弘和仁愛
HOSPITAL CORPORATION

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, 2019

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, 2019 (the "**year under review**"), together with the comparative figures in 2018.

FINANCIAL HIGHLIGHTS

	As at December 31, 2019	2018
	RMB'000	*RMB'000*
Revenue	410,883	383,610
Gross profit margin	42.3%	39.7%
Adjusted gross profit margin(1)	50.5%	51.3%
Profit/(loss) for the year	169,446	(23,421)
Adjusted profit for the year(2)	121,680	92,688
Basic earnings/(losses) per share (in RMB)	1.092	(0.368)
Adjusted items		
Expenses of share-based awards and other one-off employee benefit expenses(2)(i)	3,264	24,265
Amortization of identifiable intangible assets identified in acquisitions(2)(iii)	30,500	20,213
Gains/(losses) on fair value change resulting from value change of convertible bonds and foreign exchange gains/(losses)(2)(ii)	94,096	(60,958)
Investing and financing related expenses(2)(iv) & (v)	12,566	10,673

Notes:

(1) Adjusted gross profit margin is calculated as the gross profit margin for the year, excluding the impact from the expenses of share-based awards and other one-off employee benefit expenses and amortization of identifiable intangible assets identified in acquisitions.

(2) The Group recorded a net profit of RMB169.4 million during the year ended December 31, 2019. The adjusted profit for the year (the "**Adjusted Profit for the Year**") is calculated as the profit for the year excluding the impact from certain items which are considered as non-operating by the management, including (i) the relevant expenses of share-based awards and other one-off employee benefit expenses of RMB3.3 million; (ii) the gains on the foreign exchange and relevant fair value changes of RMB62.6 million arising from the conversion of Hong Kong dollar denominated convertible bonds issued by the Company into RMB, and foreign exchange gains of RMB31.5 million mainly arising from cash and cash equivalents; (iii) amortization of identifiable intangible assets identified in acquisitions of RMB30.5 million; (iv) finance expenses in relation to other financial liability at an amortized cost of RMB8.8 million; and (v) professional service fees of RMB3.8 million resulting from investing and financing activities. For the calculation of the Adjusted Profit for the Year, relevant tax impacts of the adjusted items were not considered.

CEO'S STATEMENT

Dear Shareholders,

In China, even though certain industries are no longer growing rapidly in recent years, the demand for healthcare remains strong as it is related to the national economy and people's livelihood. The healthcare industry is one of the industries with the greatest growth potential at present and in the future, and with huge market segments. With a series of supporting policies continuously promulgated by the State and various regions in China (including the relaxation of access standards for socially-run medical care institutions, the acceleration of the reform of medical insurance payments, and the promotion of the integration of "Healthcare + Internet (醫療+互聯網)"), the medical services industry has developed rapidly. Looking forward, multiple favorable factors, including (i) the deepening of China's economic supply side reforms; (ii) the continuous promotion of medical reforms; (iii) the aging of residents; (iv) the increase in public consumption capacity and rising demand for healthcare; and (v) national medical insurance and commercial medical insurance covering a wider range of people etc., will promote the connotation and speed of development of the medical services industry. In addition, Chinese consumers' options for high-quality medical service institutions are no longer limited to traditional public hospitals. Private hospitals, specialty hospitals and Sino-foreign joint venture hospitals, which have distinctive characteristics, excellent quality and strong brand influence, are increasingly able to meet consumers' diverse medical needs. Moreover, the continuous introduction of various national policies and regulations to promote the development of private hospitals has provided unprecedented development opportunities and room for social capital investment in the medical services industry.

The Group was incubated and established with the assistance of "Hony Capital" in the context of the above-mentioned development of the healthcare industry. After listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on March 16, 2017, the Group received investment from Legend Holdings Corporation ("**Legend Holdings**") (as a long-term strategic investor of the Group) in 2018, and assumed the mission of assisting "Hony Capital" and Legend Holdings in establishing a first-class medical group. In 2019, the Group began to achieve stable development. The Group has been focusing on meeting the growing high-quality healthcare needs of the public, promoting the integration of medical resources among regions within the Group's system, and seeking high-quality investment and merger and acquisition ("**M&A**") targets with its focus on regions with a higher level of economic development and population density, in an effort to build a first-class value-creating medical group in China meeting the "Three Conforming (三符合)" conditions of conforming to the development patterns of the medical industry, the principles of modern corporate governance and the construction standards of affiliated hospitals in universities.

Since 2018, the Group has fully integrated existing medical resources, set up management teams and core business teams, and 2019 was the year of implementing and developing a "Three Conforming (三符合)" value-creating medical group. The Group proactively responded to the impact of "healthcare associations (regional healthcare associations) (醫聯體(區域醫療聯合體))" and "healthcare alliances (healthcare service alliances) (醫共體(醫療服務共同體))" of domestic public hospitals on the competitive landscape of the medical market. By adjusting its business structure and innovating medical services, the Group has reduced the impact of matters such as the "zero mark-ups on drugs (藥品零加成)" and "zero mark-ups on consumables (耗材零加成)" policies and the "4+7 drug (藥品4+7)" bulk procurement scheme on its business. Meanwhile, with its reliance on the strong endorsements from and the accumulated excellent investment, operational and control capabilities in the medical field of Legend Holdings and "Hony Capital", the Group has firmly adhered to the vision of building a first-class medical group with long-term and sustainable development by following the development strategy of corporate value creation, and actively studying and responding to various policies and environmental changes. While facing challenges, the Group has kept up with the market trend of the promotion of healthcare development with social capital in China by pushing forward various tasks in an orderly manner, hence, gratifying results were achieved. During the year under review, the Group focused on the following tasks:

1. Based on the general principle of "leadership formation, strategy setting and team building (建班子、定戰略、帶隊伍)", we have set up two teams within the Group and the hospitals owned, managed and founded by the Group (the "**Group Hospital(s)**"), and established an efficient organization, culture and team building system across the Group's headquarters and the Group Hospitals with collectivized hospital operation and management and medical technology expertise. Hence, a two-level management team within the Group and the Group Hospitals with corporate culture as the core competency has been built and formed;

2. Based on the general principle of "successful acquisition, well management, scale expansion (收到、管好、上量)", our strategic development goal is to build 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 principles of modern corporate governance and the construction standards of affiliated hospitals in universities, and we have thoroughly implemented our requirements in the investment, operation and management of the Group. With the value-creating investment and M&A judgment standards of "three internal focuses, three external focuses and one core (內三看、外三看、一核心)", we actively promoted the investment in and M&A of medical projects, strategic cooperation or various other expansion models, and accumulated rich industry resources, project investment judgment and decision-making experience. "Three internal focuses" means to focus on factors such as 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. During the year under review, the Group carried out due diligence for projects involving hospitals to be transferred by three large medical groups in China, and completed site inspections, initial screening and project verification on 38 target hospitals located in Beijing, Shanghai, Zhejiang, Jiangsu, Guangdong, Fujian, Hunan, Hubei, Henan, Hebei and Shandong, etc., thereby establishing a reserve for investment and M&A projects. The Group has not actually implemented project investment due to systematic considerations of investment strategy and work strategy;

3. We have continued to promote the construction of the collectivized operation and management system. By comprehensively promoting the implementation of "ten management tools (十大管理工具)", including "Discipline Assessment (《學科評估》)", preparing the "Annual Business Plan (《年度商業計劃書》)", and completing the implementation of "Monthly (Quarterly, Semi-annual, Annual) Operation Analysis (《月(季、半年、年)度運營分析》)" etc. in the Group Hospitals, the operation and management capacity of the Group Hospitals has been comprehensively improved. The "five key indicators (五項關鍵指標)" of each of the Group Hospitals, which focused on improving surgery volume, were effectively improved. During the year under review, the Group Hospitals recorded out-patient visits of approximately 2.68 million persons in total, in-patient visits of approximately 93,000 persons in total and more than 17,000 surgeries, with an increase of more than 10% as compared to the previous year, including an increase of 18% in the total number of surgeries. Meanwhile, a resource-sharing network of Group Hospitals centered on the regional medical center has been formed. For example, by relying on the management linkage and technology radiation of Zhejiang Jinhua Guangfu Oncological Hospital (浙江金華廣福腫瘤醫院) ("**Jinhua Hospital**"), a Class III medical institution, on Class II hospitals within the system, such as Yongkang Hospital (永康醫院) ("**Yongkang Hospital**") and Jiande Hospital of Traditional Chinese Medicine Co., Ltd. (建德中醫院有限公司) ("**Jiande Hospital**") etc., the technical, social and economic benefits under collectivized operation and management have been multiplied and value has been created;

4. In connection with the construction of the Group Hospitals, we have fully utilized the advantages of the Group's brand disciplines and continued to deploy medical derivative businesses such as "internet hospitals (互聯網醫院)", centralized procurement centers and "medical groups (醫生集團)". These businesses not only allow economies of scale to be easily achieved, but are also conducive to the continuous expansion of reach of services of the Group and the Group Hospitals, and extension of business model. This will further increase the profitability of the Group, and will assist with laying out the healthcare industrial system of the Group;

