弘和仁愛
HOSPITAL CORPORATION

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

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 3869

2020 Interim Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Su Zhiqiang (蘇志強)
Mr. Lu Wenzuo (陸文佐)

Non-executive Directors

Mr. Chen Shuai (陳帥)
(Chairman and Acting Chief Executive Officer)
Ms. Shi Wenting (石文婷)
Ms. Liu Lu (劉路)
Ms. Wang Nan (王楠)

Independent Non-executive Directors

Mr. Dang Jinxue (党金雪)
Mr. Shi Luwen (史錄文)
Mr. Zhou Xiangliang (周向亮)

AUDIT COMMITTEE

Mr. Zhou Xiangliang (周向亮) *(Chairman)*
Mr. Shi Luwen (史錄文)
Ms. Shi Wenting (石文婷)

REMUNERATION COMMITTEE

Mr. Dang Jinxue (党金雪) *(Chairman)*
Mr. Su Zhiqiang (蘇志強)
Mr. Zhou Xiangliang (周向亮)

NOMINATION COMMITTEE

Mr. Chen Shuai (陳帥) *(Chairman)*
Mr. Shi Luwen (史錄文)
Mr. Dang Jinxue (党金雪)

COMPANY SECRETARY

Ms. Kwong Yin Ping Yvonne (鄺燕萍)

AUTHORISED REPRESENTATIVES

Mr. Su Zhiqiang (蘇志強)
Ms. Kwong Yin Ping Yvonne (鄺燕萍)

LISTING INFORMATION AND STOCK CODE

The Stock Exchange of Hong Kong Limited
(the "**Stock Exchange**")
Stock Code: 3869

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

Hospital Corporation of China Limited (the "**Company**", together with its subsidiaries, the "**Group**", "**we**", "**our**")
1602, Tower B, Jin Qiu International Building
No. 6, Zhichun Road, Haidian District, Beijing
The People's Republic of China ("**China**")

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 10, 70/F
Two International Finance Centre
No. 8 Finance Street
Central
Hong Kong

REGISTERED OFFICE

Maples Corporate Services Limited
PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

COMPANY'S WEBSITE

www.hcclhealthcare.com

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants and Registered Public Interest Entity Auditor

HONG KONG LEGAL ADVISOR

Cleary Gottlieb Steen & Hamilton (Hong Kong)

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square, Grand Cayman
KY1-1102, Cayman Islands

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 six months ended June 30, 2020 (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; and (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 six months ended June 30, 2019 (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.

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 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 last 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, when 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).

	Bank borrowings	
	As at June 30, 2020	As at December 31, 2019
	RMB'000	*RMB'000*
Within 1 year	**145,580**	114,744
Between 1 and 2 years	**50,518**	62,286
Between 2 and 5 years	**18,944**	37,372
	215,042	214,402

As at June 30, 2020, the net gearing ratio, calculated based on the borrowing balance divided by the total equity, of the Company is 17.2%. 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

There is no material subsequent event undertaken by the Company or by the Group after June 30, 2020 and up to the date of this interim report.

USE OF PROCEEDS FROM THE LISTING AND OTHER FUND RAISING ACTIVITIES

Use of 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 upon exercise of the over-allotment option and after deducting underwriting commissions and all related expenses was HK$465.6 million. The net proceeds received from the global offering has been or will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the Prospectus. All unutilized amounts are deposited in licensed banks in Hong Kong and will be used in a manner that is consistent with that mentioned in the Prospectus and according to the needs of the Company from time to time. An analysis of the utilization of the net proceeds from the Listing Date up to June 30, 2020 is set out below:

	Percentage to the total amount	Net Proceeds *HK$ million*	Utilized Amount *HK$ million*	Unutilized Amount *HK$ million*	Expected time period
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	44.69	6.53	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	20.36	2.92	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	12.35	6.27	The balance is expected to be fully utilized by the end of 2021
Upgrading and improving our information technology system	7%	32.59	27.22	5.37	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	444.51	21.09	

CONVERTIBLE BONDS

Vanguard 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. The Vanguard Convertible Bonds will mature three years upon their issuance or may be converted into 26,000,000 ordinary shares of the Company (assuming the conversion rights are exercised in full and subject to adjustment). Upon maturity, the Company will redeem all outstanding Vanguard Convertible Bonds at its principal amount.

The market price of the Company's shares on January 25, 2018, being the date on which the terms of the issuance of the Vanguard Convertible Bonds were determined, was HK$15.00 per share.

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 Medical Management Co., Ltd. ("**Cixi Hongai**") in March 2018. As at June 30, 2020, 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 June 30, 2020, the analysis of use of the net proceeds is as follows:

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

As at June 30, 2020, 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.

Hony Convertible Bonds

On May 29, 2018, the Company and Hony Capital Fund VIII (Cayman), L.P. ("**Hony Fund VIII**") 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 Holdings Limited ("**Oriental Ally**"), a company incorporated in the British Virgin Islands with limited liability and owned by Hony Fund VIII, 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 Limited ("**Impeccable Success**"), which in turn directly owns 75% of the equity interest in Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd. ("**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 Hony Fund VIII 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 or may be converted into 38,693,985 ordinary shares of the Company (assuming the conversion rights are exercised in full and subject to adjustment) 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 will redeem all outstanding Hony Convertible Bonds at its principal amount.

The market price of the Company's shares on May 29, 2018, being the date on which the terms of the issuance of the Hony Convertible Bonds were determined, was HK$20.10 per share.

As at June 30, 2020, 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.

LW Convertible Bonds

In view of the Group's need for further financing to fund our future acquisitions, 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 40,000,000 ordinary shares of the Company (assuming the conversion rights are exercised in full and subject to adjustment) 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 Company's 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 per share.

The unutilized portion of the net proceeds of approximately HK$800 million as at June 30, 2020 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 other hospitals or hospital management businesses by the Group and as discussed in the section headed "Management Discussion and Analysis–Business Review and Prospects" in this interim report, the Group will strive to make substantial progress on such projects in 2020. An analysis of the utilization of the net proceeds up to June 30, 2020 is set out below:

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

As at June 30, 2020, 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 Reporting Period, 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 "Management Discussion and Analysis – Business Review and Prospects" in this report, 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, facing the severe circumstances amidst the COVID-19 pandemic, the Company is unable to provide the estimated timetables for these potential acquisitions at this moment.

EXPOSURE TO FOREIGN EXCHANGE RISK

Foreign currency risk is the risk that the value of a financial instrument fluctuates because of the changes in foreign exchange rates.

The Group mainly operates in the PRC with most of the transactions settled in RMB. Foreign exchange rate risk arises when recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

As at June 30, 2020, the Group was exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US dollars and HK dollars.

