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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3869)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2020

The board (the "**Board**") of directors (the "**Directors**") of Hospital Corporation of China Limited (the "**Company**") is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively, the "**Group**", "**we**" or "**our**") for the six months ended June 30, 2020 (the "**Reporting Period**"), together with the comparative figures for the six months ended June 30, 2019 (the "**Corresponding Period of Previous Year**").

FINANCIAL HIGHLIGHTS

	Six months ended June 30,	
	2020	**2019**
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Revenue	180,679	208,531
－Hospital management services	100,988	108,181
－General hospital services	79,568	98,301
－Wholesale of pharmaceutical products	123	2,049
Adjusted gross profit (1)	96,376	102,616
Adjusted net profit (2)(3)	56,474	52,767
Adjusted gross profit margin	53.3%	49.2%
Adjusted net profit margin (3)	31.3%	25.3%
Adjusted items		
Expenses of share-based awards and other one-off employee benefit expenses (2)(i)	2,424	2,923
Amortization of identifiable intangible assets identified in acquisitions (2)(iii)	15,250	15,250
Gains on fair value change resulting from value change of convertible bonds and foreign exchange gains (2)(ii)	16,894	62,029
Investing and financing related expenses (2)(iv)	4,751	1,698
Total amount of impairment losses on intangible assets and the reversal of deferred income tax liabilities caused by the impairment on consolidated intangible assets (2)(v)(4)	617,935	–

	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Revenue	180,679	208,531
Gross profit [(1)]	80,702	84,443
Net (loss) / profit [(2)(4)]	(566,992)	94,925
Basic (loss)/earnings per share (in RMB)	(3.874)	0.594

Notes:

(1) The gross profit of the Group for the Reporting Period amounted to RMB80.7 million. Adjusted gross profit is calculated as the gross profit for the Reporting Period, excluding the impact from the expenses of share-based awards and amortization of identifiable intangible assets identified in acquisitions.

(2) The Group recorded a net loss of RMB567.0 million during the Reporting Period. The adjusted net profit (the "**Adjusted Net Profit**") is calculated as the profit for the Reporting Period excluding the impact from certain items which are considered as non-operating by the management, including (i) the relevant expenses of share-based awards of RMB0.4 million and other one-off employee benefit expenses of RMB2.0 million; (ii) the gains on the foreign exchange and relevant fair value changes of RMB5.7 million arising from the conversion of Hong Kong dollar denominated convertible bonds issued by the Company into RMB, and foreign exchange gains of RMB11.2 million mainly arising from cash and cash equivalents; (iii) amortization of identifiable intangible assets identified in acquisitions of RMB15.3 million; (iv) financial expenses on other financial liability at amortized cost of RMB4.8 million; (v) impairment losses on intangible assets of RMB668.2 million, and the reversal of deferred income tax liabilities caused by the impairment on consolidated intangible assets of RMB50.3 million. For the calculation of the Adjusted Net Profit, tax impacts of the adjusted items were not considered.

(3) For the Corresponding Period of Previous Year, the adjusted items for the Corresponding Period of Previous Year did not take into consideration the effect of the financial income on other financial liability at amortized cost of RMB1.0 million on the adjusted net profit. If this amount is taken into consideration, the adjusted net profit and the adjusted net profit margin of the Corresponding Period of Previous Year shall be as follows, in respect of which the Group did not make an adjustment to the previous period for the data disclosed in the Corresponding Period of Previous Year:

	Six months ended June 30	
	2020	2019
	RMB '000	*RMB '000*
	(Unaudited)	*(Unaudited)*
Adjusted net profit	56,474	51,767
Adjusted net profit margin	31.3%	24.8%

(4) The loss for the Current Period is primarily attributable to the outbreak of Coronavirus Disease 2019 and the instability of macroeconomic environment, which have had negative impact on the financial performance of the Group and have led to impairment losses on relevant intangible assets and goodwill. Impairment losses are one-off non-cash items recorded during the Current Period, which have no direct impact on the cash flow of the Group.

INTERIM DIVIDEND

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

FINANCIAL INFORMATION

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended June 30, 2020 *RMB'000* *(Unaudited)*	2019 *RMB'000* *(Unaudited)*
Revenue	3	180,679	208,531
Cost of revenue		(99,977)	(124,088)
Gross profit		80,702	84,443
Administrative expenses		(29,507)	(33,722)
Net impairment losses on financial assets		(3,754)	–
Impairment losses on intangible assets	7	(668,219)	–
Other income		3,492	515
Other gains-net	4	5,344	42,579
Operating (loss)/profit		(611,942)	93,815
Finance income		21,122	25,246
Finance costs		(11,094)	(6,122)
(Loss)/profit before income tax		(601,914)	112,939
Income tax expense	5	34,922	(18,014)
(Loss)/profit for the period		(566,992)	94,925
Other comprehensive income		–	–
Total comprehensive (loss)/income for the period		(566,992)	94,925
Attributable to:			
Owners of the Company		(535,403)	82,029
Non-controlling interests		(31,589)	12,896
Total comprehensive (loss)/income for the period		(566,992)	94,925
(Loss)/earnings per share from loss/(profit) attributable to owners of the Company			
– Basic (loss)/earnings per share (in RMB)	6	(3.874)	0.594
– Diluted (loss)/earnings per share (in RMB)	6	(3.874)	0.005

