Shan as a member of the remuneration committee and Mr. Wei as a member of the audit committee, with effect from March 12, 2019.

REVIEW OF 2018 ANNUAL PERFORMANCE

Revenue

Our revenue increased by approximately 124.7% from RMB170.7 million in 2017 to RMB383.6 million in 2018. 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,	
	2018	**2017**
	RMB'000	*RMB'000*
Revenue	383,610	170,675
– Hospital management services	199,194	149,158
– General hospital services	183,823	21,517
– Wholesale of pharmaceutical products	593	—

Hospital management services

Revenue from our hospital management services segment, which consists of the provision of hospital management services to Yangsi Hospital, Cixi Hospital and Jinhua Hospital, increased by 33.5% from RMB149.2 million in 2017 to RMB199.2 million in 2018. The increase was mainly attributable to (a) management service income generated or received from our acquisition of hospital management companies in 2018, i.e. Cixi Honghe and Guangsha Medical; (b) the increase in management service fees received from Yangsi Hospital.

General hospital services

Revenue from our general hospital services segment increased by 754.9% from RMB21.5 million in 2017 to RMB183.8 million in 2018. The revenue of the Group's general hospital services segment primarily derived from individual patients for the periods ended December 31, 2018 and 2017. The increase was mainly attributable to the acquisition of Jiande Hospital, which is owned as to 70% indirectly by Jiande Hexu, in January 2018, which enlarged our revenue base.

Wholesale of pharmaceutical products

Revenue from wholesale of pharmaceutical products is derived from the business of Dajia Medicines, which is indirectly owned as to 70% by Jiande Hexu and is principally engaged in the supply of pharmaceutical products to Jiande Hospital and third-party customers.

Cost of revenue

Our cost of revenue increased by 183.0% from RMB81.8 million in 2017 to RMB231.5 million in 2018. The increase was mainly attributable to the addition of the cost of revenue of RMB157.3 million incurred by Jiande Hospital and Dajia Medicines, owned as to 70% indirectly by Jiande Hexu which was acquired by the Group in January 2018 and the increase of RMB20.2 million in amortization of the identifiable intangible assets identified and acquired by the Group.

Administrative expenses

The administrative expenses of continuing operations were RMB53.7 million and RMB63.3 million for the year ended December 31, 2017 and 2018, respectively, and amounted to 36.0% and 16.5% as a percentage of the revenue of the corresponding year. The increase was mainly attributable to the administrative expenses of RMB17.5 million incurred by Jiande Hospital (which is owned as to 70% indirectly by Jiande Hexu) acquired by the Group.

Other losses-net

Other losses-net increased by RMB57.5 million from RMB0.1 million in 2017 to RMB57.6 million in 2018. The increase in other losses-net was mainly attributable to the losses of RMB65.2 million on changes in fair value arising from the changes in the value of the convertible bonds issued by the Group.

Other income

We recorded other income of RMB3.7 million and RMB2.9 million for the years ended December 31, 2017 and 2018, respectively, representing a 21.6% year-on-year decrease. The decrease was mainly attributable to the decrease of RMB1.1 million in government grants and subsidies granted by the People's Government of Sanlin town in Shanghai in 2018 (2017: RMB2.5 million, 2018: RMB1.4 million) for the tax contribution of Weikang Investment.

Finance income and finance costs

Our finance income decreased from RMB2.7 million in 2017 to RMB2.6 million in 2018 mainly due to the decrease of RMB1.4 million in interest income from short-term bank deposits, short-term structured deposits and deposits at calls, as we deposited our unutilized proceeds from Listing and management fee received into these products, which were offset by the increase of RMB1.3 million in finance income on the financial liability measured at amortised cost.

Our finance cost decreased from RMB21.2 million in 2017 to RMB18.6 million in 2018 mainly due to the decrease of RMB18.5 million (2017: RMB21.2 million, 2018: RMB2.7 million) in foreign exchange losses as a result of the translation of the deposits denominated in US dollars or Hong Kong dollars into Renminbi, which were offset by the increase of approximately RMB15.9 million (2017: nil, 2018: RMB15.9 million) in financing interest expense on bank borrowings.

Income tax expense

Our income tax expense was RMB27.6 million and RMB41.3 million for the years ended December 31, 2017 and 2018, respectively. The RMB13.7 million increase in income tax expenses was mainly attributable to the RMB14.6 million increase in income tax expenses for the year under review.