5. We continued to strengthen the Group's talent system in relation to investment, operation and management, and continued to cultivate the medical technology and operations management skills of the key staff of the Group Hospitals. The Group and the Group Hospitals have accomplished much practical and effective work on every hospital in respect of featured and advantageous disciplines, core technology projects, key demonstration bases, and exchanges between academic (technical) and information industries. Meanwhile, by making full use of the Group's various high-quality resources, integrating the resources of Legend Holdings, "Hony Capital", shareholder institutions and other industries, and introducing a series of management and diagnosis and treatment technologies to the development of the Group and the Group Hospitals, the Group achieved a high degree of synergy through practice and accomplished the sharing of technology, management and results;

6. We continued to carry out the construction of the hospital-based information system of the Group Hospitals under the Group's leadership, actively promote cross-border cooperation and in-depth integration between healthcare and big data, artificial intelligence ("**AI**"), finance and insurance institutions, and put forward the three-step strategic development plan of the "healthcare big data production, learning and research platform (大健康數據產學研平台)" to seize new development opportunities; and

7. We continued to strengthen our standardized management and operation as a listed company. We have promoted standardized corporate governance, strengthened risk management, consolidated and enhanced communication and cooperation with lawyers, auditors and other professional institutions, thereby establishing a comprehensive supervision system that combines internal and external supervision. Meanwhile, we continued to improve the hospital management system and established a sound hospital governance system, in an effort to maximize the vitality of the Group Hospitals and improve the operational efficiency of the Group Hospitals. Our standardized management not only fully mobilized the initiative of the medical staff, but also allowed us to continually gain the trust of the Group Hospitals' founding shareholders. As a result, resources from all parties have collectively promoted our overall business development.

2019 was a year of stable development for the Group. With vigorous support from various shareholders, the proper leadership of the Board of Directors and the joint efforts of all the staff of the Group and the Group Hospitals, the Group systematically promoted the development of various businesses. When consolidating the business foundation and management foundation, the main business and revenue indicators increased considerably, and development was more benign and sustainable. After investigating a large number of potential M&A projects, investment processes such as preliminary screening, preliminary investigations, due diligence, decision-making and completion of projects have become more standardized, which has laid a solid foundation for the Group to keep abreast of the industry's M&A trends and expand its scale in various forms.

In the next few years, the Group will continue to implement the principle of "successful acquisition, well management, scale expansion (收到、管好、上量)" proposed by the Board of Directors with high standards, continue to strengthen the cultural development of the Group, and comprehensively accelerate investment in and M&A of medical institutions with a view to effectively expanding the quantity of high-quality hospital resources. We will continue to improve the comprehensive operation and management level of the Group Hospitals by strengthening the Group's comprehensive management capability, and promoting systematic construction and information construction. With further consolidation and expansion of the brand and discipline advantages of the Group Hospitals, we will continue to enhance the construction of the regional medical center. Meanwhile, through building a comprehensive and efficient healthcare industry ecosystem, we will strive to build a first-class value-creating medical group in China under the "Three Conforming (三符合)" conditions that is respected by patients and the industry, so as to provide the public with "safe, convenient and dignified (安全、便捷、有尊嚴)" high-quality medical and healthcare services, and create value 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
Executive Director and Chief Executive Officer

Beijing, China
March 23, 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended December 31, 2019 *RMB'000*	2018 *RMB'000*
Revenue	3	410,883	383,610
Cost of revenue		(237,017)	(231,478)
Gross profit		173,866	152,132
Selling expenses		(9)	(204)
Administrative expenses		(64,535)	(63,322)
Net impairment losses on financial assets		(1,581)	–
Other income		3,453	2,874
Other gains/(losses) – net	4	65,838	(57,635)
Operating profit		177,032	33,845
Finance income		42,102	2,618
Finance costs		(23,568)	(18,580)
Profit before income tax		195,566	17,883
Income tax expense	5	(26,120)	(41,304)
Profit/(loss) for the year		169,446	(23,421)
Other comprehensive income		–	–
Total comprehensive income/(loss) for the year		169,446	(23,421)
Attributable to:			
Owners of the Company		150,900	(50,490)
Non-controlling interests		18,546	27,069
Total comprehensive income/(loss) for the year		169,446	(23,421)
Earnings/(losses) per share for profit/(loss) attributable to owners of the Company:			
– Basic earnings/(losses) per share (in RMB)	6	1.092	(0.368)
– Diluted earnings/(losses) per share (in RMB)	6	0.228	(0.368)

CONSOLIDATED BALANCE SHEET

	Notes	As at December 31, 2019 *RMB'000*	2018 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		146,176	143,940
Right-of-use assets		42,011	–
Intangible assets		2,905,829	2,936,539
Land use right		–	39,487
Deferred income tax assets		1,413	933
Other receivables, deposits and prepayments		2,012	3,243
Amount due from a related party		80,000	–
Total non-current assets		3,177,441	3,124,142
Current assets			
Inventories		5,021	8,664
Trade receivables	7	30,332	33,822
Other receivables, deposits and prepayments		16,405	2,895
Amounts due from related parties		217,947	191,040
Financial assets at fair value through profit or loss		36,829	249,767
Term deposits		134,370	–
Cash and cash equivalents		836,624	195,521
Total current assets		1,277,528	681,709
Total assets		4,454,969	3,805,851
EQUITY			
Equity attributable to owners of the Company			
Share capital		123	123
Share premium		435,304	432,993
Treasury shares		–	–*
Reserves		924,231	910,458
Retained earnings/(accumulated losses)		123,448	(19,172)
		1,483,106	1,324,402
Non-controlling interests		334,734	343,582
Total equity		1,817,840	1,667,984

* The balance stated above was less than RMB500.

CONSOLIDATED BALANCE SHEET (Continued)

	Notes	As at December 31, 2019 *RMB'000*	2018 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings		99,658	173,923
Convertible bonds	9	1,693,430	1,073,856
Lease liabilities		650	–
Deferred income tax liabilities		350,087	350,512
Accruals, other payables and provisions		362	1,466
Total non-current liabilities		2,144,187	1,599,757
Current liabilities			
Trade payables	8	13,325	16,885
Accruals, other payables and provisions		78,860	137,836
Amounts due to related parties		23,749	40,136
Contract liabilities		539	549
Current income tax liabilities		28,713	31,212
Borrowings		114,744	89,692
Lease liabilities		2,412	–
Other financial liability at amortised cost		230,600	221,800
Total current liabilities		492,942	538,110
Total liabilities		2,637,129	2,137,867
Total equity and liabilities		4,454,969	3,805,851

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

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

The consolidated financial statements is presented in Renminbi ("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 disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

(ii) Historical cost convention

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

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

(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, 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation - Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 - 2017 Cycle
- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

The Group had to change its accounting policies as a result of adopting IFRS 16 Leases. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on January 1, 2019. This is disclosed in Note 2.2. The other amendments or new standards did not have any material impact on the Group's accounting policies and did not require retrospective adjustments.

2.2 *Changes in accounting policies*

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and the new accounting policies that have been applied from January 1, 2019.

As indicated in Note 2.1(iii), the Group has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on January 1, 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.90%.

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at January 1, 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(ii) Measurement of lease liabilities

	2019 *RMB'000*
Operating lease commitments disclosed as at December 31, 2018	1,612
Discounted using the lessee's incremental borrowing rate of at the date of initial application	1,485
(Less): short-term leases recognised on a straight-line basis as expense	(602)
(Less): low-value leases recognised on a straight-line basis as expense	(8)
Lease liabilities recognised as at January 1, 2019	875
Of which are:	
Current lease liabilities	277
Non-current lease liabilities	598
	875

(iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at December 31, 2018.

(iv) Adjustments recognised in the balance sheet on January 1, 2019

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

- right-of-use assets (properties) - increased by RMB 1,109,000
- right-of-use assets (land use right) - increased by RMB 39,487,000
- prepayments - decreased by RMB 234,000
- land use right - decreased by RMB 39,487,000
- lease liabilities - increased by RMB 875,000.

There is no impact on retained earnings on January 1, 2019.

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

3 Segment information

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

The CODM considers the business from both the service and product perspective. When the Group companies have similar economic characteristics, and the segments are similar in each of the following 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 Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. and Jiande Xinlin Pharmacy Co., Ltd.

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, 2019 and 2018, 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. ("Weikang Investment"), Tibet Dazi Honghe Ruixin Business Management Co., Ltd. ("Honghe Ruixin"), Cixi Honghe Medical Management Co., Ltd.("Cixi Honghe"), and Zhejiang Guangsha Medical Technology Co., Ltd, with its registered name changed to Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd. ("Zhejiang Honghe Zhiyuan") on April 28, 2019.

Pursuant to the hospital management framework agreement and the letter of intent signed by Weikang Investment and Shanghai Yangsi Hospital ("Yangsi Hospital"), on January 1, 2013 and October 8, 2014, respectively, the long-term hospital management agreements signed by Honghe Ruixin and Yangsi Hospital on January 1, 2016 and the annual hospital management agreements signed by Weikang Investment and Honghe Ruixin with Yangsi Hospital on January 1, 2019 and 2018, 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 has been calculated based on the pre-set formulas set out in the annual hospital management agreement accordingly.