The Group has not used any derivative instruments to hedge against its exposure to currency risk. The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

PLEDGE OF ASSETS

On December 11, 2017, the Group entered into a long-term loan agreement with China Merchants Bank Shanghai Zhangyang Branch, the proceed of which amounting to HKD285,280,000 was used for settlement of the consideration paid for acquisition of Jiande Hexu Enterprise Management Co., Ltd ("**Jiande Hexu**"). The bank loan commencing from December 12, 2017 will mature until 2022 and bear a floating interest rate with reference to Hong Kong Interbank Offer Rate plus 360 basis points per annum. The bank loan was secured by the 100% equity interest of Jiande Hexu and Jiande Heyue Enterprise Management Co., Ltd. and 70% equity interest of Jiande Hospital, Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. and Zhejiang Dajia Medicines Co., Ltd.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this interim report, for the six months ended June 30, 2020, the Group did not have any significant investment or future plans in respect of material investments or capital assets.

EMPLOYEE AND REMUNERATION POLICIES

As at June 30, 2020, the Group had 473 full-time employees (as at June 30, 2019: 468). 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 six months ended June 30, 2020, the total employee benefits expenses (including Directors' remuneration) were RMB57.3 million (the first half of 2019: RMB64.3 million).

MATERIAL ACQUISITIONS, FINANCING ACTIVITY AND DISPOSALS

As at June 30, 2020, the Group did not have any material acquisitions, financing activity and disposals.

CONTINGENT LIABILITIES

As at June 30, 2020, the Group did not have any material contingent liabilities or guarantees.

INTERIM DIVIDEND

The board of Directors has recommended that no interim dividend be declared in respect of the six months ended June 30, 2020.

DIRECTORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As at June 30, 2020, the interests or short positions of our Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) to be entered into the register required to be kept by the Company pursuant to Section 352 of the SFO, or (iii) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") were as follows:

Long positions in the Shares and underlying Shares of the Company

Name of Director	Capacity/Nature of interest	Number of Shares or underlying Shares	Approximate percentage of shareholding interest [(2)]
Ms. Liu Lu	Interest in controlled corporation	9,098,800[(1)]	6.58%

Notes:

(1) Ms. Liu Lu is one of the general partners of Hefei Kangyang Capital Management Partnership (Limited Partnership) (合肥康養資本管理合夥企業(有限合夥)), which holds 55% of the equity interest in Anhui Zhong'an Health Investment Management Co., Ltd. (安徽中安健康投資管理有限公司) ("**Anhui Zhong'an**"). Anhui Zhong'an is the general partner of Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) (安徽省中安健康養老服務產業投資合夥企業(有限合夥)) ("**Anhui Zhong'an LP**"), which is a limited partnership formed under the laws of the PRC as an investment vehicle and holds approximately 6.58% of the issued share capital of the Company. Ms. Liu Lu is a director of Anhui Zhong'an.

(2) As at June 30, 2020, the total number of issued shares of the Company was 138,194,000.

Save as disclosed above, as of June 30, 2020, so far as is known to the Directors, none of the Directors or the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified pursuant to Divisions 7 and 8 of Part XV of the SFO or to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at June 30, 2020, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the shares or the underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued Shares of the Company:

Long positions in the Shares and underlying Shares of the Company

Name of Shareholder	Capacity/Nature of interest	Number of Shares or underlying Shares of the Company	Approximate percentage of shareholding interest [7]
Vanguard Glory[1]	Beneficial owner	123,000,000	89.01%
Hony Capital Fund V, L.P.[2]	Interest in controlled corporation	123,000,000	89.01%
Hony Capital Fund V GP, L.P.[2]	Interest in controlled corporation	123,000,000	89.01%
Hony Capital Fund V GP Limited[2]	Interest in controlled corporation	123,000,000	89.01%
Hony Group Management Limited[2][3]	Interest in controlled corporation	161,693,985	117.01%
Hony Managing Partners Limited[2][3]	Interest in controlled corporation	161,693,985	117.01%
Exponential Fortune Group Limited[2][3]	Interest in controlled corporation	161,693,985	117.01%
Hony Fund VIII[3]	Beneficial owner	38,693,985	28.00%
Hony Capital Fund VIII GP (Cayman), L.P.[3]	Interest in controlled corporation	38,693,985	28.00%
Hony Capital Fund VIII GP (Cayman) Limited[3]	Interest in controlled corporation	38,693,985	28.00%
Mr. Zhao John Huan[4]	Interest in controlled corporation	161,693,985	117.01%
Anhui Zhong'an LP[5]	Beneficial owner	9,098,800	6.58%
Anhui Zhong'an[5]	Interest in controlled corporation	9,098,800	6.58%
Hefei Kangyang Capital Management Partnership (Limited Partnership) (合肥康養資本管理合夥企業(有限合夥))[5]	Interest in controlled corporation	9,098,800	6.58%
Anhui Chuanggu Equity Investment Fund Management Co., Ltd. (安徽創谷股權投資基金管理有限公司)[5]	Interest in controlled corporation	9,098,800	6.58%
Mr. Niu Yang[5]	Interest in controlled corporation	9,098,800	6.58%
Leap Wave Limited[6]	Beneficial owner	40,000,000	28.94%
Legend Holdings Corporation[6]	Interest in controlled corporation	40,000,000	28.94%

(1) Vanguard Glory is a wholly-owned subsidiary of Hony Fund V, L.P. and holds (a) 97,000,000 shares of the Company and (b) convertible bonds issued by the Company, which can be converted into 26,000,000 shares of the Company and represent approximately 18.81% of the issued share capital of the Company as of June 30, 2020. For further details, please refer to the section headed "Convertible Bonds" in this report.

(2) Hony Capital Fund V, L.P. is an exempted limited partnership formed under the laws of the Cayman Islands as an investment vehicle. The general partner of Hony Capital Fund V, L.P. is Hony Capital Fund V GP, L.P., whose general partner is Hony Capital Fund V GP Limited. Hony Capital Fund V GP Limited is wholly owned by Hony Group Management Limited, 80% equity interest of which is held by Hony Managing Partners Limited, which in turn is wholly owned by Exponential Fortune Group Limited. Exponential Fortune Group Limited is held as to 49% by Mr. Zhao John Huan. Mr. Zhao John Huan is a director of Hony Capital Fund V GP Limited, Hony Group Management Limited, Hony Managing Partners Limited and Exponential Fortune Group Limited.

(3) Hony Capital Fund VIII (Cayman), L.P. is an exempted limited partnership formed under the laws of the Cayman Islands as an investment vehicle. The general partner of Hony Capital Fund VIII (Cayman), L.P. is Hony Capital Fund VIII GP (Cayman), L.P., whose general partner is Hony Capital Fund VIII GP (Cayman) Limited. Hony Capital Fund VIII GP (Cayman) Limited is wholly-owned by Hony Group Management Limited, 80% equity interest of which is held by Hony Managing Partners Limited, which in turn is wholly-owned by Exponential Fortune Group Limited. Exponential Fortune Group Limited is held as to 49% by Mr. Zhao John Huan. Mr. Zhao John Huan is a director of Hony Capital Fund VIII GP (Cayman) Limited, Hony Group Management Limited, Hony Managing Partners Limited and Exponential Fortune Group Limited.

(4) Mr. Zhao John Huan is deemed to be interested in a total of 161,693,985 shares of the Company that are held by his controlled corporations, Vanguard Glory and Hony Fund VIII. Vanguard Glory holds 97,000,000 shares of the Company and holds convertible bonds issued by the Company that can be converted into 26,000,000 shares of the Company. Hony Fund VIII holds convertible bonds issued by the Company that can be converted into 38,693,985 shares of the Company. For further details, please refer to the section headed "Convertible Bonds" in this report.