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	June 30, 2020 *RMB'000* *(Unaudited)*	December 31, 2019 *RMB'000* *(Audited)*
ASSETS			
Non-current assets			
Property, plant and equipment		143,168	146,176
Right-of-use assets		40,328	42,011
Intangible assets	7	2,222,222	2,905,829
Deferred income tax assets		2,054	1,413
Other receivables, deposits and prepayments		2,901	2,012
Amount due from a related party		80,000	80,000
Total non-current assets		2,490,673	3,177,441
Current assets			
Inventories		6,540	5,021
Contract assets		11,055	–
Trade receivables	8	30,352	30,332
Other receivables, deposits and prepayments		1,744	16,405
Amounts due from related parties		266,595	217,947
Financial assets at fair value through profit or loss		95,096	36,829
Term deposits		5,261	134,370
Cash and cash equivalents		922,493	836,624
Total current assets		1,339,136	1,277,528
Total assets		3,829,809	4,454,969
EQUITY			
Equity attributable to owners of the Company			
Share capital		123	123
Share premium		435,304	435,304
Other reserves		925,033	924,231
(Accumulated losses)/retained earnings		(411,955)	123,448
		948,505	1,483,106
Non-controlling interests		300,850	334,734
Total equity		1,249,355	1,817,840

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

	Notes	June 30, 2020 *RMB'000* *(Unaudited)*	December 31, 2019 *RMB'000* *(Audited)*
LIABILITIES			
Non-current liabilities			
Borrowings		69,462	99,658
Convertible bonds	10	1,284,486	1,693,430
Lease liabilities		316	650
Deferred income tax liabilities		300,153	350,087
Accruals, other payables and provisions		175	362
Total non-current liabilities		1,654,592	2,144,187
Current liabilities			
Trade payables	9	16,978	13,325
Accruals, other payables and provisions		81,399	78,860
Amounts due to related parties		20,947	23,749
Contract liabilities		112	539
Current income tax liabilities		20,549	28,713
Borrowings		145,580	114,744
Convertible bonds	10	403,257	–
Lease liabilities		1,689	2,412
Other financial liability at amortized cost		235,351	230,600
Total current liabilities		925,862	492,942
Total liabilities		2,580,454	2,637,129
Total equity and liabilities		3,829,809	4,454,969

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

The Company, together with its subsidiaries (collectively referred to as "the Group"), are principally engaged in (i) operation and management of its privately owned hospital; (ii) provision of management and consultation services to 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 on March 16, 2017.

The interim condensed consolidated financial information is presented in Renminbi ("RMB") and rounded to nearest thousand yuan, unless otherwise stated.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended June 30, 2020 has been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim financial reporting". The interim condensed consolidated financial information does not include all the information normally included in an annual financial statements and thus should be read in conjunction with the annual financial statements of the Group for the year ended December 31, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and any public announcements made by the Company during the six months ended June 30, 2020.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended December 31, 2019, as described in those annual financial statements, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

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

According to the amendment to IAS 1, which will be effective for annual periods beginning on or after January 1, 2022, conversion to shares is deemed as settlement for the convertible bonds. The Company's convertible bonds, whose holders have right to convert to shares at any time during the contract period, will be presented as current liabilities since January 1, 2022.

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 or chief executive officer 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 customers 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:

(a) General hospital services

Revenue from this segment is generated in the PRC and derived from hospital services provided by Jiande Hospital of Traditional Chinese Medicine Co., Ltd. ("Jiande Hospital"), Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. ("DJ Pharmaceutical Technology") and Jiande Xinlin Pharmacy Co., Ltd. ("Xinlin Pharmacy") for the six months ended June 30, 2020.

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 six months ended June 30, 2020 and 2019, respectively.

(b) Hospital management services

Revenue from this segment is generated in the PRC and derived from providing comprehensive management services and receiving management service fee by Weikang Investment Management Co., Ltd. ("Weikang Investment"), Tibet Dazi Honghe Ruixin Business Management Co., Ltd. ("Honghe Ruixin"), Cixi Honghe Medical Management Co., Ltd. ("Cixi Honghe") and Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd. ("Zhejiang Honghe Zhiyuan").