Loss for the year

We recorded a net loss of approximately RMB23.4 million for the year under review, representing a decrease of approximately RMB32.6 million from net profit of approximately RMB9.2 million for the corresponding period. Loss for the year under review is mainly due to the following extraordinary factors: (a) amortization charges for management share-based awards in the amount of RMB24.3 million; (b) exchange losses and related losses on fair value change of RMB65.2 million due to the translation into Renminbi of the HKD-denominated convertible bonds issued by the Company and gains on fair value change and foreign exchange of RMB5.5 million relating to other items; (c) amortization of RMB20.2 million arising from acquisition of identified identifiable intangible assets; and (d) the expenses and accrued professional service fees of approximately RMB12.0 million resulting from the acquisition and potential acquisitions of hospitals and hospital management companies and issuance of convertible bonds. The Company considers that the above-mentioned extraordinary items are not indicative of the operational performance of the Company's businesses for the year under review. The Company also considers that expected changes in fair value of convertible bonds, amortization of identified identifiable intangible assets being acquired, changes in RMB exchange rates and expenses relating to the acquisition of target hospitals and hospital management companies may or will continue to have an impact on the Group's future financial results.

Discussion of certain items from the consolidated balance sheets

Cash and cash equivalents

We had cash and cash equivalents of RMB260.8 million and RMB195.5 million as of December 31, 2017 and 2018, respectively. The RMB65.3 million decrease in 2018 was primarily attributable to the (a) payment for the acquisition in 2018 of RMB314.4 million, (b) payment for the purchase of financial assets at fair value through profit or loss of RMB267.0 million, (c) repayment of bank loans of approximately RMB55.0 million; and (d) payment of interests, dividends and withholding tax of RMB43.8 million, offset by (i) proceeds of RMB378.7 million from issuance of convertible bonds, (ii) proceeds from borrowings of RMB70.0 million, (iii) recovery of deposit payment in respect of acquisition of subsidiaries of RMB80.0 million and (iv) proceeds from disposal of financial assets at fair value through profit or loss of RMB40.8 million.

Other receivables, deposits and prepayments

Our other receivables, deposits and prepayments decreased significantly by RMB557.6 million from RMB563.7 million as of December 31, 2017 to RMB6.1 million as of December 31, 2018, primarily due to a decrease of RMB483.0 million in prepayment for acquisition of Jiande Hexu as at the end of 2017 due to the completion of the acquisition in January 2018 and the recovery of deposit payments for acquisition of Jiande Hexu of RMB80.0 million in 2018.

Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss as of December 31, 2018 amounted to approximately RMB249.8 million, including monetary funds at floating rates of RMB248.6 million and the option to acquire the remaining equity of subsidiaries of RMB1.2 million. The following table sets out the changes in the monetary funds at floating rates for the year ended December 31, 2018.

	Year ended December 31, 2018
	RMB'000
Opening balance	17,396
Additions	267,041
Settlements	(41,415)
Fair value change resulting from change in monetary funds value	5,545
Closing balance	248,567

During the year under review, we bought monetary funds from several financial institutions, independent third parties. As all applicable percentage ratios in respect of our purchase of monetary funds are less than 5% under Rule 14.07 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("**Listing Rules**"), the purchase of monetary funds does not constitute a notifiable transaction under the Listing Rules.

Accruals and other payables

Our accruals and other payables were RMB117.0 million and RMB139.3 million as of December 31, 2017 and 2018, respectively. The accruals and other payables increased by RMB22.3 million, mainly due to (i) the increase in amounts due to third parties of approximately RMB59.2 million resulting from the acquisition of Guangsha Medical, (ii) the RMB20.1 million increase in remuneration payable to employees, taxes and fees payable and withholding tax payable and (iii) the RMB7.0 million in amounts payable in respect of purchase of equipment, offset by the RMB60.9 million decrease in payables relating to the share-based payments in connection with the grant of share-based awards by our management.

LIQUIDITY AND CAPITAL RESOURCES

Our total equity as of December 31, 2018 was RMB1,668.0 million (2017: RMB1,562.1 million). As of December 31, 2018, we had current assets of RMB681.7 million (2017: RMB404.2 million) and current liabilities of RMB538.1 million (2017: RMB149.8 million). The current ratio was 1.27 as of December 31, 2018 as compared to 2.70 as of December 31, 2017.

Our current assets increased by RMB277.5 million from RMB404.2 million as of December 31, 2017 to RMB681.7 million as of December 31, 2018, mainly due to the improvement in our operating results. Moreover, we bought more financial assets which were monetary funds at floating rates in order to improve the efficiency of fund usage. Our current liabilities increased by RMB388.3 million from RMB149.8 million as of December 31, 2017 to RMB538.1 million as of December 31, 2018, mainly due to the increase in short-term borrowings and financial liability measured at amortized costs.