Cixi Honghe had entered into a letter of intent with Cixi Union Hospital ("**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 has provided 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 derives management fee based on the pre-set formulas set out in the 5-year hospital management agreement.

Zhejiang Honghe Zhiyuan had entered into a 50-year hospital management letter of intent with Zhejiang Jinhua Guangfu Oncological Hospital ("**Jinhua Hospital**"), covering the period from January 1, 2017 to December 31, 2066. Pursuant to the Jinhua Hospital letter of intent, Zhejiang Honghe Zhiyuan has agreed to provide consultancy and management services to Jinhua Hospital, and Jinhua Hospital has agreed to pay Zhejiang Honghe Zhiyuan 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 Zhejiang Honghe Zhiyuan 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 has been calculated based on the 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..

(iv) Unallocated

The "Unallocated" category mainly represents the headquarter income and expenses.

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

	General hospital services *RMB'000*	**Hospital management services** *RMB'000*	**Wholesale of pharmaceutical products** *RMB'000*	**Elimination** *RMB'000*	**Unallocated** *RMB'000*	**Total** *RMB'000*
Year ended December 31, 2019						
Segment revenue	196,472	212,205	3,105	(899)	–	410,883
Inter-segment revenue	–	–	(899)	899	–	–
Revenue from external customers	196,472	212,205	2,206	–	–	410,883
Timing of revenue recognition						
– At a point in time	98,826	–	2,206	–	–	101,032
– Over time	97,646	212,205	–	–	–	309,851
	196,472	212,205	2,206	–	–	410,883
EBITDA	9,950	180,688	(199)	479	–	190,918
Depreciation	(7,926)	(1,925)	(258)	–	(103)	(10,212)
Amortization	(7,702)	(23,694)	(697)	–	(1,521)	(33,614)
Finance (costs)/income	(1,804)	205	5	–	20,128	18,534
Unallocated income-net					29,940	29,940
(Loss)/profit before tax	(7,482)	155,274	(1,149)	479	48,444	195,566
As at December 31, 2019						
Segment assets	404,802	1,464,058	3,167	–	965,175	2,837,202
Goodwill	301,995	1,306,506	9,266	–	–	1,617,767
Total assets	706,797	2,770,564	12,433	–	965,175	4,454,969
Total liabilities	137,064	342,565	1,788	–	2,155,712	2,637,129

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

	General hospital services *RMB'000*	Hospital management services *RMB'000*	Wholesale of pharmaceutical products *RMB'000*	Elimination *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
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 (costs)/income	(1,653)	421	20	–	(14,750)	(15,962)
Unallocated cost-net					(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

4 Other gains/(losses) – net

	Year ended December 31, 2019 *RMB'000*	2018 *RMB'000*
Net fair value gains/(losses) on convertible bonds	62,586	(65,150)
Net fair value gains on financial assets at FVPL	5,026	5,045
Others	(1,774)	2,470
	65,838	(57,635)

5 Income tax expense

Subsidiaries established and operating in Mainland China are subject to the PRC corporate income tax at the rates of 25% or 15% for the years ended December 31, 2019 (2018: 25% or 15%).

	Year ended December 31, 2019 *RMB'000*	2018 *RMB'000*
Current income tax:		
– PRC corporate income tax	27,025	40,155
Deferred income tax	(905)	1,149
	26,120	41,304

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, 2019 *RMB'000*	2018 *RMB'000*
Profit before income tax	195,566	17,883
Calculated at taxation rate of 25%	48,892	4,471
Effect of different tax rates available to different subsidiaries of the Group	(35,794)	(9,098)
Expenses not tax deductible	8,532	32,132
Tax effect of unrecognized tax losses	3,444	4,796
Utilization of tax losses in previous years	(3,193)	–
Withholding tax	4,239	9,003
Income tax expense	26,120	41,304

(i) Cayman Islands Income Tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(ii) Hong Kong Profits Tax

Hong Kong profits tax rate was 16.5% for the year ended December 31, 2019 (2018: 16.5%). No Hong Kong profit tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for the years ended December 31, 2019 and 2018.

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

The income tax rate of Tibet Honghe Zhiyuan Business Management Co., Ltd. and Honghe Ruixin was 15% for the year ended December 31, 2019 (2018: 15%) . The income tax rate of other subsidiaries was 25% for the year ended December 31, 2019 (2018: 25%).

(iv) Withholding Tax

The withholding tax rate of Bliss Success Holdings Limited and Impeccable Success Limited ("**Impeccable Success**") was 10% pursuant to the PRC Enterprise Income Tax based on the remittance of dividends from subsidiaries in the PRC in the foreseeable future.

New Pride Holdings Limited ("**New Pride**") has obtained the Certificate of Resident Status of Hong Kong Special Administrative Region and its subsidiary, Weikang Investment, completed the tax filing as the withholding agent of New Pride. After the tax filing, New Pride can get the tax treaty benefits with the preferential tax rate of 5% for the dividends declared by Weikang Investment instead of 10% when Weikang Investment settles the dividends in 2019. As at December 31, 2019, Weikang Investment has settled all declared dividends and withholding tax with the tax rate of 5%.

The withholding tax rate of the dividends from other New Pride's subsidiaries has been 10%.

6 Earnings/(losses) per share

(i) Basic earnings/(losses) per share

Basic earnings/(losses) per share is calculated by dividing:

- The earnings/(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 excluding shares held for employee share scheme.

	Year ended December 31,	
	2019	**2018**
Total profit/(loss) attributable to owners of the Company (RMB'000)	150,900	(50,490)
Weighted average number of ordinary shares in issue (in thousands)	138,158	137,242
Basic earnings/(losses) per share (in RMB)	1.092	(0.368)

(ii) Diluted earnings/(losses) per share

Diluted earnings/(losses) per share is calculated by adjusting the profit/(loss) attributable to owners of the Company to assume conversion of the convertible bonds issued at March 5, 2018 and August 7, 2018 which are dilutive and adjusting the weighted average number of ordinary shares in issue considering conversion of the convertible bonds during the year ended December 31, 2019.

Due to the Group's negative financial results during the year ended December 31, 2018, relative convertible bonds and shares held for share based payment scheme has anti-dilutive effect on the Group's losses per share. Thus, diluted losses per share is equivalent to the basic losses per share in 2018.

	Year ended December 31,	
	2019	**2018**
Total profit/(loss) attributable to owners of the Company (RMB'000)	150,900	(50,490)
Fair value change of the convertible bonds (RMB'000)	(104,643)	–
Total profit/(loss) used to determine diluted earnings/(losses) per share (RMB'000)	46,257	(50,490)
Weighted average number of ordinary shares in issue (in thousands)	138,158	137,242
Adjustment for calculation of diluted earnings per share：		
– Convertible bonds that are dilutive (in thousands)	64,694	–
Weighted average number of ordinary shares in issue and potential ordinary shares (in thousands)	202,852	137,242
Diluted earnings/(losses) per share (in RMB)	0.228	(0.368)

7 Trade receivables

	As at December 31,	
	2019	**2018**
	RMB'000	*RMB'000*
Trade receivables	31,332	34,822
Less: provision for impairment of trade receivables	(1,000)	(1,000)
Trade receivables – net	30,332	33,822

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

As at December 31, 2019 and 2018, the aging analysis based on invoice date of the trade receivables was as follows:

	As at December 31,	
	2019	**2018**
	RMB'000	*RMB'000*
1 – 90 days	25,428	28,843
91 – 180 days	1,658	2,150
181 days – 1 year	2,947	2,795
Over 1 year	1,299	1,034
	31,332	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, 2019	2018
	RMB'000	*RMB'000*
Within 90 days	11,458	10,474
91 to 180 days	971	4,807
181 days to 1 year	372	713
Over 1 year	524	891
	13,325	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	February 27, 2019	Total
	RMB'000	*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	50,893	14,251	–	65,144
Aggregate difference yet to be recognised in (losses)/gains at December 31, 2018	(1,676)	6,997	–	5,321
As at December 31, 2018	430,241	643,615	–	1,073,856
As at January 1, 2019	430,241	643,615	–	1,073,856
Issuance of convertible bonds during the period	–	–	682,160	682,160
Difference between fair value and principal amount at initial recognition	2,318	(7,633)	120	(5,195)
Fair value change	(38,840)	(65,049)	42,035	(61,854)
Aggregate difference recognised in (losses)/gains in the previous year	(642)	636	–	(6)
Aggregate difference yet to be recognised in (losses)/gains at December 31, 2019	(903)	5,470	(98)	4,469
As at December 31, 2019	392,174	577,039	724,217	1,693,430

(i) Convertible bonds issued on March 5, 2018

None of convertible bonds was converted into ordinary shares of the Company during the year ended December 31, 2019.

As at December 31, 2019, the fair value of the convertible bonds is approximately HKD438,808,000, equivalent to approximately RMB393,077,000 (2018: HKD492,942,000, RMB431,917,000), which is determined by an independent qualified valuer.