Pursuant to the hospital management framework agreement and the letter of intent signed by Weikang Investment and Shanghai Yangsi Hospital ("Yangsi Hospital") on January 1, 2013 and October 8, 2014, respectively, the long-term hospital management agreement signed by Honghe Ruixin and Yangsi Hospital on January 1, 2016 and the 3-year hospital management agreements signed by Weikang Investment and Honghe Ruixin with Yangsi Hospital on January 1, 2020, covering the period from 2020 to 2022, Weikang Investment and Honghe Ruixin have provided management and consultancy services to Yangsi Hospital with a period of 50 years from 2016 to 2065 and the management fee will be calculated based on pre-set formulas set out in the 3-year 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 derive 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, covering the period from 2020 to 2022. Pursuant to the 3-year hospital management agreement, the management fee has been calculated based on the pre-set formulas.

(c) Wholesale of pharmaceutical products

Revenue from this segment is generated in the PRC and is derived from wholesale of pharmaceutical products at Zhejiang Dajia Medicines Co., Ltd. ("DJ Medicines") and its subsidiary, Honghe (Jinhua) Pharmaceutical Co., Ltd.

(d) Unallocated

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

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

	General hospital services	**Hospital management services**	**Wholesale of pharmaceutical products**	**Unallocated**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
(Unaudited)					
Six months ended June 30, 2020					
Segment revenue	79,568	100,988	123	–	180,679
Revenue from external customers	79,568	100,988	123	–	180,679
Timing of revenue recognition					
– At a point in time	43,580	–	123	–	43,703
– Over time	35,988	100,988	–	–	136,976
	79,568	100,988	123	–	180,679
EBITDA	(238,327)	(342,178)	(316)	–	(580,821)
Depreciation	(4,347)	(935)	(291)	(974)	(6,547)
Amortization	(3,787)	(11,830)	(191)	(52)	(15,860)
Finance (costs)/income	(947)	183	–	10,792	10,028
Unallocated expense- net				(8,714)	(8,714)
(Loss)/profit before tax	(247,408)	(354,760)	(789)	1,052	(601,914)
(Unaudited)					
As at June 30, 2020					
Segment assets	391,924	1,313,079	4,024	970,098	2,679,125
Goodwill	58,495	1,082,923	9,266	–	1,150,684
Total assets	450,419	2,396,002	13,290	970,098	3,829,809
Total liabilities	134,710	286,370	2,270	2,157,104	2,580,454

	General hospital services *RMB'000*	Hospital management services *RMB'000*	Wholesale of pharmaceutical products *RMB'000*	Elimination *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
(Unaudited)						
Six months ended June 30, 2019						
Segment revenue	98,301	108,181	2,948	(899)	–	208,531
Inter-segment revenue	–	–	(899)	899	–	–
Revenue from external customers	98,301	108,181	2,049	–	–	208,531
Timing of revenue recognition						
– At a point in time	46,419	–	2,049	–	–	48,468
– Over time	51,882	108,181	–	–	–	160,063
	98,301	108,181	2,049	–	–	208,531
EBITDA	1,079	90,213	(578)	479	–	91,193
Depreciation	(3,673)	(1,016)	(285)	–	(542)	(5,516)
Amortization	(3,787)	(11,858)	(191)	–	(46)	(15,882)
Finance (costs)/income	(851)	124	4	–	(2,126)	(2,849)
Unallocated income – net					45,993	45,993
(Loss)/profit before tax	(7,232)	77,463	(1,050)	479	43,279	112,939
(Unaudited)						
As at June 30, 2019						
Segment assets	414,247	1,588,475	3,557	–	851,665	2,857,944
Goodwill	301,995	1,306,506	9,266	–	–	1,617,767
Total assets	716,242	2,894,981	12,823	–	851,665	4,475,711
Total liabilities	143,038	358,906	2,148	–	2,202,078	2,706,170

4 OTHER GAINS-NET

	Six months ended June 30, 2020 *RMB'000* *(Unaudited)*	2019 *RMB'000* *(Unaudited)*
Net fair value gains on convertible bonds	5,687	41,031
Net fair value gains on financial assets at FVPL	781	3,196
Others	(1,124)	(1,648)
	5,344	42,579

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% (six months ended June 30, 2019: 25% or 15%) for the six months ended June 30, 2020.

	Six months ended June 30,	
	2020	**2019**
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Current income tax:		
– PRC corporate income tax	15,653	18,265
Deferred income tax	(50,575)	(251)
	(34,922)	18,014

(a) Cayman Islands Income Tax

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

(b) Hong Kong Profits Tax

Hong Kong profits tax rate was 16.5% (six months ended June 30, 2019: 16.5%) for the six months ended June 30, 2020. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for the periods ended June 30, 2020 and 2019.

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

The income tax rate of Tibet Honghe Zhiyuan Business Management Co., Ltd., Tibet Hongai Business Management Co., Ltd. and Honghe Ruixin was 15% (six months ended June 30, 2019: 15%) for the six months ended June 30, 2020. The income tax rate of other subsidiaries was 25% (six months ended June 30, 2019: 25%) for the six months ended June 30, 2020.