(5) Anhui Zhong'an LP is a limited partnership formed under the laws of the PRC as an investment vehicle. The general partner of Anhui Zhong'an LP is Anhui Zhong'an, which is jointly held as to 55% by Hefei Kangyang Capital Management Partnership (Limited Partnership) (合肥康養資本管理合夥企業(有限合夥)) and as to 45% by Anhui Chuanggu Equity Investment Fund Management Co. Ltd. (安徽創谷股權投資基金管理有限公司). Mr. Niu Yang is one of the general partners of Hefei Kangyang Capital Management Partnership (Limited Partnership) (合肥康養資本管理合夥企業(有限合夥)). Ms. Liu Lu is a director of Anhui Zhong'an and Anhui Chuanggu Equity Investment Fund Management Co. Ltd. (安徽創谷股權投資基金管理有限公司).

(6) Leap Wave Limited, which is wholly-owned by Legend Holdings Corporation, holds convertible bonds issued by the Company that can be convertible into 40,000,000 shares of the Company, representing approximately 28.94% of the issued share capital of the Company as of June 30, 2020. For further details, please refer to the section headed "Convertible Bonds" in this report.

(7) As at June 30, 2020, the total number of issued shares of the Company was 138,194,000.

SHARE-BASED PAYMENT SCHEMES

(a) Pre-IPO Share Appreciation Rights Scheme

On November 28, 2016, the Board approved a share appreciation rights scheme prior to the initial public offering of the Company (the "**Pre-IPO SARs Scheme**") which enables the Company to grant share appreciation rights to certain members of management (collectively referred to as the "**Pre-IPO SARs Grantees**"). The purpose of the Pre-IPO SARs Scheme is to enable the Company to grant share appreciation rights to eligible participants as rewards or returns for their contribution or potential contribution to the Company and/or its subsidiaries.

Pursuant to the Pre-IPO SARs Scheme, the Company granted 2,500,000 notional shares to the Pre-IPO SARs Grantees entitling them to receive cash payments based on the appreciation of the notional shares over a vesting period starting from June 30, 2016.

Pursuant to the lock-up restrictions provided in the Pre-IPO SARs Scheme, from March 15, 2018, the first batch, representing 25% of the total number of notional shares were free to be vested. In 2018, one of the Pre-IPO SARs Grantees resigned and the remaining 75% of locked-up notional shares granted to him lapsed pursuant to the Pre-IPO SARs Scheme.

In January 2019, one of the Pre-IPO SARs Grantees exercised the aforementioned 25% of total notional shares under the Pre-IPO SARs Scheme that were free to be vested.

From March 15, 2019, the second batch, representing 25% of the total number of notional shares, were free to be vested. In 2019, one of the remaining Pre-IPO SARs Grantee resigned and the remaining 50% of locked-up notional shares granted to him lapsed pursuant to the Pre-IPO SARs Scheme.

From March 15, 2020, the third batch, representing 25% of the total number of notional shares, were free to be vested.

The share-based compensation expense related to the Pre-IPO SARs Scheme of RMB378,000 was derecognized as "cost of revenue" for the six months ended June 30, 2020 (the first half of 2019: RMB2,030,000 was derecognized as "cost of revenue").

(b) **Share Incentive Scheme**

On October 24, 2017, Vanguard Glory entered into a share incentive scheme (the "**Share Incentive Scheme**") with certain members of management (collectively referred to as the "**Share Incentive Grantees**" and each a "**Share Incentive Grantee**"). Pursuant to the Share Incentive Scheme, Vanguard Glory granted 6,412,201 share awards to the Share Incentive Grantees entitling them to subscribe for shares held by Vanguard Glory at an exercise price of HK$14.35 per share, subject to certain lock-up restrictions.

In 2018, two of the Share Incentive Grantees resigned and the Company agreed with one of the grantees that all of the share awards granted by Vanguard Glory to him would remain in effect after his resignation with an accelerated vesting schedule. Further, as agreed by the Company, 25% of the share awards granted by Vanguard Glory to another grantee would be free to be vested after her resignation, and the remaining 75% locked-up notional shares granted to her lapsed. The share-based compensation expenses in relation to the share awards granted to the resigned Share Incentive Grantee for the year ended December 31, 2018 was recognised as capital reserve upon her resignation.

In 2019, two of the Share Incentive Grantees resigned and as agreed by the Company, 50% of the share awards granted by Vanguard Glory to one of the grantees would be released from the lock-up restrictions and free to be vested after his resignation, while the remaining 50% locked up notional shares granted to him lapsed. The share-based compensation expenses in relation to the share awards granted to the resigned Share Incentive Grantee for the six months ended June 30, 2020 were recognised as capital reserve upon his resignation. Further, pursuant to the Share Incentive Scheme, the share awards granted to another grantee who has resigned which were permitted to vest but had not been exercised will be terminated and the remaining locked-up notional shares granted to him shall lapse.

The share-based compensation expense related to the Share Incentive Scheme of RMB802,000 (the first half of 2019: RMB4,010,000) was recognized as "cost of revenue" for the six months ended June 30, 2020.

(c) Post-IPO Share Appreciation Rights Scheme

We adopted a post-IPO share appreciation rights scheme (the "**Post-IPO SARs Scheme**") on December 13, 2016 to enable the Company to grant the Post-IPO Share Appreciation Rights (the "**Post-IPO SARs**") to Post-IPO SARs Eligible Participants (as defined below) as rewards or returns for their contribution or potential contribution to the Company and/or any of the subsidiaries. The Post-IPO SARs Scheme does not involve the grant of options over new securities of the Company. Under the scheme, directors, employees, advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture partners and service providers of the Company or any of the subsidiaries (the "**Post-IPO SARs Eligible Participants**") who, in the sole opinion of the Board, have contributed to the Company and/or any of the subsidiaries will be entitled to receive cash payments determined based on the appreciation of the notional Shares over a specified period pursuant to the Post-IPO SARs Scheme. The Post-IPO SARs Eligible Participants who accepted the offer do not have any voting rights or rights to dividends entitled by the Shareholders.

Details of the Post-IPO SARs Scheme were set out in the Prospectus. Since the Listing Date and up to the date of this interim report, no Post-IPO SARs had been granted under the Post-IPO SARs Scheme.

Save as disclosed above or otherwise in this interim report, the Company does not have other share incentive schemes.

During the Reporting Period, there is no change to the shares and share appreciation rights granted under the above reward scheme.