(ii) Convertible bonds issued on August 7, 2018

None of convertible bonds was converted into ordinary shares of the Company during the year ended December 31, 2019.

As at December 31, 2019, the fair value of the convertible bonds was approximately HKD638,069,000, equivalent to approximately RMB571,569,000 (2018: HKD726,568,000, RMB636,618,000), which is determined by an independent qualified valuer.

(iii) Convertible bonds issued on February 27, 2019

On February 27, 2019, the Company issued convertible bonds in an aggregate principal amount of HKD800,000,000 (equivalent to approximately RMB682,160,000) in registered form in the denomination of HKD1.00 each. The convertible bonds will mature in five years from their issuance or can be converted into ordinary shares of the Company at the holder's option at the conversion price of HKD20.00 per conversion share (subject to adjustments to the conversion price). Upon maturity, the Company shall redeem in whole the convertible bonds with the redemption amount calculated in accordance with the agreed formula.

The convertible bonds are designated as financial liabilities at fair value through profit or loss. The fair value of the convertible bonds on February 27, 2019 was HKD800,140,300, 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 charged 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 was converted into ordinary shares of the Company during the year ended December 31, 2019.

As at December 31, 2019, the fair value of the convertible bonds was approximately HKD808,585,000, equivalent to approximately RMB724,315,000, which is determined by an independent qualified valuer.

10 Dividends

Pursuant to a resolution of the board of directors' meeting of Weikang Investment on October 22, 2019, a dividend, including withholding tax, of RMB23,723,000 to its majority shareholders and RMB7,088,000 to its minority shareholders was declared. The dividend to its majority shareholders and minority shareholders had been settled before December 31, 2019.

Pursuant to a resolution of the shareholders' meeting of Honghe Ruixin on September 25, 2019, a dividend, including withholding tax, of RMB67,980,000 to its majority shareholders and RMB20,306,000 to its minority shareholders was declared. The dividend to its majority shareholders and minority shareholders had been settled before December 31, 2019.

BUSINESS OVERVIEW

Business positioning: The Group adheres to the general principle of "successful acquisition, well management, scale expansion (收到、管好、上量)" proposed by the Board of Directors, and the strategic objective 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 principles of modern corporate governance and the construction standards of affiliated hospitals in universities. We will achieve our strategic objectives by optimizing the following business development paths:

- actively seeking high-quality target hospitals, promoting medical institutions under "trusteeship (託管)", adhering to the development strategy of "investment and operation integration (投資運營一體化)", and improving the operation and management level of the Group Hospitals;
- on the basis of expanding and strengthening the main business of the Group Hospitals, we will focus on the two resource assurance services of the "centralized procurement center (集中採購中心)" and "medical group (醫生集團)" through specialized and differentiated development, and continue to explore and implement the two innovative businesses of "internet hospitals (互聯網醫院)" and the "healthcare big data production, learning and research platform (大健康數據產學研平台)" so as to accomplish the further integration and development of existing businesses and innovative businesses to achieve growth in terms of both industrial synergy and the benefits of spatial spillover; and
- cross-border cooperation, multi-party linkage and other methods to connect all parties in the healthcare industry ecosystem (such as big data, AI, finance and insurance), thereby developing a healthcare industry ecosystem with breadth, depth and strong synergies, and laying the foundation for realizing a first-class value-creating medical group in China.

As we prepare to enter a golden age of medical industry development, the Group will adhere to our initial vision for medical services, respect the rules of development of the healthcare industry, closely monitor and anticipate patients' needs, and follow the industrial development plan of "enhancing the main business, closed-loop interconnection, innovation collaboration, and building an ecosystem (做大主業、互聯閉環、創新協同、建立生態)". This will allow the Group to seize opportunities and constantly promote quality changes, efficiency changes and digital changes, thereby preparing us to 'ride the tide' of development.

Business layout:

(1) Through new construction or investment and M&A, the Group has a number of medical institutions of different classes in densely populated and economically developed regions in China, which form Class III hospitals with comprehensive strength as regional medical centers, and radiates and drives a number of Class II or Class I hospitals, and each regional medical network further forms a group hospital system;

(2) Leveraging on its advantages and capabilities in operation and management, the Group explores and attempts to provide professional management services to other medical institutions through "trusteeship (託管)", under which the Group has gradually formed a number of asset-light investment and management businesses with non-controlling investment;

(3) By providing management training and consultation services to the medical industry, the Group will increase resources for potential investment and M&A projects in a bid to expand its influence in the industry;

(4) Through the establishment of pharmaceutical distribution and medical device companies, the Group's "centralized procurement center (集中採購中心)" has been used to continuously improve procurement efficiency, reduce procurement costs, and realize intensive and large-scale advantages for the Group. By exploring the service model of "centralized procurement + hospital smart pharmacy (集中採購+醫院智慧藥房)", the Group is able to extend supply chain services, continuously optimize inventory and improve professional service capabilities;

(5) According to the historical evolution, specialty and talents in different disciplines of each Group Hospital (including investment holding hospitals or hospitals under "trusteeship (託管)", etc.), the Group identifies key and advantageous disciplines for construction and development, thereby establishing competitive differentiation of the Group Hospitals and regional hospital network system, and promoting resources sharing and industry synergies within the Group;

(6) Relying on the advantageous brand disciplines of each Group Hospital, the Group will build a "medical group (醫生集團)" and "internet hospital (互聯網醫院)", integrate the internal and external medical resources of the Group, establish a new online and offline integration model of inter-hospital collaboration, collaboration between doctors and doctor-patient communication, so as to continuously increase the service offering of the Group and the Group Hospitals, extend the reach of services of the Group and the Group Hospitals, and enrich the career development paths of staff; and

(7) The Group carried out an in-depth study of the increasingly abundant data on its healthcare services and operations to analyse clinical data, operational data and material data in order to identify and solve various problems in its hospital management and reduce hospital operating costs. We will continue to strengthen cross-border integration and in-depth cooperation with big data, AI, internet, finance, insurance and other institutions, and establish a "healthcare big data production, learning and research platform (大健康數據產學研平台)" to achieve deep integration of the digital economy and medical development so as to promote development and growth of our main business.

Main businesses: During the year under review, in accordance with the requirements of the Board of Directors and arrangements under the "Annual Business Plan (《年度商業計劃》)", the Group actively promoted activities such as investment, M&A, operation and management, expansion of new business models and governance as a listed company, and achieved excellent results. In particular, under the leadership of the Board of Directors, the Group's business teams and core teams were united with a proactive attitude and were in good condition. In addition, the concepts of "successful acquisition, well management, scale expansion (收到、管好、上量)" and "building a value-creating medical group under the "Three Conforming" conditions (打造"三符合"價值創造型醫療集團)" were widely understood and accepted by the Group and the Group Hospitals. The development direction, working ideas and strategies of the Group became clearer through abundant practice, re-examination and systematic organization. The Group's main leaders visited frontline hospitals to explore their development model and summarized their promotion experience, which is important in terms of providing demonstration and valuable guidance for future work. The Group's operation and management model was widely recognized by the Group Hospitals, and the "ten management tools (十大管理工具)" provided effective guidance for the practice of frontline management with evident results achieved. The operation of the Group Hospitals became more scientific and standardized, talents for various disciplines and technological construction were widely valued, and as a result, service quality significantly improved. The "Annual Business Plan (《年度商業計劃》)" played a leading role in providing guidance, and the key tasks and construction projects of all units were implemented. The implementation of the Group's resource sharing projects represented by the "Respiratory Medical Specialty (呼吸醫學專科)" jointly established by the regional medical center, Jinhua Hospital and Yongkang Hospital (with a technical team provided by the former to the latter), was strengthened. The Group started applied research of the disease diagnosis related group system ("**DRGs**") with internal and external professional expertise (including the participation of well-known domestic experts), and established a database for data on diseases, which includes medical service efficiency, medical service capabilities, medical quality and safety, and cost-effectiveness of disease components. "**DRGs**" is used as a tool for lean management for providing data support for improving medical quality, strengthening the construction of disciplines, optimizing the constitution of types of diseases and reasonable cost control. With clearer principles and strategic positioning regarding investment and M&A, the integration of resources for investment projects with the Group being the leading entity and supported by multiple other parties was effected, and our investment decision-making standards and collectivized management model were formed. During the year under review, much work was accomplished with regard to collectivized management as a listed company and management and operation of the Group Hospitals. As a result, various lines of work, including the collectivized management and operation of the Group Hospitals, became more standardized and effective.