(d) Withholding Tax

The withholding tax rate of Bliss Success Holdings Limited and Impeccable Success Limited was 10% (six months ended June 30, 2019: 10%) pursuant to the PRC Enterprise Income Tax based on the remittance of dividends from subsidiaries in the PRC in the foreseeable future, respectively.

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, effectively from 2017 to 2019. 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. As at December 31, 2019, Weikang Investment has settled all declared dividends and withholding tax with the tax rate of 5%. Since January 1, 2020, the withholding tax rate for the dividends declared by Weikang Investment has returned to 10%.

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

6 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the loss or profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended June 30, 2020 and 2019.

	Six months ended June 30, 2020 *(Unaudited)*	Six months ended June 30, 2019 *(Unaudited)*
Total (loss)/profit attributable to owners of the Company (RMB'000)	(535,403)	82,029
Weighted average number of ordinary shares in issue (in thousands)	138,194	138,121
Basic (loss)/earnings per share (in RMB)	(3.874)	0.594

(b) Diluted (loss)/earnings per share

The Group had potential dilutive shares during the six months ended June 30, 2020 related to the convertible bonds. Mainly due to the Group's negative financial results during the six months ended June 30, 2020, relative convertible bonds have anti-dilutive effect on the Group's loss per share. Thus, diluted loss per share is equivalent to the basic loss per share.

	Six months ended June 30, 2020 *(Unaudited)*	Six months ended June 30, 2019 *(Unaudited)*
Total (loss)/profit attributable to owners of the Company (RMB'000)	(535,403)	82,029
Fair value change of the convertible bonds (RMB'000)	–	(80,994)
Total (loss)/profit used to determine diluted (loss)/earnings per share (RMB'000)	(535,403)	1,035
Weighted average number of ordinary shares in issue (in thousands)	138,194	138,121
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)	138,194	202,815
Diluted (loss)/earnings per share (in RMB)	(3.874)	0.005

7 INTANGIBLE ASSETS

	Goodwill *RMB'000*	Contractual rights to provide management services *RMB'000*	Licenses *RMB'000*	Software *RMB'000*	Total *RMB'000*
(Unaudited)					
Six months ended June 30, 2020					
Net book value					
Opening amount as at January 1, 2020	1,617,767	1,113,506	173,194	1,362	2,905,829
Amortisation	–	(11,821)	(3,427)	(140)	(15,388)
Impairment charge	(467,083)	(201,136)	–	–	(668,219)
Closing amount as at June 30, 2020	1,150,684	900,549	169,767	1,222	2,222,222
(Unaudited)					
Six months ended June 30, 2019					
Net book value					
Opening amount as at January 1, 2019	1,617,767	1,137,153	180,047	1,572	2,936,539
Additions	–	–	–	178	178
Amortisation	–	(11,823)	(3,427)	(160)	(15,410)
Closing amount as at June 30, 2019	1,617,767	1,125,330	176,620	1,590	2,921,307

8 TRADE RECEIVABLES

	As at June 30, 2020 *RMB'000* *(Unaudited)*	**As at December 31, 2019** *RMB'000* *(Audited)*
Trade receivables	35,106	31,332
Less: provision for impairment of trade receivables	(4,754)	(1,000)
Trade receivables – net	30,352	30,332

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

As at June 30, 2020 and December 31, 2019, the ageing analysis based on invoice date of the trade receivables was as follows:

	As at June 30, 2020 *RMB'000* *(Unaudited)*	**As at December 31, 2019** *RMB'000* *(Audited)*
1 – 90 days	24,563	25,428
91 – 180 days	1,153	1,658
181 days – 1 year	5,234	2,947
Over 1 year	4,156	1,299
	35,106	31,332

9 TRADE PAYABLES

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

	As at June 30, 2020 *RMB'000* *(Unaudited)*	**As at December 31, 2019** *RMB'000* *(Audited)*
Within 90 days	13,480	11,458
91 to 180 days	2,464	971
181 days to 1 year	301	372
Over 1 year	733	524
	16,978	13,325

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

10 CONVERTIBLE BONDS

The movements of the convertible bonds are as follows:

	Convertible Bonds			
	March 5, 2018	**August 7, 2018**	**February 27, 2019**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
(Unaudited)				
As at January 1, 2020	392,174	577,039	724,217	1,693,430
Difference between fair value and principal amount at initial recognition	2,318	(7,633)	120	(5,195)
Fair value change resulting from change in convertible bonds value	10,696	(6,141)	(9,878)	(5,323)
Aggregate difference recognised in (losses)/gains in previous years	(1,416)	2,163	(22)	725
Aggregate difference yet to be recognised in (losses)/gains at June 30, 2020	(515)	4,707	(86)	4,106
As at June 30, 2020	403,257	570,135	714,351	1,687,743
(Unaudited)				
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 resulting from change in convertible bonds value	(35,931)	(44,686)	39,953	(40,664)
Aggregate difference recognised in (losses)/gains in previous years	(642)	636	–	(6)
Aggregate difference yet to be recognised in (losses)/gains at June 30, 2019	(1,290)	6,234	(110)	4,834
As at June 30, 2019	394,696	598,166	722,123	1,714,985

As at June 30, 2020, the convertible bonds issued on March 5, 2018 was classified as current liability due to the maturity in March 2021.