CONTINUING CONNECTED TRANSACTIONS

On June 3, 2019, Jiande Hospital, an indirect non-wholly owned subsidiary of the Company, entered into the following agreements which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

(i) a medicine procurement agreement ("**Medicine Procurement Agreement**") with Zhejiang Zhongyouli Medicines Co., Ltd. (浙江中友力醫藥有限公司) ("**Zhejiang Zhongyouli**"), a connected person of the Company under the Listing Rules, pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Zhongyouli agreed to sell, certain types of medicines from time to time during the term of the Medicine Procurement Agreement, for a three years' term ending on December 31, 2021. For medicines listed in the 2018 Medical Insurance Price Catalog of Zhejiang Province (浙江省二零一八年醫保支付價目錄), the purchase price shall be determined in accordance with the price of the winning bid of supplying medicine to the medical insurance of Zhejiang Province. For medicines not listed in the 2018 Medical Insurance Price Catalog of Zhejiang Province (浙江省二零一八年醫保支付價目錄), the purchase price shall be determined in accordance with the purchase price of the same medicine on the Medicine Bidding and Purchasing Platform of Zhejiang Province (浙江省藥品招標採購平台); and

(ii) a medical consumables and equipment procurement agreement ("**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) ("**Zhejiang Dajia**"), a connected person of the Company under the Listing Rules, pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Dajia agreed to sell, certain medical consumables and equipment from time to time during the term of the Medical Consumables and Equipment Procurement Agreement, for a three years' term ending on December 31, 2021. The purchase price shall be more favorable than the fair market values of or prices offered by independent third parties for the medical consumables and equipment to be purchased under the Medical Consumables and Equipment Procurement Agreement and will be determined after arm's length negotiation and agreement between the parties to the Medical Consumables and Equipment Procurement Agreement with reference to: (a) the current market prices of similar products provided by independent third parties in their normal course of business in the vicinity of the parties and on normal commercial terms; and (b) the prices of similar products in non-connected transactions between Zhejiang Dajia and independent third parties.

Annual caps and historical transaction amounts

Annual caps for the Medicine Procurement Agreement

The annual caps in respect of the transactions contemplated under the Medicine Procurement Agreement for each of the three financial years ending December 31, 2019, 2020 and 2021 are expected to be RMB50 million for each year.

Annual caps for the Medical Consumables and Equipment Procurement Agreement

The annual caps in respect of the transactions contemplated under the Medical Consumables and Equipment Procurement Agreement for each of the three financial years ending December 31, 2021 are expected to be RMB7 million, RMB8 million and RMB9 million, respectively.

Historical transaction amounts

During the six months ended June 30, 2020, the cost of purchasing medicines, medical consumables and medical equipment incurred by the Group pursuant to the Medicine Procurement Agreement and the Medical Consumables and Equipment Procurement Agreement amounted to RMB13,862,000, comprising (i) RMB10,881,000 paid to Zhejiang Zhongyouli for the purchase of medicines; and (ii) RMB2,981,000 paid to Zhejiang Dajia for the purchase of medical consumables and equipment. The actual amounts paid by the Group to Zhejiang Zhongyouli and Zhejiang Dajia under the Medicine Procurement Agreement and the Medical Consumables and Equipment Procurement Agreement, respectively, did not exceed the above-mentioned annual caps approved by the Board.

Internal control procedures

For the above continuing connected transactions, the procurement department of the Group has in place the following internal control procedures to ensure that the pricing terms offered by Zhejiang Zhongyouli and Zhejiang Dajia reflect the fair market prices of similar or related products:

(i) conducting quarterly reviews of the guidance or reference prices available on purchasing platforms in Zhejiang province;

(ii) comparing, on a quarterly basis, procurement prices of medicines and medical consumables or equipment offered to Jiande Hospital by Zhejiang Zhongyouli and Zhejiang Dajia, against the procurement prices of similar or related products offered to other hospitals managed or founded by the Group; and

(iii) seeking quotations for similar medicines and medical consumables or equipment offered by independent third party suppliers from time to time depending on market price adjustments and anticipated changes in pricing terms within the industry.

Based on the quotations obtained and results of the reviews aforementioned, after taking into account the relevant factors on market price adjustments and anticipated changes in pricing terms within the industry, the Board believes that the pricing terms offered by Zhejiang Zhongyouli and Zhejiang Dajia reflected the fair market prices of similar or related products.

The independent non-executive Directors of the Company will conduct an annual review of the CCTs to ensure that they are conducted in accordance with the terms of the agreements governing the CCTs (the "**Agreements**") and the pricing policies of the Company during the year ending on December 31, 2020, and that the terms under the Agreements are normal commercial terms or more favorable terms as compared to those offered by independent third party suppliers during the year ending on December 31, 2020.

Public Float

Based on information that was publicly available to the Company and to the best knowledge of the Board, as at the date of this report, the Company maintained the public float requirement as prescribed under the Listing Rules of not less than 25%.

CHANGES TO DIRECTORS' INFORMATION

Save as disclosed otherwise in this interim report, the directors confirm that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

COMPLIANCE WITH MODEL CODE

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

AUDIT COMMITTEE

The unaudited results and the condensed consolidated financial information of the Group for the six months ended June 30, 2020 have been reviewed by the Audit Committee. The Audit Committee consists of two independent non-executive Directors, Mr. Zhou Xiangliang (周向亮) (Chairman) and Mr. Shi Luwen (史錄文), and a non-executive Director, Ms. Shi Wenting (石文婷). The Audit Committee is of the opinion that such financial information comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements.

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

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

FINANCIAL INFORMATION

The Group's interim results for the six months ended June 30, 2020 have not been audited but have been reviewed by the Group's external auditor, PricewaterhouseCoopers, and by the Audit Committee.

TO THE BOARD OF DIRECTORS OF HOSPITAL CORPORATION OF CHINA LIMITED
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 30 to 74, which comprises the interim condensed consolidated balance sheet of Hospital Corporation of China Limited (the 'Company') and its subsidiaries (together, the 'Group') as at June 30, 2020 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 'Interim Financial Reporting'. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, August 28, 2020

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended June 30, 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	5	**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	13	**(668,219)**	–
Other income	6	**3,492**	515
Other gains-net	7	**5,344**	42,579
Operating (loss)/profit		**(611,942)**	93,815
Finance income	8	**21,122**	25,246
Finance costs	8	**(11,094)**	(6,122)
(Loss)/profit before income tax		**(601,914)**	112,939
Income tax expense	9	**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)	10	**(3.874)**	0.594
– Diluted (loss)/earnings per share (in RMB)	10	**(3.874)**	0.005

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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	11	**143,168**	146,176
Right-of-use assets	12	**40,328**	42,011
Intangible assets	13	**2,222,222**	2,905,829
Deferred income tax assets	23	**2,054**	1,413
Other receivables, deposits and prepayments	15	**2,901**	2,012
Amount due from a related party	16	**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	14	**30,352**	30,332
Other receivables, deposits and prepayments	15	**1,744**	16,405
Amounts due from related parties	16	**266,595**	217,947
Financial assets at fair value through profit or loss	4.3(i)	**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	17	**123**	123
Share premium	17	**435,304**	435,304
Other reserves	18	**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

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

	Notes	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings	21	69,462	99,658
Convertible bonds	22	1,284,486	1,693,430
Lease liabilities	12	316	650
Deferred income tax liabilities	23	300,153	350,087
Accruals, other payables and provisions	20	175	362
Total non-current liabilities		1,654,592	2,144,187
Current liabilities			
Trade payables	19	16,978	13,325
Accruals, other payables and provisions	20	81,399	78,860
Amounts due to related parties	16	20,947	23,749
Contract liabilities		112	539
Current income tax liabilities		20,549	28,713
Borrowings	21	145,580	114,744
Convertible bonds	22	403,257	–
Lease liabilities	12	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

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 30 to 74 were approved by the Board of Directors on August 28, 2020 and were signed on its behalf.