Our primary uses of cash in 2018 were for working capital, payment in respect of the acquisition of subsidiary and payment for financial assets at fair value through profit or loss. We financed our liquidity requirements mainly with cash flows generated from our financing activities and operating activities. In the year under review, we had net cash generated from operating activities of RMB122.4 million, consisting of RMB141.6 million in net cash inflows generated from our operations before changes in working capital, net cash inflows of RMB11.0 million relating to changes in working capital, cash outflow on income tax paid of RMB30.7 million and interests received of RMB0.5 million. Our net cash inflows generated from operating activities before changes in working capital were primarily attributable to our profit before income tax of RMB17.9 million, adjusted for non-cash and non-operating items, including primarily to add-back of share-based compensation expenses of RMB16.0 million, depreciation of property, plant and equipment and amortization of intangible assets of RMB30.3 million and loss on fair value change arising from the change in value of convertible bonds of RMB65.2 million. Our net cash inflows relating to changes in working capital were primarily attributable to the increase in accruals and other payables of RMB28.3 million and the increase in receivables from related parties of RMB16.9 million.

In the year under review, we had net cash outflow from investing activities of RMB509.2 million, primarily comprised of payment for acquisition of subsidiary of RMB314.4 million, payments for financial assets at fair value through profit or loss of RMB267.0 million, payment for property, plant and equipment of RMB30.1 million, payment of professional service fees for acquisitions of RMB14.3 million and amounts due from related parties of RMB7.1 million, offset by proceeds from disposal of financial assets at fair value through profit or loss of RMB40.8 million and recovery of deposits on acquisition of subsidiary of RMB80.0 million.

Cash and Borrowings

We had cash and cash equivalents of RMB260.8 million and RMB195.5 million as of December 31, 2017 and 2018, respectively. Our borrowing was RMB263.6 million as of December 31, 2018 (as of December 31, 2017: RMB238.5 million), which is secured. The table below sets forth the maturity profile of our borrowings in the years indicated:

	Bank borrowings	
	2018	**2017**
	RMB'000	*RMB'000*
Within 1 year	89,692	23,846
Between 1 and 2 years	74,538	47,693
Between 2 and 5 years	99,385	166,925
	263,615	238,464

As of December 31, 2018, the net gearing ratio of the Company was 6.9%. Our Directors believe that, after taking into account the financial resources available to us, including internally generated funds and the net proceeds of the Listing, we have sufficient working capital for our requirements. As at December 31, 2018, the Group did not have any material contingent liabilities or guarantees.

FUTURE PROSPECT

Although the Group currently faces a series of problems in its operation management and control, including systematic construction to be further strengthened, management and control ability of the hospitals' management teams to be further improved, resources sharing among hospitals within the system to be further strengthened, etc., the Group will continue to implement multi-dimensional development strategy and establish regional healthcare service centers; consolidate medical resources to build a healthcare services network with domestic high-quality medical professional resources as the core and high-quality foreign medical professional resources from Europe and the United States of America as the auxiliary; and enhance intra-group synergy to optimize the allocation of resources, by strengthening constant construction of the Group's headquarters, systematic promotion of the Group's specialized management segments, construction of hospital management team, hospital's systematic improvement and enhancement, hospital's operational efficiency conversion and profitability, development of investment and acquisition project sources, mix of branding and marketing to strengthen the construction of the Group's operation management and control system as well as management output. In particular, the Board will actively seek opportunities to further penetrate the existing geographic markets by engaging in strategic acquisition of Class II or Class III hospitals or hospitals with Class II or Class III hospital-equivalent scale that possess competitive advantages and are located within regions in China with a sizeable population and well-developed economic activities.

The Group is committed to building a first class and value-creating medical group in the PRC that conforms to the "Three Conforming (三符合)" conditions including the development patterns of the medical industry, the modern corporate management and control model 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 enhance 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, the Company expanded its medical network and enhanced diversity in its medical services continuously. The medical quality and management operating capabilities of the Company were improved. As at December 31, 2018, the Group managed and/or owned six hospitals in total. The Group recorded out-patient visits of approximately 2,246,753 persons, representing an increase of 8% as compared to the corresponding period. The number of in-patient visits was approximately 87,334 persons for the year under review, representing an increase of 22% as compared to the corresponding period. The number of surgeries was approximately 15,123 for the year under review, representing an increase of 34% as compared to the corresponding period.