None of convertible bonds was converted into ordinary shares of the Company during the six months ended June 30, 2020.

(a) Convertible bonds issued on March 5, 2018

As at June 30, 2020, the fair value of the convertible bonds was approximately HKD442,035,000, equivalent to approximately RMB403,772,000, which was determined by an independent qualified valuer.

The significant inputs in the valuation model related to convertible bonds issued on March 5, 2018 were listed as below:

	As at June 30, 2020	As at December 31, 2019
Volatility	**30%**	30%
Time to expiration (years)	**0.68**	1.18
Risk free rate of interest	**1.66%**	1.87%
Dividend yield	**0.00%**	0.00%

(b) Convertible bonds issued on August 7, 2018

As at June 30, 2020, the fair value of the convertible bonds was approximately HKD619,010,000, equivalent to approximately RMB565,428,000, which was determined by an independent qualified valuer.

The significant inputs in the valuation model related to convertible bonds issued on August 7, 2018 were listed as below:

	As at June 30, 2020	As at December 31, 2019
Volatility	**30%**	30%
Time to expiration (years)	**3.10**	3.60
Risk free rate of interest	**1.11%**	1.58%
Dividend yield	**0.00%**	0.00%

(c) Convertible bonds issued on February 27, 2019

As at June 30, 2020, the fair value of the convertible bonds was approximately HKD782,138,000, equivalent to approximately RMB714,437,000, which was determined by an independent qualified valuer.

The significant inputs in the valuation model related to convertible bonds issued on February 27, 2019 were listed as below:

	As at June 30, 2020	As at December 31, 2019
Volatility	**30%**	30%
Time to expiration (years)	**3.66**	4.16
Risk free rate of interest	**0.98%**	1.53%
Dividend yield	**0.00%**	0.00%

11 DIVIDENDS

Pursuant to a resolution of the shareholders' meeting of Cixi Honghe on February 18, 2020, the dividend, including withholding tax, amounting to RMB5,355,000 to its majority shareholders and RMB2,295,000 to its minority shareholders was declared. The dividend to its majority shareholders and minority shareholders had been settled on February 21, 2020.

BUSINESS REVIEW AND PROSPECTS

In the first half of the year, a series of medical reform policies to promote the linkage among medical treatment, medical insurance and medicine have been rolled out successively. Policies such as the Key Points of Work of the Medical Administration and Management Authority in 2020 (《醫政醫管局2020年工作要點》) released at the National Medical Management Work Conference at the beginning of the year, the Key Points of Healthcare Security Work in 2020 (《2020年醫療保障工作要點》) issued by the National Healthcare Security Administration in February, the Opinions on Deepening the Reform of the Healthcare Security System (《關於深化醫療保障制度改革的意見》) distributed by the CPC Central Committee and the State Council in March this year, the Opinions of the State Council on Division of Work among Departments for Implementing the Key Work in the Government Work Report (《國務院關於落實《政府工作報告》重點工作部門分工的意見》) announced by the CPC Central Committee and the State Council in June this year, and the local policies introduced at the provincial and municipal levels all demonstrated the Chinese government's determination to promote the development of a more regulated market in the medical industry in China as well as a more refined and pragmatic approach to management, which entailed strategies and directions as well as tactics and guidelines. These include:

(1) in terms of medical treatment, the promotion of hierarchical diagnosis and treatment, strengthening evaluation of hospitals' grading, standardization of clinical pathways and ambulatory surgery, promotion of Internet healthcare and opening of psychological out-patient clinics, strengthening supervision and inspection, and combatting against false advertisements;

(2) in terms of medical insurance, managing the access of designated medical insurance institutions, expanding pilot cities for DRG payment and optimizing diagnosis-related grouping plan, and establishing a multi-level healthcare security system which encompasses fair coverage, fund-raising operation, efficient payment and timely monitoring;

(3) in terms of medicine, addition of pilot cities for the procurement of drugs and consumables with target quantity, simultaneously strengthening rational use regulation and elimination of markups, dynamic adjustment of the medical insurance drug catalogue and improvement of renewal management of procurement with target quantity, and the reform of medical insurance payment to achieve standardization of medical development and reasonableness of charges for medicines and consumables.