Chen Shuai　　　　Su Zhiqiang

		Attributable to owners of the Company							
	Notes	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves (Note 18) RMB'000	Retained earnings/ (accumulated losses) RMB'000	Sub-total RMB'000	Attributable to non-controlling interests RMB'000	Total equity RMB'000
(Unaudited)									
Balance at January 1, 2020		123	–	435,304	924,231	123,448	1,483,106	334,734	1,817,840
Comprehensive loss									
– Loss for the period		–	–	–	–	(535,403)	(535,403)	(31,589)	(566,992)
Share-based payments									
– Share option scheme	18	–	–	–	802	–	802	–	802
Dividends provided for or paid		–	–	–	–	–	–	(2,295)	(2,295)
Balance at June 30, 2020		123	–	435,304	925,033	(411,955)	948,505	300,850	1,249,355

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

		Attributable to owners of the Company							
	Notes	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves (Note 18) RMB'000	(Accumulated losses)/ retained earnings RMB'000	Sub-total RMB'000	Attributable to non-controlling interests RMB'000	Total equity RMB'000
(Unaudited)									
Balance at January 1, 2019		123	–*	432,993	910,458	(19,172)	1,324,402	343,582	1,667,984
Comprehensive income									
– Profit for the period		–	–	–	–	82,029	82,029	12,896	94,925
Share vested under the share-based payments	17	–	–*	2,311	–	–	2,311	–	2,311
Share-based payments – Share subscription agreement	18	–	–	–	311	–	311	–	311
Share-based payments – Share option scheme	18	–	–	–	4,010	–	4,010	–	4,010
Balance at June 30, 2019		123	–	435,304	914,779	62,857	1,413,063	356,478	1,769,541

* The balance stated above was less than RMB500.

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Six months ended June 30,	
	Notes	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Cash flows from operating activities			
Cash generated from operations		44,935	17,725
Interests received		216	216
Income tax paid		(23,817)	(21,651)
Net cash generated from/(used in) operating activities		21,334	(3,710)
Cash flows from investing activities			
Payments for property, plant and equipment		(6,216)	(5,778)
Payments for intangible assets		–	(178)
Payments for financial assets at fair value through profit or loss	4.3(iii)	(167,360)	–
Payment of professional fees for investing activities		(1,535)	(2,008)
Placement of term deposits with initial terms of over three months		(5,261)	–
Loans to related parties		(23,157)	(38,573)
Proceeds from disposal of financial assets at fair value through profit or loss	4.3(iii)	109,168	68,730
Interest received on financial assets at fair value through profit or loss	4.3(iii)	106	–
Interest received on fixed deposits		7,758	3,032
Refund of monetary fund		15,000	–
Redemption of term deposits with initial terms of over three months		134,370	–
Net cash generated from investing activities		62,873	25,225
Cash flows from financing activities			
Proceeds from borrowings		30,100	40,000
Proceeds from convertible bonds		–	682,160
Repayment to related parties		(489)	(28,124)
Repayment of borrowings		(31,929)	(41,759)
Payment of loan interests		(7,323)	(7,201)
Payment of professional fees for financing activities		–	(1,623)
Principal elements of lease payments		(1,097)	(948)
Dividend paid to non-controlling interests of subsidiaries		(2,295)	–
Net cash (used in)/generated from financing activities		(13,033)	642,505
Net increase in cash and cash equivalents		71,174	664,020
Cash and cash equivalents at the beginning of the period		836,624	195,521
Effects of exchange rate changes on cash and cash equivalents		14,695	21,856
Cash and cash equivalents at the end of the period		922,493	881,397

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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.

2 BASIS OF PREPARATION – *continued*

(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 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied in the preparation of the consolidated financial statements for the year ended December 31, 2019.

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and fair value interest rate risk), credit risk, liquidity risk and price risk.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at December 31, 2019.

There has been no change in the risk management policies since the end of 2019.

4.2 Liquidity risk

Compared to the end of 2019, there has been no material change in the contractual undiscounted cash out flows for financial liabilities.

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

4.3 Fair value estimation

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at June 30, 2020 and December 31, 2019.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
(Unaudited)				
As at June 30, 2020				
Assets				
Financial assets at fair value through profit or loss ('FVPL')				
– Monetary funds with floating rates	–	95,096	–	95,096
Total assets	–	95,096	–	95,096
Liabilities				
Financial liabilities at FVPL				
– Convertible bonds (Note 22)	–	–	1,687,743	1,687,743
Total liabilities	–	–	1,687,743	1,687,743

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

4.3 Fair value estimation – *continued*

(i) Fair value hierarchy – continued

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
(Audited)				
As at December 31, 2019				
Assets				
Financial assets at FVPL				
– Monetary funds with floating rates	–	36,229	–	36,229
– Call option to acquire subsidiaries' remaining interests	–	–	600	600
Total assets	–	36,229	600	36,829
Liabilities				
Financial liabilities at FVPL				
– Convertible bonds	–	–	1,693,430	1,693,430
Total liabilities	–	–	1,693,430	1,693,430

There were no transfers between levels 1, 2 and 3 during the period.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

4.3 Fair value estimation – *continued*

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments, and
- For call option and convertible bonds – option pricing models (e.g. binomial model).

(iii) Fair value measurements using significant observable inputs (level 2)

The following table presents the changes in level 2 instruments for the six months ended June 30, 2020.

	Monetary funds with floating rates RMB'000
(Unaudited)	
Opening balance as at January 1, 2020	36,229
Additions	167,360
Settlements	(109,274)
Gains recognised in other gains – net*	781
Closing balance as at June 30, 2020	95,096
* Includes unrealised gains recognised in profit or loss attributable to balances held at the end of the reporting period	675

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

4.3 Fair value estimation – *continued*

(iv) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the six months ended June 30, 2020.

	Call option to acquire subsidiaries' remaining interests RMB'000	Convertible bonds (Note 22) RMB'000	Total RMB'000
(Unaudited)			
Opening balance as at January 1, 2020	600	(1,693,430)	(1,692,830)
Gains recognised in other gains – net*	(600)	5,687	5,087
Closing balance as at June 30, 2020	–	(1,687,743)	(1,687,743)
* Includes unrealised (losses)/gains recognised in profit or loss attributable to balances held at the end of the reporting period	(600)	5,687	5,087

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

4.3 Fair value estimation – *continued*

(iv) Fair value measurements using significant unobservable inputs (level 3) – continued

(a) Convertible bonds

Management has reviewed and assessed the valuation reports issued by an independent valuer and noticed the fair value of the convertible bonds as of June 30, 2020 was mainly impacted by the bond yield, which was determined by factors including market interest rates, the convertible bonds' risky rate, the convertible bonds' expiration dates and the volatility of the Company' stock price.

The detail of each convertible bond please refer to Note 22.