INDUSTRY OVERVIEW

Development of the Chinese medical services industry will become more robust and diversified as the PRC population's demand for medical services increases, awareness of preventive healthcare improves, and imbalances in the supply and demand of medical resources brought on by the accelerated aging of the population deepen. Along with the continuous increase in investment in the medical industry by the PRC government and introduction of policies and regulations encouraging socially-run medical care institutions, the Chinese medical services industry will be more valued and gain more attention from society. Hospitals are at the core of the entire medical services industry. They possess characteristics such as being asset-heavy, having long cycles, high entry barriers, strong dependence on technical conditions (including experts and equipment), high standards of talent development within disciplines and consolidated operation control, and relatively high and stable returns. The medical services industry has become one of the fastest developing and closely watched industries in the world. Social capital invested medical institutions (private hospitals and their groups) have become the main providers of medical services among developed countries. According to statistics released by the National Health and Family Planning Commission of the PRC in November 2019, in recent years, private hospitals have experienced similar rapid development in the PRC and the total number of private hospitals constitutes a majority of the total number of hospitals in the PRC. Apart from being popular investment targets, private hospitals under collectivized management have become more influential to the industry and have evidently become more competitive. Recent changes and trends of the medical services industry are as follows:

- *Encouragement and support for socially-run medical care institutions.* The first basic law on the medical industry in the PRC promulgated in December 2019, namely "Promotion Law on Basic Medical and Healthcare" (《基本醫療衛生與健康促進法》), stipulates specific support for socially-run medical care institutions, granting socially-run medical care institutions similar rights enjoyed by public hospitals. Prior to the promulgation of the "Promotion Law on Basic Medical and Healthcare" (《基本醫療衛生與健康促進法》), the State also supported the subdivision of disciplines among socially-run medical care institutions (including ophthalmology, orthopedics, stomatology, gynecology, pediatrics, oncology, psychiatry and medical cosmetology, etc.), gradually cancelled staffing among public hospitals, lessened entry barriers for socially-run medical care institutions and enhanced supervision, and introduced a series of policies and regulations encouraging social capital invested or funded elderly healthcare institutions or rehabilitation institutions, thereby demonstrating the support of the State for socially-run medical care institutions.

- *Promotion of the integration of healthcare and the internet.* The State has introduced a series of active measures. For instance, various cities in China have been selected as pilot cities for "Internet + Nursing Services (互聯網+護理服務)", a "Healthcare + Internet (醫療健康+互聯網)" demonstration district has been set up in Ningxia, the "Trial Version on the Tiered Evaluation Standards for Hospital Smart Services" (《醫院智慧服務分級評估標準體系試行版》) has been launched, "Administrative Measures on Internet Hospitals" (《互聯網醫院管理辦法》) has been promulgated by various major cities in China, and qualified internet hospital service items are entitled to be included in medical insurance reimbursement.

- *Practical implementation of supply chain reform.* In terms of supply-side reform, the State requires further implementation of in-depth consistency evaluation of generic drugs and construction of an information tracking system to eliminate the unbalanced development of the pharmaceuticals market. Medical institutions that operate by "supporting medical industry by pharmaceutical business (以藥養醫)" are facing challenges due to the profit margins of Chinese medicines and consumables being continuously reduced given the cancellation of mark-ups on medicines and consumables, constant increases in the number of centralized procurement pilot cities (including centralized procurement of medicines expanded to the whole nation, as well as centralized procurement of consumables being expanded to eight major cities), and the price reduction of the medical insurance drug catalog.

- *Expanded coverage of "healthcare alliances and healthcare associations (醫共體和醫聯體)"* ("**Healthcare Alliances**"). The number of pilot cities in which Healthcare Alliances have been established have increased, and socially-run medical care institutions are now allowed to join Healthcare Alliances. Introductions of policies that allow hospitals within the Healthcare Alliances to receive staff career preparation and planning, and utilize and establish a "Hierarchical Diagnosis and Treatment System (分級診療)" or regional medical centers, result in a more connected network in substance, which in turn allow more medical resources being allocated within the Healthcare Alliances. Competition among hospitals that are not part of the Healthcare Alliances have increased significantly. A trend of "pursuing mutual development (抱團取暖)" has been formed among hospitals outside the Healthcare Alliances.

- *Mode of payment by DRGs been gradually introduced nationwide.* Core DRGs standards (DRGs 核心標準) have been introduced nationwide (including DRGs grouping and payment technical specifications and DRGs grouping plan), and Zhejiang province is the first province in China to adopt payment by DRGs for in-patient treatment services. Under the DRGs payment mechanism, practices that bring greater benefits to hospitals such as "excessive prescription (大處方)" and prescription of expensive medicines are now being switched to reasonable diagnosis and treatment, less prescription, and prescription of cost-effective medicines in order to eliminate unnecessary medical checkups, which in turn reduce medical costs.

As mentioned above, the promulgation of a series of policies and guidelines since 2019 has provided or is providing the healthcare industry in the PRC with new and huge development opportunities. At the same time, such policies and guidelines have also greatly inhibited certain medical institutions' business practices of excessively "supporting medical industry by pharmaceutical business (以藥養醫)", excessive diagnosis and treatment, and excessive reliance on advertisement and marketing. Private hospitals that are not standardized and lack technical features and comprehensive strengths face reshuffling within or elimination from the healthcare industry. However, due to the constant increase in demand for medical services, there is still a lack of hospitals (including private medical institutions) which can provide high quality technical services. As a result, the Group has huge development potential and possibilities as we possess outstanding shareholder background and industry resources, defined operation management capabilities, management tools that have been proven to be effective in practice, the ability to help Group Hospitals that have been acquired to rapidly enhance their comprehensive performance, and a strong sense of innovation and development. These trends, coupled with our efforts, will assist the Group in developing into a renowned medical service provider in the PRC.

RECENT DEVELOPMENTS

Time	Event
December 21, 2018	The Company and Leap Wave Limited ("**Leap Wave**") entered into a subscription agreement (as amended by an amendment agreement dated January 16, 2019) pursuant to which, among other things, the Company agreed to issue and Leap Wave agreed to subscribe for convertible bonds in the aggregate principal amount of HK$800,000,000 at a total consideration equal to the aggregate principal amount of the convertible bonds and with an initial conversion price of HK$20.00 per conversion share. The transaction was approved at an extraordinary general meeting of the Company held on February 1, 2019 and the convertible bonds were issued on February 27, 2019.
March 12, 2019	Mr. Lin Sheng tendered his resignation as a non-executive Director of the Company, a member of the audit committee of the Company (the "**Audit Committee**") and a member of the remuneration committee of the Company ("**Remuneration Committee**") with effect from March 12, 2019 due to his other work commitments. With effect from March 12, 2019, Mr. Shan Guoxin ("**Mr. Shan**") was appointed as an executive Director of the Company and Mr. Wei Kai ("**Mr. Wei**") was appointed as a non-executive Director of the Company. The Board 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.
June 3, 2019	On June 3, 2019, Jiande Hospital, an indirect non-wholly owned subsidiary of the Company, entered into (i) a medicine procurement agreement with Zhejiang Zhongyouli Medicines Co., Ltd. (浙江中友力醫藥有限公司), pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Zhongyouli Medicines Co., Ltd. (浙江中友力醫藥有限公司) agreed to sell, certain types of medicines from time to time during the term of the medicine procurement agreement; and (ii) a medical consumables and equipment procurement agreement with Zhejiang Dajia Medical Instruments Co., Ltd. (浙江大佳醫療器械有限公司), pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Dajia Medical Instruments Co., Ltd. (浙江大佳醫療器械有限公司) agreed to sell, certain medical consumables and equipment from time to time during the term of the medical consumables and equipment procurement agreement.

Time	Event
July 24, 2019	Mr. Wei resigned as a non-executive Director of the Company and a member of the Audit Committee due to his other work commitments with effect from July 24, 2019. Mr. Li Peng ("**Mr. Li**") was appointed as a non-executive Director of the Company with effect from July 24, 2019, and will hold office only until the first general meeting of the Company after his appointment and shall then be eligible for re-election at that general meeting, and thereafter subject to retirement by rotation at least once every three years at the annual general meeting in accordance with the memorandum and articles of association of the Company. The Board appointed Mr. Li as a member of the Audit Committee with effect from July 24, 2019. On July 24, 2019, the Company and Jinhua Hospital, a hospital managed by the Group, entered into a loan agreement. Pursuant to the loan agreement, the Company conditionally agreed to grant a loan to Jinhua Hospital through the PRC subsidiaries of the Company for a term of 36 months from the date of the relevant drawdown of the loan. The loan amount was RMB80 million, and the loan interest rate is 5.23% per annum which is subject to adjustment according to the applicable benchmark interest rates as published by the People's Bank of China from time to time.
March 9, 2020	With effect from March 9, 2020, Mr. Dang Jinxue was appointed as an independent non-executive Director of the Company, the chairman of the Remuneration Committee and a member of the Nomination Committee. Mr. Dang will hold office only until the first general meeting of the Company after his appointment and shall then be eligible for re-election at that general meeting, and thereafter subject to retirement by rotation at least once every three years at the annual general meeting in accordance with the memorandum and articles of association of the Company. Ms. Chen Xiaohong tendered her resignation as an independent non-executive Director of the Company, the chairman of the Remuneration Committee and a member of the nomination committee of the Company ("**Nomination Committee**") due to personal health reasons.