The introduction and implementation of these policies will bring continuous operating pressure to hospitals or medical groups that still rely on traditional development strategies such as "supporting medical industry by pharmaceutical business (以藥養醫)", excessive prescriptions and excessive marketing. However, such policies provide opportunities for the Group to pursue mergers and acquisitions and explore various business models. The Group will seize these historical development opportunities to keep enhancing its brand influence and continue to promote and implement the development strategy of "successful acquisition, well management, scale expansion (收到、管好、上量)".

Facing the restrictions brought about by the pandemic, the Group actively examined potential projects and promoted emerging businesses such as Internet healthcare

In the first half of the year, under the guidance of its overall strategy, the Group fully mobilized the comprehensive strength of its investment team and operation team to holistically streamline and examine potential projects in accordance with the established selection criteria for investment projects, including conducting systemic and in-depth analysis of various potential acquisition targets previously identified again in view of the latest operating conditions, communicating with and understanding of private hospitals in the key districts to be focused on by the Group, conducting multiple site visits of such hospitals, exchanges and discussions about feasible solutions for certain project hospitals proposed to be managed by the Group or to which the Group would provide consulting services, maintaining its focus on the Internet healthcare industry, exploring the implementation of Internet diagnosis and treatment models, and incubating projects that combine online and offline healthcare services.

The Group conducted intensive investigation on potential projects in key areas such as Tianjin, Jiangsu, Anhui, Zhejiang, Yunnan, Guangdong and Chongqing. Based on the prudent consideration of investment criteria and after repeated communication with the other parties and analysis of whether the projects were well managed and had growth potential, further investigation on certain projects has been abandoned whereas some potential projects have been selected. In the second half of the year, the Group will actively follow up on these projects, continue to coordinate various parties' resources to identify new potential projects, promote the development of emerging businesses such as "pharmacy at one's own expense (自費藥房)", "medical group (醫生集團)" and "Internet hospital (互聯網醫院)", strive to acquire hospitals or medical groups with strong regional influence or key disciplines and great development potential or cooperate with them in various ways to consolidate and expand the Group's resource-sharing hospital network. Meanwhile, the Group will enhance synergy between traditional and Internet healthcare and gradually realize the Group's diversified revenue model in order to lay a solid foundation for achieving its strategic goal of "successful acquisition, well management, scale expansion (收到、管好、上量)".

At present, the number of beds in the hospitals owned, managed or founded by the Group ("**Group Hospitals**") remains the same as that as at the end of 2019.

Facing the impact of the pandemic, the Group continued to strengthen operations to create value

The Group adopted comprehensive measures for the Group Hospitals such as streamlining strategic positioning, reinforcing cultural development, providing management tools, nurturing cadres, outputting supervision system, assisting in attracting mid- to high-end talents, which facilitated the continued rapid and healthy development of each Group Hospital.

In the first half of the year, facing the severe circumstances amidst the Coronavirus Disease 2019 ("**COVID-19**") pandemic, the Group promoted a two-level coordinated development model for itself and the Group Hospitals, provided support and value-added services to Group Hospitals in various key aspects and continuously improved the operation and control of the Group and the Group Hospitals to strengthen the core value system of Group Hospitals on "providing safe, convenient and dignified medical services to the people". In particular, it includes: (1) continuing to improve the organization, culture and system construction of the headquarters of the Group to strengthen control; (2) continuing to work on the systemic advancement of each professional line of the Group to strengthen execution; (3) continuing to work on exploring investment and merger and acquisition projects and project implementation to reinforce the strategy of "scale expansion (上量)"; (4) continuing to work on resources sharing between the Group and Group Hospitals to enhance synergy; (5) continuing to work on the informatization construction of the Group and Group Hospitals to strengthen the data foundation; (6) continuing to work on the adjustment and construction of the operation teams of Group Hospitals to strengthen leadership; (7) continuing to work on constant improvement of the operation of Group Hospitals to strengthen the effect of enhancement; (8) continuing to work on the integration of medical and healthcare big data, AI, finance and insurance to diversify innovation; and (9) continuing to work on the standardization and management of the listed company to strengthen connection with shareholders and resources in the capital market. The overall operating efficiency and performance of Group Hospitals declined in the first half of the year due to the COVID-19 pandemic, which are expected to improve in the second half of 2020.

In the first half of the year, in light of the extraordinary COVID-19 pandemic that caused disruptions to certain business and huge operating pressure on hospitals, the Group and the Group Hospitals worked together and adopted various measures to increase the number of out-patients, in-patients and surgical operations. As affected by external objective factors, various business indicators of Group Hospitals declined slightly when compared with the Corresponding Period of Previous Year. During the Reporting Period, the Group Hospitals recorded approximately 1,048,985 out-patient visits, representing a 20% decrease when compared with 1,311,487 out-patient visits for the Corresponding Period of Previous Year; approximately 37,622 in-patient visits, representing a decrease of 17% when compared with 45,499 in-patient visits for the Corresponding Period of Previous Year; approximately 7,681 surgical operations, representing a decrease of 11% when compared with 8,641 surgical operations for the Corresponding Period of Previous Year. The Group has achieved remarkable results in constantly improving the integrated operation and management of the Group Hospitals, which has laid a solid foundation for the continuing rapid and healthy growth of each Group Hospital in the future. As the current COVID-19 pandemic situation in the PRC continues but is becoming stable, the operating business performance of the Group Hospitals is gradually recovering. It is expected that the business (including the volume of out-patient visits, in-patient visits and surgical operations of Group Hospitals) of the Group in 2020 will be affected by COVID-19, but the impact is overall controllable.