4.4 Fair value of financial assets and liabilities measured at amortized cost

The fair value of the following financial assets and liabilities are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short-term in nature:

- Trade receivables
- Contract assets
- Other receivables, deposits and prepayments
- Amounts due from related parties
- Term deposits
- Cash and cash equivalents
- Trade payables
- Contract liabilities
- Accruals, other payables and provisions (excluding non-financial liabilities)
- Amounts due to related parties
- Borrowings
- Lease liabilities

5 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').

5 SEGMENT INFORMATION – *continued*

(b) Hospital management services – *continued*

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.

5 SEGMENT INFORMATION – *continued*

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

	General hospital services RMB'000	Hospital management services RMB'000	Wholesale of pharmaceutical products RMB'000	Unallocated RMB'000	Total 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)	(798)	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

5 SEGMENT INFORMATION – *continued*

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

	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

6 OTHER INCOME

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants and subsidies (a)	**2,466**	109
Others	**1,026**	406
	3,492	515

(a) The Government grants and subsidies mainly consist of RMB2,179,000 granted by the Jiande People's Government for the six months ended June 30, 2020 in consideration of the taxation contribution of Jiande Hospital.

7 OTHER GAINS-NET

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(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

8 FINANCE INCOME AND COSTS

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income		
Foreign exchange gains – net	**11,207**	20,998
Interest income on bank deposits	**7,974**	3,248
Interest income on loan to a related party	**1,941**	–
Finance income on financial liability at amortized cost	**–**	1,000
	21,122	25,246
Finance costs		
Interest expense on bank borrowings	**(6,253)**	(6,097)
Finance expense on financial liability at amortized cost	**(4,751)**	–
Interest expense on lease liabilities	**(90)**	(25)
	(11,094)	(6,122)
Finance income – net	**10,028**	19,124

9 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 (Note 23)	**(50,575)**	(251)
	(34,922)	18,014

9 INCOME TAX EXPENSE – *continued*

(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%.

10 (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	2019
	(Unaudited)	(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	2019
	(Unaudited)	(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

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Medical equipment RMB'000	Office equipment, furniture and motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
(Unaudited)						
Six months ended June 30, 2020						
Net book value						
Opening amount as at January 1, 2020	111,317	430	24,149	5,738	4,542	146,176
Additions	3,313	1,870	1,480	198	598	7,459
Disposals	(1,211)	–	–	–	–	(1,211)
Transfer upon completion	–	–	–	–	(3,920)	(3,920)
Depreciation	(2,145)	(68)	(2,339)	(784)	–	(5,336)
Closing amount as at June 30, 2020	111,274	2,232	23,290	5,152	1,220	143,168
(Unaudited)						
Six months ended June 30, 2019						
Net book value						
Opening amount as at January 1, 2019	115,678	234	21,319	6,709	–	143,940
Additions	–	7	5,115	138	2,491	7,751
Disposals	(117)	–	(56)	(17)	–	(190)
Depreciation	(2,067)	(46)	(1,992)	(780)	–	(4,885)
Closing amount as at June 30, 2019	113,494	195	24,386	6,050	2,491	146,616

12 LEASES

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Right-of-use assets		
Land use right	38,071	38,544
Properties	2,257	3,467
	40,328	42,011
Lease Liabilities		
Current	1,689	2,412
Non-current	316	650
	2,005	3,062

There was no addition to the right-of-use assets for the six months ended June 30, 2020. (2019: RMB4,219,000).

12 LEASES – *continued*

(b) Amounts recognised in the statement of comprehensive income

The statement of comprehensive income shows the following amounts relating to leases:

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation charge of right-of-use assets- properties	**1,211**	631
Amortisation charge of right-of-use assets- land use right	**472**	472
Interest expense (included in finance cost)	**40**	25
Expense relating to short-term leases (included in cost of revenue and administrative expenses)	**147**	963
Expense relating to leases of low-value assets (included in administrative expenses)	**2**	–

The total cash outflow for leases for the six months ended June 30, 2020 was RMB1,097,000 (six months ended June 30, 2019: RMB948,000).

13 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

(a) Goodwill impairment

Management reviews business performance of each cash-generating unit ('CGU'). The recoverable amount of each CGU is determined based on fair value less cost of disposal (FVLCOD) calculations. These calculations use cash flow projections based on financial budgets approved by management covering an eight-year-forecast-period since January 1, 2020. The management considers that the eight-year-forecast-period financial budget that has been used in the goodwill impairment test is appropriate because the investment cycle in the healthcare industry is longer than other industries, and the useful lives of the licenses of related subsidiaries are longer than eight years. Cash flows beyond the eight-year period are extrapolated using the estimated long-term growth rate of 3% by reference to the long-term inflation rate of China as at June 30, 2020 and December 31, 2019.

Due to the drastic change in macroeconomic conditions and economic forecasts as a result of the outbreak of Coronavirus Disease 2019 ('the COVID-19 outbreak'), the operation of general hospital services provided by Jiande Hospital operating CGU, and hospital management services provided by Cixi Honghe operating CGU and Zhejiang Honghe Zhiyuan operating CGU for the six months ended June 30, 2020 was below the management's forecast.

Impairment losses of RMB243,500,000, RMB130,153,000 and RMB93,430,000 were recognised for Jiande Hospital operating CGU, Cixi Honghe and Zhejiang Honghe Zhiyuan operating CGU ('the three CGUs'), reducing the carrying amount of the goodwill to RMB56,088,000, RMB36,460,000 and RMB95,548,000, respectively.

13 INTANGIBLE ASSETS – *continued*

(a) Goodwill impairment – *continued*

Based on the forecast and assumptions approved by management, the recoverable amounts of the three CGUs as at June 30, 2020 and December 31, 2019 were determined by assessing the FVLCOD of the underlying assets with reference to valuation reports issued by an independent valuer. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation.

The following tables set out the key assumptions for the three CGUs where the impairment calculations were updated as at June 30, 2020:

	Jiande Hospital operating CGU	
	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Revenue (% compound growth rate)	12.06%	14.65%
Post-tax discount rate	15.00%	14.50%
Recoverable amount of operating CGU (RMB'000)	337,000	717,000

	Cixi Honghe operating CGU	
	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Revenue (% compound growth rate)	12.90%	18.26%
Post-tax discount rate	14.00%	13.50%
Recoverable amount of operating CGU (RMB'000)	250,000	514,000

	Zhejiang Honghe Zhiyuan operating CGU	
	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Revenue (% compound growth rate)	19.24%	19.58%
Post-tax discount rate	14.00%	13.50%
Recoverable amount of operating CGU (RMB'000)	673,000	957,000

13 INTANGIBLE ASSETS – *continued*

(a) Goodwill impairment – *continued*

The recoverable amount of Weikang Investment and Honghe Ruixin operating CGU and DJ Medicine operating CGU ('the two CGUs') were estimated to be RMB1,589,000,000 and RMB15,505,000 as at June 30, 2020 which exceeded the carrying amount of the two CGUs by RMB117,164,000 and RMB1,422,000. No impairment was therefore required for the two CGUs. As at June 30, 2020, the carrying amount of the goodwill allocated to the two CGUs was RMB950,915,000 and RMB9,266,000, respectively.