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

- continuous development of advanced and specialized services, talents training and equipment upgrading to improve the hospitals' business profit and generate new profit growth point;
- reinforcing supervision and inspection of hospitals by the academic committee of the hospitals, strengthening the management of hospital services and quality of medical services;
- implementing practices at multiple sites by high-quality professional and technical experts among hospitals within the system in accordance with national policies to achieve the sharing of core technology resources and enhance the full use of the most valuable high-end human resources;
- promoting the close integration of internet technology and medical diagnosis and treatment technology to achieve remote image diagnosis and pathological diagnosis resource sharing among hospitals within the system, improve the efficiency of high-quality expert resources, and effectively reduce operating costs;
- exploring diversified marketing strategies to enhance the influence and brand value of the hospitals;
- enhancing operating capabilities of the management team through provision of management and training;
- effectively reducing operating costs through improving the supply chain management capabilities across hospitals within the system; and
- invigorating the development of hospitals through optimized performance evaluations and reformed incentive measures.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended December 31, 2018.

HUMAN RESOURCES

As of December 31, 2018, we had a total of 473 employees (December 31, 2017: 32). The increase was due to acquisition of Jiande Hexu and its subsidiaries, Cixi Hongai and its subsidiaries, and Oriental Ally and its subsidiaries. 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, 2018, the total employee benefits expenses (including Directors' remuneration) were RMB131.4 million (2017: RMB61.0 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. Our employee-related insurance consists of employee pension insurance, maternity insurance, unemployment insurance, work-related injury insurance, medical insurance and housing accumulation funds as required by Chinese laws and regulations.

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.

USE OF NET PROCEEDS FROM LISTING

The Shares of the Company were listed on the Main Board of the Stock Exchange on March 16, 2017 (the "**Listing Date**"). The net proceeds received by the Company from the global offering and the exercise of the over-allotment option after deducting underwriting commissions and all related expenses was HK$465.6 million. The net proceeds received from the global offering has been and will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the prospectus dated February 28, 2017 (the "**Prospectus**"). All the unutilized amount has been placed with licensed banks in Hong Kong, and will be utilized in the manner as described in the Prospectus and in accordance with the Company's needs from time to time. An analysis of the utilization of the net proceeds from the Listing Date up to December 31, 2018 is set out below:

	Percentage to the total amount	**Net Proceeds** *HK$ million*	**Utilized Amount** *HK$ million*	**Unutilized Amount** *HK$ million*
Strategic acquisition of hospitals in China	50%	232.80	232.80	—
Further investment in the hospitals we own or manage from time to time (except for not-for-profit hospitals)				
– Purchase of medical and other equipment	11%	51.22	8.13	43.09
– Upgrading and improvement of medical facilities	7%	32.59	20.62	11.97
Employee training programs at the hospitals we own or manage from time to time, efforts to recruit talents and academic research activities				
– Human resources expenses	6%	27.94	27.94	—
– Employing medical professionals and experts in business management	5%	23.28	8.90	14.38
– Conducting academic research activities and developing employee training programs with a focus on management training and professional training	4%	18.62	—	18.62
Upgrading and improving our information technology system	7%	32.59	3.35	29.24
Provide funding for our working capital, rental and property related expenses and other general corporate purposes	10%	46.56	46.56	—
	100%	465.60	348.30	117.30

CONVERTIBLE BONDS

In view of the Group's substantial need to fund our future acquisitions, the Company and Vanguard Glory a shareholder holding 70.19% of the Company's issued share capital, entered into a subscription agreement on January 25, 2018, pursuant to which the Company will issue and Vanguard Glory will subscribe for the convertible bonds in the principle amount of HK$468 million ("**Vanguard Convertible Bonds**") with an initial conversion price of HK$18.00 and convertible into 26,000,000 ordinary shares of the Company.

The net proceeds from the Vanguard Convertible Bonds, after deducting all the related costs and expenses, is approximately HK$467 million. As of December 31, 2018, the proceeds was used to acquire Cixi Hongai of approximately HK$405 million in March 2018. As at December 31, 2018, approximately HK$62 million was placed in the bank account of the Group opened with licensed banks in Hong Kong, and was expected to be utilized in accordance with the use of proceeds as referred to in the circular dated February 12, 2018. The unutilized amount of the net proceeds will be used for acquisitions of other hospital or hospital management businesses by the Group. The directors believe that it is fair and reasonable, and in the interests of the Company and its shareholders as a whole. As December 31, 2018, the analysis of use of the net proceeds is as follows:

	Percentage to the total amount	**Net Proceeds**	**Utilized Amount**	**Unutilized Amount**
	HK$ million	*HK$ million*	*HK$ million*	
Acquisition of Cixi Hongai	45%	211	405	—
Acquisitions of other hospital or hospital management businesses	55%	256	—	62
Total	100%	467	405	62

As of December 31, 2018, none of the Vanguard Convertible Bonds were converted into shares. Details of Vanguard Convertible Bonds were disclosed in the announcement and circular of the Company dated January 25, 2018 and February 12, 2018, respectively.