Looking forward, the Group will continue to implement and promote the development strategy of "successful acquisition, well management, scale expansion (收到、管好、上量)", and proactively promote integration of industry resources. The principal measures to be adopted include:

(1) Continuing to strengthen cultural leadership and the establishment of system, so as to promote the integration of "successful acquisition, well management, scale expansion (收到、管好、上量)" strategy of the Group and the mission of continuous provision of safe, convenient and dignified medical services to the public, and strive for an efficient implementation of it;

(2) Continuing to utilize resources from different parties, including internal and external resources, and resources from controlling shareholders and existing shareholders, to expand the source of projects available to the Group and to track the potential key projects continuously, in order to accelerate the progress on high quality acquisition projects;

(3) Under the unified planning of the Group, continuous enhancement on the recruitment and appraisal system on the operation teams of the hospitals, in order to incentivize them to lead hospital staff to strive for innovation, and achieve the next level in the Group's strategy of "well management (管好)";

(4) Under the unified requirement and planning of the Group, to strengthen the risk management and control of the Group Hospitals, the supervision and evaluation of their quality on medical treatment and services, and to introduce training resources in a timely and proper manner in order to enhance the training and empowerment of its staff, thus ensuring the healthy and sustainable development of the Group Hospitals;

(5) Continuous advancement on the establishment of revenue diversification model of the Group, by relying on the Group Hospitals' attempt to establish "Internet hospital" in order to enhance the synergy on resources among doctors, achieve highly efficient communications among doctors and patients, and contribute to the efficiency on technology and economy, in order to ultimately promote a deep integration of digital economy and medical development;

(6) Continuous optimization on the synergy from resources among Group Hospitals and improving leadership and resources sharing of regional medical center, and actively proceeding with the commencement of demonstration projects surrounding the key academic subject or profession; and

(7) Regulating the management of the Company and strengthening its risk management, enhancing effective connection with the capital markets and increasing the brand influence of the Group in the capital markets, in order to lay a good foundation for the financing development of the Group.

FINANCIAL REVIEW

Results of Operations

During the Reporting Period, our revenue was RMB180.7 million, representing a decrease of approximately 13.4% when compared with RMB208.5 million of the Corresponding Period of Previous Year, which was mainly attributable to a decrease in management service fees derived from Shanghai Yangsi Hospital* (上海楊思醫院) ("**Yangsi Hospital**") and Zhejiang Jinhua Guangfu Oncological Hospital* (浙江金華廣福腫瘤醫院) ("**Jinhua Hospital**") and a decrease in the amount of revenue from the provision of general hospital services by Jiande Hospital of Traditional Chinese Medicine Co., Ltd.* (建德中醫院有限公司) ("**Jiande Hospital**") to individual patients.

Our revenue from the hospital management services segment included our revenue from the provision of hospital management services to Yangsi Hospital, Cixi Union Hospital*（慈溪協和醫院）("**Cixi Hospital**") and Jinhua Hospital. During the Reporting Period, the revenue from this segment was RMB101.0 million, representing a decrease of 6.6% when compared with RMB108.2 million of the Corresponding Period of Previous Year. The decrease in revenue was mainly attributable to the impact of COVID-19 pandemic, which caused a decrease in the management service fees recognized for providing services to Yangsi Hospital and Jinhua Hospital.

During the Reporting Period, our revenue from the general hospital services segment decreased by approximately 19.1% to RMB79.6 million from RMB98.3 million in the Corresponding Period of Previous Year. Revenue from this segment for the Reporting Period decreased mainly due to a decrease in the amount of revenue from the provision of general hospital services by Jiande Hospital to individual patients, which was the result of the decrease in the number of out-patient and in-patient visits of Jiande Hospital for the Reporting Period as affected by the COVID-19 pandemic.

Our adjusted gross profit was RMB96.4 million for the Reporting Period, excluding the impacts of expenses of share-based awards and amortization of identifiable intangible assets identified in acquisitions, representing a decrease of approximately 6.1% when compared with RMB102.6 million for the Corresponding Period of Previous Year. This was mainly attributable to the impact of COVID-19 pandemic, which caused a decrease in the management service fees recognized for providing services to Yangsi Hospital and Jinhua Hospital.