The following tables set out the key assumptions for the two CGUs where the impairment calculations were updated as at June 30, 2020:

	Weikang Investment and Honghe Ruixin operating CGU	
	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Revenue (% compound growth rate)	**9.92%**	8.66%
Post-tax discount rate	**13.50%**	13.00%
Recoverable amount of operating CGU (RMB'000)	**1,589,000**	1,608,000

	DJ Medicine operating CGU	
	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Revenue (% compound growth rate)	**43.90%**	45.90%
Post-tax discount rate	**15.00%**	14.50%
Recoverable amount of operating CGU (RMB'000)	**15,505**	15,000

13 INTANGIBLE ASSETS – *continued*

(a) Goodwill impairment – *continued*

The following tables set out the key assumptions for Weikang Investment and Honghe Ruixin operating CGU and DJ Medicine operating CGU as of each period end (estimates based on the operations for the periods indicated) used in goodwill impairment testing and the breakeven point of such key assumptions:

	Weikang Investment and Honghe Ruixin operating CGU Six months ended June 30, 2020	
	Key assumption	**Breakeven Point**
Percentage of the compound growth rate of revenue	**9.92%**	**8.14%**
Percentage of the post-tax discount rate	**13.50%**	**14.39%**

	Weikang Investment and Honghe Ruixin operating CGU Year ended December 31, 2019	
	Key assumption	Breakeven Point
Percentage of the compound growth rate of revenue	8.66%	7.18%
Percentage of the post-tax discount rate	13.00%	14.34%

	DJ Medicine operating CGU Six months ended June 30, 2020	
	Key assumption	**Breakeven Point**
Percentage of the compound growth rate of revenue	**43.90%**	**35.23%**
Percentage of the post-tax discount rate	**15.00%**	**15.86%**

	DJ Medicine operating CGU Year ended December 31, 2019	
	Key assumption	Breakeven Point
Percentage of the compound growth rate of revenue	45.90%	45.07%
Percentage of the post-tax discount rate	14.50%	14.79%

13 INTANGIBLE ASSETS – *continued*

(b) Impairment losses on contractual rights to provide management services

Contractual rights to provide management services are the rights to provide management services to Yangsi hospital, Jinhua hospital and Cixi hospital with finite useful life. These contractual rights acquired in business combinations are recognised at fair value as at the acquisition date.

Considering the impact of the COVID-19 outbreak, management engaged an independent valuer in determining the recoverable amount of contractual rights to provide management services to Jinhua hospital and Cixi hospital as at June 30, 2020. Impairment losses of RMB132,525,000 and RMB68,611,000 were recognised, reducing the carrying amount of the contractual rights to provide management services to Jinhua hospital and Cixi hospital to RMB558,300,000 and RMB239,700,000, respectively.

No impairment was charged for contractual rights to provide management services to Yangsi hospital during the six months ended June 30, 2020 and the year ended December 31, 2019.

14 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

15 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Prepayments for constructions and equipment	2,901	1,455
Deposits for rental	590	590
Advances to employees	253	569
Other receivables	573	488
Other prepayments	328	315
Monetary fund receivable from asset management company	–	15,000
Total	4,645	18,417
Less: non-current portion	(2,901)	(2,012)
Current portion	1,744	16,405

The carrying amounts of other receivables, deposits and prepayments are denominated in RMB and approximate their fair values.

16 BALANCES WITH RELATED PARTIES

As at June 30, 2020 and December 31, 2019, the balances with related parties are unsecured, receivable/payable on demand and are denominated in RMB.

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Amounts due from related parties		
– Trade in nature		
Jinhua Hospital	139,693	122,120
Yangsi Hospital	84,940	88,540
Cixi Hospital	15,961	6,384
– Others		
Jinhua Hospital	105,102	80,429
Yangsi Hospital	529	64
Vanguard Glory Limited	370	366
Midpoint Honour Ltd	–	36
Han Prestige Limited	–	8
Total	346,595	297,947
Less: non-current portion	(80,000)	(80,000)
Current portion	266,595	217,947

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

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Within 90 days	52,676	58,293
91 to 180 days	42,523	48,159
Over 180 days	145,395	110,592
	240,594	217,044

16 BALANCES WITH RELATED PARTIES – *continued*

As at June 30, 2020, none of the trade receivables was individually determined to be impaired (2019: nil).

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Amounts due to related parties		
– Trade in nature		
Zhejiang Zhongyouli Medical Co., Ltd.	3,470	6,196
Dajia Medical Equipment Co., Ltd.	2,936	2,546
– Others		
Jinhua Hospital	5,444	4,988
Yangsi Hospital	5,291	6,235
Vanguard Glory Limited	1,539	1,517
Cixi Hospital	1,243	1,243
Zhejiang Xinxiangli Investment Co., Ltd.	1,024	1,024
Total	20,947	23,749

Their carrying values due as at June 30, 2020 and December 31, 2019, approximate their fair values.

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

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Within 90 days	4,886	7,621
91 to 180 days	515	179
Over 180 days	1,005	942
	6,406	8,742

17 SHARE CAPITAL, TREASURY SHARES AND SHARE PREMIUM

	Number of shares	Nominal value of shares HKD
Authorised		
Ordinary shares	500,000,000	500,000

	Number of shares	Ordinary shares RMB'000	Treasury shares RMB'000	Share premium RMB'000	Total RMB'000
(Unaudited)					
Issued and Paid					
As at January 1, 2020	**138,194,000**	**123**	**–**	**435,304**	**435,427**
As at June 30, 2020	**138,194,000**	**123**	**–**	**435,304**	**435,427**

	Number of shares	Ordinary shares RMB'000	Treasury shares RMB'000	Share premium RMB'000	Total RMB'000
(Unaudited)					
Issued and Paid					
As at January 1, 2019	138,194,000	123	–*	432,993	433,116
Vesting of shares under management subscription scheme	–	–	–*	2,311	2,311
As at June 30, 2019	138,194,000	123	–	435,304	435,427

* The balance stated above was less than RMB500.

18 OTHER RESERVES

	Capital reserve RMB'000	Other reserve RMB'000	Total RMB'000
(Unaudited)			
At January 1, 2020	883,938	40,293	924,231
Share-based payments-share option scheme	802	–	802
At June 30, 2020	884,740	40,293	925,033
(Unaudited)			
At January 1, 2019	878,445	32,013	910,458
Share-based payments-share subscription agreement	311	–	311
Share-based payments-share option scheme	4,010	–	4,010
At June 30, 2019	882,766	32,013	914,779

19 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.

20 ACCRUALS, OTHER PAYABLES AND PROVISIONS

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Accrued employee benefits	43,903	36,841
Share-based payments	15,693	16,071
Duty and tax payables other than corporate income tax	7,397	10,870
Accrued professional service fee	5,868	5,556
Other payables to suppliers for purchase of plant and equipment	4,889	6,148
Other payables of medical allowance	1,285	1,392
Others	2,539	2,344
Total	81,574	79,222
Less: non-current portion	(175)	(362)
Current portion	81,399	78,860

The carrying amounts of accruals, other payables and provisions are denominated in RMB. The carrying amounts approximate their fair values.