On May 29, 2018, the Company and Hony Capital Fund VIII (Cayman), L.P. (the "**Vendor**") entered into a share purchase agreement (the "**Share Purchase Agreement**") in relation to the sale and purchase of the entire equity interest in Oriental Ally, a company incorporated in the British Virgin Islands with limited liability and is owned by the Vendor, with a consideration of RMB630,000,000 (equivalent to approximately HKD773,879,717).

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

On August 6, 2018, the acquisition was completed and the Company directly hold 100% of equity interest in Oriental Ally and Oriental Ally will become a subsidiary of the Company. Through Oriental Ally, the Company will indirectly hold 75% equity interest in Guangsha Medical and the remaining 25% equity interest held by Hony Kangshou Management Consulting (Shanghai) Co., Ltd. shall be recognized as non-controlling interests.

The consideration was satisfied by the issuance of the convertible bonds in the aggregate principal amount of HKD773,879,717 by the Company to the Vendor on the completion date of the acquisition pursuant to the Share Purchase Agreement. On August 7, 2018, the convertible bonds were issued in registered form in the denomination of HKD1.00 each provided that in no event shall any bonds be transferred, exchanged, converted or purchased in an aggregate principal amount that is less than HKD1.00. The convertible bonds will mature five years from the issue at its principle amount or can be converted into ordinary shares of the Company at the holder's option upon conversion at the conversion price of HKD20.00 per conversion share (subject to adjustments to the conversion price).

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

During the year ended December 31, 2018, 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. Except for the disclosed below, the Board considered that, during the year under review, the Company has complied with the applicable code provisions set out in the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct regarding the transactions of securities of the Company by the Directors and the relevant employees (who likely possess inside information of the Company) 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 enquiry to all Directors, the Company confirms that all Directors have complied with the Model Code throughout the year ended December 31, 2018.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference. The Audit Committee consists of two independent non-executive directors, namely Mr. Zhou Xiangliang (Chairman) and Mr. Shi Luwen, and a non-executive director, Mr. Lin Sheng. The final results of the Group for the year ended December 31, 2018, 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 opinion that such financial statements comply with applicable accounting standards, the Listing Rules and all other applicable legal requirements.

EVENTS AFTER THE YEAR UNDER REVIEW

The Company entered into a subscription agreement (as amended by an amendment agreement), pursuant to which, Leap Wave Limited as the Subscriber agreed to subscribe for the convertible bonds in an aggregate principle amount of HKD800,000,000 at a total consideration equal to the aggregate principle amount of the convertible bonds. The transaction has been approved at the Company's extraordinary general meeting held on February 1, 2019. The Company issued to the Subscriber on February 27, 2019 and the Subscriber subscribed for the convertible bonds in an aggregate principle amount of HKD800,000,000 with an initial conversion price of HKD20.00 per conversion share.

Mr Lin Sheng has resigned as a non-executive director of the Company, a member of the Audit Committee and a member of the Remuneration Committee of the Company due to his other work commitment with effect from March 12, 2019. Mr Shan Guoxin ("**Mr Shan**") has been appointed as an executive director of the Company, and Mr Wei Kai ("**Mr Wei**") has been appointed as a non-executive director of the Company, both with effect from March 12, 2019. The Board of Directors has appointed Mr Shan as a member of the Remuneration Committee and Mr Wei as a member of the Audit Committee, both with effect from March 12, 2019.

Save as disclosed, there is no material subsequent event undertaken by the Company or by the Group after December 31, 2018 and up to the date of this announcement.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income, and the related notes thereto for the year ended December 31, 2018 as set out in this preliminary announcement have been agreed by the Company's auditor, PricewaterhouseCoopers (the "**Auditor**"), to the amounts set out in the Group's audited draft consolidated financial statements for the year ended December 31, 2018. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by the Auditor on the preliminary announcement.

By Order of the Board
Hospital Corporation of China Limited
Shan Guoxin
Executive Director and Chief Executive Officer

Beijing, China, March 29, 2019

As at the date of this announcement, the directors of the Company are Mr. SHAN Guoxin and Mr. LU Wenzuo being the executive Directors; Mr. ZHAO John Huan, Mr. WEI Kai, 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.