We recorded adjusted administrative expenses of RMB27.5 million for the Reporting Period, excluding the impacts of other one-off employee benefit expenses, representing a decrease of 14.1% when compared with RMB32.0 million for the Corresponding Period of Previous Year, which was primarily due to a decrease in professional service fees for the Reporting Period when compared with the Corresponding Period of Previous Year.

We recorded adjusted operating profit of RMB68.3 million for the Reporting Period, a decrease of approximately RMB4.4 million from RMB72.7 million for the Corresponding Period of Previous Year. This is mainly due to the impact of COVID-19 pandemic, which caused a decrease in the management service fees recognized for providing services to Yangsi Hospital and Jinhua Hospital.

We recorded adjusted finance income (net) of RMB3.6 million for the Reporting Period, excluding the impact of foreign exchange gains mainly relating to cash and cash equivalents, and financial expenses on other financial liability at amortized cost, representing an increase of RMB6.5 million when compared with the finance expense (net) (excluding the effect of foreign exchange gains mainly relating to cash and cash equivalents, and the financial income on other financial liability at amortized cost of RMB1.0 million) of RMB2.9 million for the Corresponding Period of Previous Year. The increase in finance income (net) was primarily due to an increase of RMB6.7 million in interest income from loan to a related party, demand deposit, term deposit and deposit held at call when compared with the Corresponding Period of Previous Year.

For the Reporting Period, we have recorded an Adjusted Net Profit of RMB56.5 million, representing an increase of approximately 9.1% when compared to the adjusted net profit of RMB51.8 million of the Corresponding Period of Previous Year (excluding the effect of financial income on other financial liability at amortized cost of RMB1.0 million of the Corresponding Period of Previous Year). Without taking into account the impact of the adjusted items, such increase was mainly due to the decrease in income tax expenses of RMB2.7 million when compared with the Corresponding Period of Previous Year (which is mainly due to the decrease in the operating profit of the Group), and the finance income (net) for the Reporting Period has increased by RMB6.5 million as compared to the finance expense (net) from the Corresponding Period of Previous Year.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2020, our total equity was RMB1,249.4 million (as at December 31, 2019: RMB1,817.8 million). As at June 30, 2020, we had current assets of RMB1,339.1 million (as at December 31, 2019: RMB1,277.5 million) and current liabilities of RMB925.9 million (as at December 31, 2019: RMB492.9 million). As at June 30, 2020, our current ratio was 1.45, as compared with 2.59 as at December 31, 2019.

Our current assets increased by approximately RMB61.6 million from approximately RMB1,277.5 million as at December 31, 2019 to RMB1,339.1 million as at June 30, 2020, primarily due to an increase in receivables from related parties and financial assets at fair value through profit or loss accounting. Our current liabilities increased by RMB433.0 million from RMB492.9 million as at December 31, 2019 to RMB925.9 million as at June 30, 2020, primarily due to the portion of convertible bonds that will mature within one year.

Our primary uses of cash in the Reporting Period were for working capital, term deposits and payment for financial assets at fair value through profit or loss accounting. We financed our liquidity requirements mainly with cash flows generated from our operating activities. As at June 30, 2020, we had bank borrowings of RMB215.0 million (as at December 31, 2019: RMB214.4 million), and we had cash and cash equivalents of RMB922.5 million (as at December 31, 2019: RMB836.6 million). Our Directors believed that, after taking into account the financial resources available to us, which include internally generated funds and the net proceeds from the Listing, we had sufficient working capital to meet our needs. As at June 30, 2020, the Group did not have any other material contingent liabilities or guarantees.

EVENTS AFTER THE REPORTING PERIOD

No material subsequent event was undertaken by the Company or by the Group after June 30, 2020 and up to the date of this announcement.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**"). Except for as disclosed below, the Board considers that, during the Reporting Period, the Company has complied with the applicable code provisions set out in the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

AUDIT COMMITTEE

The unaudited results and the condensed consolidated financial information of the Group for the Reporting Period have been reviewed by the Audit Committee. The Audit Committee consists of two independent non-executive Directors, namely Mr. ZHOU Xiangliang (Chairman) and Mr. SHI Luwen, and a non-executive Director, Ms. SHI Wenting. The Audit Committee is of the opinion that such financial information comply with applicable accounting standards, the Listing Rules and all other applicable legal requirements.

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

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.hcclhealthcare.com). The interim report of the Company for the Reporting Period will be dispatched to the shareholders of the Company and made available for viewing on the above websites in due course.

By order of the Board
Hospital Corporation of China Limited
Chen Shuai
Chairman

Beijing, China, August 28, 2020

As at the date of this announcement, the Directors of the Company are Mr. SU Zhiqiang and Mr. LU Wenzuo being the executive Directors; Mr. CHEN Shuai, Ms. SHI Wenting, Ms. LIU Lu and Ms. WANG Nan being the non-executive Directors; and Mr. DANG Jinxue, Mr. SHI Luwen and Mr. ZHOU Xiangliang being the independent non-executive Directors.

* *For identification purpose only*