REVIEW OF 2019 ANNUAL PERFORMANCE

Revenue

Our revenue increased by 7.1% from RMB383.6 million in 2018 to RMB410.9 million in 2019. The table below sets forth the Group's revenue by segment and by service category for the years indicated:

	For the year ended December 31,	
	2019	**2018**
	RMB'000	*RMB'000*
Revenue	410,883	383,610
– Hospital management services	212,205	199,194
– General hospital services	196,472	183,823
– Wholesale of pharmaceutical products	2,206	593

Hospital management services

Revenue from our hospital management services segment, which consists of the provision of hospital management services to Shanghai Yangsi Hospital (上海楊思醫院), Cixi Union Hospital (慈溪協和醫院) ("**Cixi Hospital**") and Jinhua Hospital, increased by 6.5% from RMB199.2 million in 2018 to RMB212.2 million in 2019. The increase was mainly attributable to a substantial increase of 63.7% in management service fees recognised for providing services to Cixi Hospital and Jinhua Hospital from RMB38.4 million in 2018 to RMB62.8 million in 2019. The substantial increase in management service fees recognised for providing services to Cixi Hospital and Jinhua Hospital was due to the increased duration of management and consultancy services provided by Cixi Honghe Medical Management Co., Ltd. ("**Cixi Honghe**") and Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd. (formerly known as Zhejiang Guangsha Medical Technology Co., Ltd.) ("**Zhejiang Honghe Zhiyuan**") to Cixi Hospital and Jinhua Hospital, respectively. We acquired 100% of the equity interest in Cixi Hongai Medical Management Co., Ltd. ("**Cixi Hongai**") in March 2018, and the Company indirectly (through Cixi Hongai) holds 70% of the equity interest in Cixi Honghe. We also acquired 100% of the equity interest in Oriental Ally Holdings Limited ("**Oriental Ally**") in August 2018, and the Company indirectly (through Oriental Ally) holds 100% of the equity interest in Impeccable Success Limited ("**Impeccable Success**"), which in turn directly holds 75% of the equity interest in Zhejiang Honghe Zhiyuan. Accordingly, we received management service fees for hospital management services provided to Cixi Hospital and Jinhua Hospital only since March 2018 and August 2018, respectively.

General hospital services

Revenue from our general hospital services segment increased by 6.9% from RMB183.8 million in 2018 to RMB196.5 million in 2019. For the years ended December 31, 2019 and 2018, revenue from our general hospital services segment was mainly derived from individual patients. The increase in revenue from the Group's general hospital services segment was mainly attributable to the increase in revenue resulting from the provision of general hospital services by Jiande Hospital to individual patients, which was due to an increase in out-patient and in-patient visits of Jiande Hospital in 2019.

Wholesale of pharmaceutical products

Revenue from wholesale of pharmaceutical products was derived from the business of Zhejiang Dajia Medicines Co., Ltd. ("**Dajia Medicines**"), which is indirectly owned as to 70% by Jiande Hexu Enterprise Management Co., Ltd. and is principally engaged in the supply of pharmaceutical products to Jiande Hospital and other customers. Revenue from wholesale of pharmaceutical products increased by 272% from RMB0.6 million in 2018 to RMB2.2 million in 2019, mainly due to an increase in Dajia Medicines' income from the supply of pharmaceutical products to other customers.

Cost of revenue

Our cost of revenue increased by 2.4% from RMB231.5 million in 2018 to RMB237.0 million in 2019. The increase was mainly attributable to (i) an increase of RMB12.4 million in amortization and depreciation expenses of the Group's acquisition of identifiable intangible assets and property, plant and equipment; and (ii) an increase of RMB12.7 million in cost of inventories, which was partially offset by a decrease of RMB20.5 million in employee benefit expenses.

Administrative expenses

Our administrative expenses increased by 1.9% from RMB63.3 million in 2018 to RMB64.5 million in 2019. The increase was mainly attributable to the increase of RMB11.2 million in employee benefit expenses, which was offset by a decrease of RMB5.5 million in accrued professional service fees and auditor's remuneration.

Other gains/(losses)-net

Our other gains/(losses)-net increased by RMB123.4 million from a loss of RMB57.6 million in 2018 to a gain of RMB65.8 million in 2019. The increase in other gains/(losses)-net was mainly attributable to the fair value gains on changes of fair value of convertible bonds in 2019 which was RMB62.6 million, while loss in 2018 was RMB65.2 million.

Other income

We recorded other income of RMB2.9 million and RMB3.5 million for the years ended December 31, 2018 and 2019, respectively, representing a 20.7% year-on-year increase. The increase was mainly attributable to the increase of RMB0.3 million in government grants and subsidies granted by the People's Government of Sanlin town in Shanghai in 2019 (2019: RMB1.7 million, 2018: RMB1.4 million) for the tax contribution of Shanghai Weikang Investment Management Co., Ltd.

Finance income and finance costs

Our finance income increased by RMB39.5 million from RMB2.6 million in 2018 to RMB42.1 million in 2019, and such increase was mainly attributable to (i) an increase of RMB31.5 million in foreign exchange gains in relation to cash and cash equivalents; and (ii) an increase of RMB8.4 million in interest income from bank deposits, as we deposited the cash balance of convertible bonds issued and management fees received.

Our finance costs increased by RMB5.0 million from RMB18.6 million in 2018 to RMB23.6 million in 2019 mainly due to an increase of RMB8.8 million in financial expenses on other financial liability measured at amortization cost, which was offset by the decrease of RMB1.3 million in interest expenses on bank borrowings and decrease of RMB2.7 million in foreign exchange loss.

Income tax expense

Our income tax expense was RMB41.3 million and RMB26.1 million for the years ended December 31, 2018 and 2019, respectively. The RMB15.2 million decrease in income tax expense was mainly attributable to the RMB13.1 million decrease in current income tax expense for the year under review.

Profit for the year

We recorded a net profit of approximately RMB169.4 million for the year ended December 31, 2019, representing an increase of approximately RMB192.8 million from the net loss of approximately RMB23.4 million for the corresponding period. Such increase was mainly due to the increase in management service fees recognised for providing services to Cixi Hospital and Jinhua Hospital, as well as the increase in fair value gains resulting from the change of fair value of convertible bonds. The increase in management service fees recognised for providing services to Cixi Union Hospital and Jinhua Hospital was due to the increased duration of management and consultancy services we provided to Cixi Hospital and Jinhua Hospital. For further details, please refer to the paragraph headed "Revenue – Hospital management services" above.

Discussion of certain items from the consolidated balance sheets

Cash and cash equivalents

We had cash and cash equivalents of RMB195.5 million and RMB836.6 million as at December 31, 2018 and 2019, respectively. Other than cash flows from operating activities, the RMB641.1 million increase in 2019 was primarily attributable to (i) proceeds from the redemption of financial assets at fair value through profit or loss of RMB315.3 million; (ii) proceeds of RMB682.2 million from the issuance of convertible bonds; and (iii) proceeds from borrowings of RMB59.8 million, offset by (i) payment for the purchase of financial assets at fair value through profit or loss of RMB103.0 million; (ii) repayment of bank loans of approximately RMB111.0 million; (iii) payments for loans to related parties of RMB77.9 million; (iv) payments for the purchase of fixed deposits with a term of over three months of RMB134.4 million; and (v) payments of interests, dividends and withholding tax of RMB50.9 million.

Other receivables, deposits and prepayments

Our other receivables, deposits and prepayments increased by RMB12.3 million from RMB6.1 million as at December 31, 2018 to RMB18.4 million as at December 31, 2019, primarily due to an increase of RMB15.0 million in receivables from an asset management company for monetary funds with floating rates, which was offset by a decrease of RMB1.8 million in prepayments for constructions and equipments.

Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss as at December 31, 2019 amounted to approximately RMB36.8 million, including monetary funds with floating rates of RMB36.2 million and the option to acquire the remaining equity of subsidiaries of RMB0.6 million (details of such option have been disclosed in the announcement and circular of the Company dated October 27, 2017 and December 15, 2017, respectively). The monetary funds we hold are low-risk products.

The following table sets out the changes in the monetary funds with floating rates for the year ended December 31, 2019.

	Year ended December 31, 2019
	RMB'000
Opening balance	248,567
Additions	103,000
Settlements	(320,964)
Gains recognised in other gains/(losses) – net	5,626
Closing balance	36,229

During the year under review, we bought monetary funds from three financial institutions, which are independent third parties. The purchases of monetary funds do not constitute connected transactions of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**"). As all applicable percentage ratios in respect of the purchases of monetary funds from each of the three financial institutions are less than 5% under Rule 14.07 of the Listing Rules, the purchases of monetary funds do not constitute notifiable transactions of the Company under the Listing Rules.

Accruals, other payables and provisions

Our accruals, other payables and provisions were RMB139.3 million and RMB79.2 million as at December 31, 2018 and 2019, respectively. The accruals, other payables and provisions decreased by RMB60.1 million, mainly due to the decrease in amounts due to third parties by Zhejiang Honghe Zhiyuan of approximately RMB59.2 million.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2019, our total equity was RMB1,817.8 million (2018: RMB1,668.0 million). As at December 31, 2019, we had current assets of RMB1,277.5 million (2018: RMB681.7 million) and current liabilities of RMB492.9 million (2018: RMB538.1 million). As at December 31, 2019, our current ratio was 2.59, as compared with 1.27 as at December 31, 2018.