21 BORROWINGS

	As at June 30, 2020			As at December 31, 2019		
	Current RMB'000 (Unaudited)	Non-current RMB'000 (Unaudited)	Total RMB'000 (Unaudited)	Current RMB'000 (Audited)	Non-current RMB'000 (Audited)	Total RMB'000 (Audited)
Bank borrowing						
Secured but unguaranteed	105,580	69,462	175,042	74,744	99,658	174,402
Unsecured and unguaranteed (a)	40,000	–	40,000	40,000	–	40,000
	145,580	69,462	215,042	114,744	99,658	214,402

21 BORROWINGS – *continued*

(a) Jiande Hospital entered into five one-year loan agreements with Agricultural Bank of China Jiande Branch on December 11, 2019, January 15, January 17, March 20 and April 9, 2020, respectively. The remaining amount of these loans was RMB40,000,000, which consist of the loans amounting to RMB9,900,000, RMB9,000,000, RMB8,200,000, RMB3,000,000 and RMB9,900,000 bear fixed interest rates of 4.44%, 4.44%, 4.44%, 4.44% and 4.35% respectively.

As at June 30, 2020, the Group's borrowings were repayable as follows:

	Bank borrowings	
	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Within 1 year	**145,580**	114,744
Between 1 and 2 years	**50,518**	62,286
Between 2 and 5 years	**18,944**	37,372
	215,042	214,402

The fair value of the bank loans approximated the carrying amounts since the interest rates of the loans are close to current market rate.

22 CONVERTIBLE BONDS

The movements of the convertible bonds are as follows:

	Convertible Bonds			
	March 5, 2018 RMB'000	August 7, 2018 RMB'000	February 27, 2019 RMB'000	Total 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.

22 CONVERTIBLE BONDS – *continued*

(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%

22 CONVERTIBLE BONDS – *continued*

(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%

23 DEFERRED INCOME TAX

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	–	–
– Deferred income tax assets to be recovered within 12 months	2,054	1,413
	2,054	1,413
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	(269,228)	(322,085)
– Deferred income tax liabilities to be settled within 12 months	(30,925)	(28,002)
	(300,153)	(350,087)
Deferred income tax liabilities – net	(298,099)	(348,674)

Deferred income tax assets

	Provisions RMB'000	Changes in fair value RMB'000	Unrealized profit RMB'000	Donation RMB'000	Total RMB'000
(Unaudited)					
Balance at January 1, 2020	605	323	–	485	1,413
Credited to profit or loss	964	(323)	–	–	641
Balance at June 30, 2020	1,569	–	–	485	2,054
(Unaudited)					
Balance at January 1, 2019	694	173	66	–	933
Credited to profit or loss	303	–	(66)	–	237
Balance at June 30, 2019	997	173	–	–	1,170

23 DEFERRED INCOME TAX – *continued*

Deferred income tax liabilities

	Buildings and Intangible assets RMB'000	Withholding tax RMB'000	Changes in fair value RMB'000	Interest capitalization RMB'000	Total RMB'000
(Unaudited)					
Balance at January 1, 2020	(328,597)	(21,055)	–	(435)	(350,087)
Credited/(charged) to profit or loss	53,746	(3,824)	–	12	49,934
Balance at June 30, 2020	(274,851)	(24,879)	–	(423)	(300,153)
(Unaudited)					
Balance at January 1, 2019	(335,520)	(13,406)	(1,126)	(460)	(350,512)
Credited/(charged) to profit or loss	3,481	(2,990)	(489)	12	14
Balance at June 30, 2019	(332,039)	(16,396)	(1,615)	(448)	(350,498)

24 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.

25 COMMITMENTS

(a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	Six months ended June 30, 2020 RMB'000 (Unaudited)	Year ended December 31, 2019 RMB'000 (Audited)
Property, plant and equipment	6,101	–

26 SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. As a result, Yangsi Hospital, Cixi Hospital, Jinhua Hospital, Dongyang Guangfu Hospital and Yongkang Hospital are considered to be related as the Group has participated internal governance body of them. Other parties are also considered to be related if they are subject to common control, common significant influence or joint control. Members of key management and their close family members of the Group are also considered as related parties.

The directors of the Company are of the view that the following parties that had transactions or balances with the Group are related parties:

Name	Relationship with the Group
Yangsi Hospital	Certain employees or directors of the Group are Yangsi Hospital's internal governance body members
Cixi Hospital	Certain employees or directors of the Group are Cixi Hospital's internal governance body members
Jinhua Hospital	Certain employees or directors of the Group are Jinhua Hospital's internal governance body members
Dongyang Guangfu Hospital	Certain employees or directors of the Group are Dongyang Guangfu Hospital's internal governance body members
Yongkang Hospital	Certain employees or directors of the Group are Yongkang Hospital's internal governance body members
Vanguard Glory Limited	Parent company
Midpoint Honour Limited	Related party of parent company
Han Prestige Limited	Related party of parent company
Zhejiang Xinxiangli Investment Co., Ltd.	Related party which controlled by Mr. Hong Jiangxin
Dajia Medical Equipment Co., Ltd.	Related party which controlled by Mr. Hong Jiangxin
Zhejiang Zhongyouli Medicines Co., Ltd.	Related party which is controlled by a close family member of Mr. Hong Jiangxin
Hony Capital Fund VIII (Cayman), L.P.	Managed by Hony Capital Fund VIII GP (Cayman) Limited, which is ultimately held as to 49% by Mr. Zhao John Huan

The following significant transactions were carried out between the Group and its related parties for the periods ended June 30, 2020 and 2019. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

26 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(a) Significant transactions with related parties

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Management Service fee		
– Yangsi Hospital	**72,758**	77,577
– Jinhua Hospital	**16,578**	19,702
– Cixi Hospital	**10,905**	9,793
	100,241	107,072
Purchase of medical equipment and pharmaceuticals		
– Zhejiang Zhongyouli Medicines Co., Ltd.	**10,881**	17,825
– Dajia Medical Equipment Co., Ltd	**2,981**	3,026
	13,862	20,851

(b) Loans from related parties

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Beginning of the period	**15,007**	35,929
Loans advanced	**478**	5,672
Loan repaid	**(944)**	(27,976)
Transfer of debt	**–**	715
End of the period	**14,541**	14,340

26 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(c) Loans to related parties

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Beginning of the period	**80,903**	60,500
Loans advanced	**25,465**	40,146
Loan repayments received	**(40)**	(1,573)
Interest charged	**2,159**	–
Interest received	**(2,486)**	–
Transfer of debt	**–**	(58,458)
End of the period	**106,001**	40,615

(d) Key management compensation

Key management includes directors and senior managements. The compensation paid or payables to key management for employee services is shown below:

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Wages, salaries and bonuses	**9,937**	7,616
Welfare and other expenses	**2,123**	192
	12,060	7,808

27 EVENTS OCCURRING AFTER THE REPORTING PERIOD

There were no material subsequent events occurred during the period from June 30, 2020 to the approval date of these interim condensed consolidated financial information by the Board of Directors of the Company on August 28, 2020.