Our current assets increased by RMB595.8 million from RMB681.7 million as at December 31, 2018 to RMB1,277.5 million as at December 31, 2019, primarily due to an improvement in our operating results and an increase in our cash balance upon our issuance of convertible bonds in the aggregate principal amount of HK$800.0 million on February 27, 2019. Our current liabilities decreased by RMB45.2 million from RMB538.1 million as at December 31, 2018 to RMB492.9 million as at December 31, 2019, primarily due to a decrease in accruals, other payables and provisions.

Our primary uses of cash in 2019 were for working capital, fixed deposits with a term of over three months 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 RMB63.0 million, consisting of RMB164.0 million in net cash inflows generated from our operations before changes in working capital, net cash outflows of RMB68.6 million relating to changes in working capital, cash outflows on income tax paid of RMB32.9 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 RMB195.6 million, adjusted for non-cash and non-operating items, including gains on fair value change arising from the change in value of convertible bonds of RMB62.6 million, foreign exchange gains of RMB31.5 million arising from cash and cash equivalents, financial expenses in relation to other financial liability at amortized cost of RMB8.8 million and depreciation of property, plant and equipment, and amortization of intangible assets of RMB43.8 million. Our net cash outflows relating to changes in working capital were primarily attributable to the increase in receivables from related parties of RMB86.5 million, which was offset by the increase in accruals, other payables and provisions of RMB11.1 million.

In the year under review, we had net cash outflows from investing activities of RMB13.8 million, which primarily comprised payments for financial assets at fair value through profit or loss of RMB103.0 million, payment for property, plant and equipment of RMB10.8 million, payments for loans to related parties of RMB77.9 million and payments for fixed deposits with a term of over three months of RMB134.4 million, which was offset by proceeds from the redemption of financial assets at fair value through profit or loss of RMB315.3 million and interest received on fixed deposits of RMB9.3 million.

Cash and Borrowings

We had cash and cash equivalents of RMB195.5 million and RMB836.6 million as at December 31, 2018 and 2019, respectively. Our borrowings amounted to RMB214.4 million as at December 31, 2019 (as at December 31, 2018: RMB263.6 million). Of our borrowings, RMB174.4 million bear interest at a floating rate with reference to HIBOR plus 360 basic points, RMB20.2 million bear interest at a fixed rate of 4.79%, RMB9.9 million bear interest at a fixed rate of 4.57% and RMB9.9 million bear interest at a fixed rate of 4.44%. The table below sets forth the maturity profile of our borrowings in the years indicated:

	Bank borrowings	
	2019	**2018**
	RMB'000	*RMB'000*
Within 1 year	114,744	89,692
Between 1 and 2 years	62,286	74,538
Between 2 and 5 years	37,372	99,385
	214,402	263,615

As at December 31, 2019, the net gearing ratio of the Company was 4.8% (net gearing ratio equals borrowing balance divided by total assets). 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, 2019, the Group did not have any material contingent liabilities or guarantees.

FUTURE PROSPECTS

Based on the "Development Plan for Medium and Long-Term Construction (《中長期建設發展規劃》)" of the Group and under the proper leadership of the Board, we will build a first-class value-creating medical group in China under the "Three Conforming (三符合)" conditions through comprehensive measures such as building "five strategic pillars (五個戰略支柱)" (i.e. (i) creating a value-creating corporate culture with advanced concepts and systems; (ii) integrating the resources of Legend Holdings, "Hony Capital" and listed companies to form a strong investment brand supported by outstanding operational results; (iii) possessing an income structure in relation to industrial synergies that can develop in a healthy, steady and fast manner, as well as a value-creating efficient operation and management model that can be replicated quickly; (iv) establishing a branded multi-regional medical centre, "medical group (醫生集團)", "internet hospital (互聯網醫院)" and centralized procurement center, and forming an innovative healthcare industry system with high synergies; and (v) planning the three-step development path of the "healthcare big data production, learning and research platform (大健康數據產學研平台)" to facilitate the integration of the digital economy and medical development, continuously gain insight into industry development opportunities and cross-industry integration, and build a complete and efficient healthcare industry ecosystem), and forming "five organizational guarantees (五個組織保障)" ((i) constructing a first-class high-quality investment and management integrated team at the group level to form a strong control over investments and operations; (ii) building a first-class management and technology team at the Group Hospital level to form strong core competencies; (iii) creating core advantages and strategic coordination in disciplines, hospitals and industry chain to form three major network systems; (iv) introducing eight major operational management systems to all acquired Group Hospitals to achieve a replicable management model; and (v) enhancing the integration of resources of Legend Holdings, "Hony Capital" and the capital markets to form the advantages in brand resources).

In order to achieve the goals determined in the "Development Plan for Medium and Long Term Construction (《中長期建設發展規劃》)" of the Group, the Group will proceed with the relevant tasks following the strategies of (i) "setting one target (鎖定一個目標)"; (ii) "adhering to two principles (堅持兩個原則)"; (iii) "implementing three strategies (實施三個戰略)"; (iv) "creating four competencies (打造四個能力)"; (v) "building five teams (建好五個團隊)"; and (vi) "completing six tasks (做好六項工作)". That is, (i) to set the target of building the Group into a first-class value-creating medical group in China meeting the "Three Conforming (三符合)" conditions; (ii) to adhere to the principles of "successful acquisition, well management, scale expansion (收到、管好、上量)" and performance and results orientation; (iii) to implement the "core competency strategy, resources coordination strategy and industrial innovation strategy (核心能力戰略、資源協同戰略、產業創新戰略)"; (iv) to create four competencies of integrated management of investment and operations, construction of specialties with distinctive advantages, strengthening the integration of resources within the healthcare industry, and comprehensive improvement of invested hospitals' performances; (v) to build the "investment and management integration (投管一體化)" team, operation team of the Group Hospitals, core professional technical (management) team in the group system, cross-industry enterprise cooperation team and high-quality think tank team of the Group; and (vi) to complete six tasks of continuously following up and studying industry policies and trends and response plans, continuously striving to build core capabilities, continuously strengthening investments and M&A to achieve "scale expansion (上量)", continuously improving operation and management of the Group Hospitals to enhance their performance and introducing emerging business models, continuously accomplishing coordination and sharing of various resources in the system to enhance efficiency and benefits, and continuously promoting the incorporation of innovative business models with cross-industry enterprises such as those from the insurance sector.

In the process of implementing the "three strategies (三個戰略)", in addition to the aforementioned implementation of the "core competency strategy (核心能力戰略)", the "resources coordination strategy (資源協同戰略)" places emphasis on strengthening awareness of synergies, cultivating synergy and developing a habit of collaboration. The Group will strengthen and centralize mobilization of technology and management resources to achieve amplified and augmented efficiency of resources. Valuable resources of Legend Holdings, "Hony Capital" and each shareholder institution will be fully utilized. The Group will construct various regional medical centers, which will radiate and drive the technology (management) of the Group Hospitals. Constructions including a remote pathological center, remote image center and remote electrocardiography center will be completed for the sharing of technology and resources. The emphasis of the "industrial innovation strategy (產業創新戰略)" is on innovative "Healthcare + Internet (醫療+互聯網)" products to implement medical operations. The Group will establish a "healthcare big data production, learning and research platform (大健康數據產學研平台)" to capture new opportunities for cross-border integration between healthcare and big data, AI, finance and insurance institutions. In addition, the "industrial innovation strategy (產業創新戰略)" also includes new business forms such as innovative management, consulting, training, centralized procurement centers.

2020 is a critical year for implementing the "Development Plan for Medium and Long-Term Construction (《中長期建設發展規劃》)" of the Group. During the year, management teams and all employees of the Group will continue to work together to complete the following ten tasks:

(1) Strengthening cultural leadership: The Group will continue to maintain the corporate culture of the Group as a core competency through comprehensive measures;

(2) Researching on policy responses: The Group will systematically study the policy and environmental changes of the medical services industry and propose effective responses;

(3) Strengthening investments and M&A: The Group will integrate various resources to expand the sources of investment and M&A projects and continue to actively identify potential acquisition targets, striving for substantial progress on a number of projects;

(4) Exploring trusteeship operation: The Group will introduce non-controlling and non-equity investment operations, such as "trusteeship (託管)", to enrich the investment portfolio of the Group;

(5) Introducing new business models: Relying on Group Hospitals, the Group will establish a "medical group (醫生集團)" and "internet hospital (互聯網醫院)", and realise in-depth integration with medical big data and AI application enterprises through various measures such as strategic cooperation or investment;

(6) Refining operation and management: The Group will continue to strengthen the operation and the management of the Group Hospitals and ensure the implementation of key projects and improvement in performance;

(7) Cultivating systemic synergy: The Group will strengthen the construction of regional medical centers and collaborative sharing of resources and actively proceed with demonstration projects;

(8) Realizing industrial synergetic revenue: The Group will achieve diversification of its healthcare services through (i) establishing a centralized procurement center for drugs, devices and equipment; and (ii) conducting large-scale procurement and reduction of procurement costs;

(9) Promoting integration within the industry: The Group will establish a "healthcare big data production, learning and research platform (大健康數據產學研平台)" through the three stages of (i) creating a platform for storing big data that we have collected and collated (數據平台化); (ii) utilizing big data to drive the development of our business operations (業務數據化); and (iii) utilizing big data to develop new lines of business (數據業務化). This will not only be conducive to the development of our main business, but also conducive to the in-depth cooperation and integration between healthcare, AI, finance and insurance institutions to create future growth; and

(10) Strengthening brand building: The Group will exercise capital thinking (資本思維) to build a top-level design for its brand. In the process of investment, M&A and business operations, the Group will continue to promote business development through brand empowerment, as well as increase the Group's comprehensive business strength and reputation, enhance industry influence, attract long-term investors, and enhance the brand value of the Group in all respects.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended December 31, 2019.

HUMAN RESOURCES

As at December 31, 2019, we had a total of 489 employees (December 31, 2018: 473 employees). 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, 2019, the total employee benefits expenses (including Directors' remuneration) were RMB122.1 million (2018: RMB131.4 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 of the Company dated February 28, 2017 (the "**Prospectus**"). All of the unutilized amount has been placed with licensed banks in Hong Kong, and will be utilized in the manner as described in the Prospectus and in accordance with the Company's needs from time to time. An analysis of the utilization of the net proceeds from the Listing Date up to December 31, 2019 is set out below:

	Percentage of the total amount	**Net Proceeds**	**Utilized Amount**	**Unutilized Amount**	**Expected time period**
		HK$ million	*HK$ million*	*HK$ million*	
Strategic acquisition of hospitals in China	50%	232.80	232.80	–	–
Further investment in the hospitals we own or manage from time to time (except for not-for-profit hospitals)					
– Purchase of medical and other equipment	11%	51.22	41.59	9.63	The balance is expected to be fully utilized by the end of 2021
– Upgrading and improvement of medical facilities	7%	32.59	32.59	–	–
Employee training programs at the hospitals we own or manage from time to time, efforts to recruit talents and academic research activities					
– Human resources expenses	6%	27.94	27.94	–	–
– Employing medical professionals and experts in business management	5%	23.28	17.96	5.32	The balance is expected to be fully utilized by the end of 2021
– Conducting academic research activities and developing employee training programs with a focus on management training and professional training	4%	18.62	8.75	9.87	The balance is expected to be fully utilized by the end of 2021
Upgrading and improving our information technology system	7%	32.59	24.02	8.57	The balance is expected to be fully utilized by the end of 2021
Provide funding for our working capital, rental and property related expenses and other general corporate purposes	10%	46.56	46.56	–	–
	100%	465.60	432.21	33.39	

CONVERTIBLE BONDS

In view of the Group's substantial need to fund our future acquisitions, the Company and Vanguard Glory Limited ("**Vanguard Glory**"), a shareholder holding 70.19% of the Company's issued share capital, entered into a subscription agreement on January 25, 2018, pursuant to which, on March 5, 2018, the Company issued and Vanguard Glory subscribed for convertible bonds in the principal amount of HK$468 million ("**Vanguard Convertible Bonds**") with an initial conversion price of HK$18.00 per conversion share and convertible into 26,000,000 ordinary shares of the Company.

The net proceeds from the Vanguard Convertible Bonds, after deducting all related costs and expenses, was approximately HK$467 million. The net proceeds of approximately HK$405 million were used to acquire Cixi Hongai in March 2018. As at December 31, 2019, the remaining net proceeds of approximately HK$62 million were placed in the bank account of the Group opened with licensed banks in Hong Kong, and was expected to be utilized in accordance with the use of proceeds as referred to in the circular of the Company dated February 13, 2018. The unutilized amount of the net proceeds will be used for acquisitions of other hospitals or hospital management businesses by the Group. The Directors believe that it is fair and reasonable, and in the interests of the Company and its shareholders as a whole. As at December 31, 2019, the analysis of use of the net proceeds is as follows:

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

As at December 31, 2019, none of the Vanguard Convertible Bonds has been converted into shares of the Company. Details of the Vanguard Convertible Bonds were disclosed in the announcement and circular of the Company dated January 25, 2018 and February 13, 2018, respectively.

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 owned by the Vendor, at a consideration of RMB630,000,000 (equivalent to approximately HK$773,879,717).

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

On August 7, 2018, the acquisition was completed, and Oriental Ally became a subsidiary of the Company. The Company directly holds 100% of the equity interest in Oriental Ally. Through Oriental Ally, the Company indirectly holds 75% of the equity interest in Zhejiang Honghe Zhiyuan. The remaining 25% equity interest held by Hony Kangshou Management Consulting (Shanghai) Co., Ltd. shall be recognized as a non-controlling interest.

The consideration was satisfied by the issuance of the convertible bonds (the "**Hony Convertible Bonds**") in the aggregate principal amount of HK$773,879,717 by the Company to the Vendor on the completion date of the acquisition pursuant to the Share Purchase Agreement. On August 7, 2018, the Hony Convertible Bonds were issued in registered form in the denomination of HK$1.00 each provided that in no event shall any Hony Convertible Bonds be transferred, exchanged, converted or purchased in an aggregate principal amount less than HK$1.00. The Hony Convertible Bonds will mature five years from their issuance at its principal amount or may be converted into ordinary shares of the Company at the holder's option at the conversion price of HK$20.00 per conversion share (subject to adjustment to the conversion price). As at December 31, 2019, none of the Hony Convertible Bonds has been converted into shares of the Company. Details of the Hony Convertible Bonds have been disclosed in the announcement and circular of the Company dated May 29, 2018 and June 24, 2018, respectively.

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

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

The unutilized portion of the net proceeds of approximately HK$800 million as at December 31, 2019 is expected to be applied according to the use of proceeds as stated in the circular of the Company dated January 16, 2019. The Company will use the unutilized portion of such net proceeds for acquisitions of hospitals or hospital management businesses by the Group and as discussed in the section headed "Future Prospects" above, the Group will strive to make substantial progress on such projects in 2020. An analysis of the utilization of the net proceeds up to December 31, 2019 is set out below:

	Percentage to the total amount	**Net Proceeds** *HK$ million*	**Utilized Amount** *HK$ million*	**Unutilized Amount** *HK$ million*
Acquisition of hospitals or hospital management businesses	100%	800	–	800
Total	100%	800	–	800

As at December 31, 2019, none of the LW Convertible Bonds has been converted into shares of the Company. Details of the LW Convertible Bonds have been disclosed in the announcements of the Company dated December 21, 2018, January 16, 2019 and February 27, 2019 and the circular of the Company dated January 16, 2019.

During the year under review, there was no change in the use of proceeds generated from the issuances of the Vanguard Convertible Bonds and the LW Convertible Bonds. As the Group has not actually implemented project investment due to systematic considerations of investment strategy and work strategy, there has been a delay in the timetable of the Group's proposed acquisitions as previously disclosed by the Company. As disclosed in the section headed "Future Prospects" in this announcement, the Group will continue to actively identify potential acquisition targets, and the Company will make announcement(s) and seek shareholders' approval as and when appropriate and in accordance with the Listing Rules in respect of such acquisitions. However, given the recent novel coronavirus (COVID-19) outbreak, the Company is unable to provide the estimated timetables for these potential acquisitions at this moment.

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

During the year ended December 31, 2019, 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. The Board considers that, during the year under review, the Company has complied with the applicable code provisions set out in the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct regarding the transactions of securities of the Company by the Directors and relevant employees (who likely possess inside information of the Company) on terms no less stringent than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific enquiries with all Directors, the Company confirms that all Directors have complied with the Model Code throughout the year ended December 31, 2019.

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. Li Peng. The final results of the Group for the year ended December 31, 2019, 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

Mr. Dang Jinxue has been appointed as an independent non-executive Director of the Company, the chairman of the Remuneration Committee and a member of the Nomination Committee with effect from March 9, 2020. Mr. Dang will hold office only until the first general meeting of the Company after his appointment and shall then be eligible for re-election at that general meeting, and thereafter subject to retirement by rotation at least once every three years at the annual general meeting in accordance with the memorandum and articles of association of the Company. Ms. Chen Xiaohong has tendered her resignation as an independent non-executive Director of the Company, the chairman of the Remuneration Committee and a member of the Nomination Committee due to personal health reasons.

Saved as disclosed above, no material subsequent event was undertaken by the Company or by the Group after December 31, 2019 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, 2019 as set out in this preliminary announcement have been agreed by the Company's auditor, PricewaterhouseCoopers (the "**Auditor**"), as to the amounts set out in the Group's audited draft consolidated financial statements for the year ended December 31, 2019. 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 23, 2020

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. LI Peng, Ms. LIU Lu and Ms. WANG Nan being the non-executive Directors; Mr. DANG Jinxue, Mr. SHI Luwen and Mr. ZHOU Xiangliang being the independent non-executive Directors.