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

2019 Annual Report

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Shan Guoxin (單國心) *(Chief Executive Officer)*
Mr. Lu Wenzuo (陸文佐)

Non-executive Directors

Mr. Zhao John Huan (趙令歡) *(Chairman)*
Mr. Li Peng (李蓬)
Ms. Liu Lu (劉路)
Ms. Wang Nan (王楠)

Independent Non-executive Directors

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

AUDIT COMMITTEE

Mr. Zhou Xiangliang (周向亮) *(Chairman)*
Mr. Li Peng (李蓬)
Mr. Shi Luwen (史錄文)

REMUNERATION COMMITTEE

Mr. Dang Jinxue (党金雪) *(Chairman)*
Mr. Shan Guoxin (單國心)
Mr. Zhou Xiangliang (周向亮)

NOMINATION COMMITTEE

Mr. Zhao John Huan (趙令歡) *(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. Shan Guoxin (單國心)
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**" and together with its subsidiaries, the "**Group**")
1602, Tower B, Jin Qiu International Building
No. 6, Zhichun Road, Haidian District, Beijing
The People's Republic of China ("**PRC**")

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2701, One Exchange Square
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 PIE 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

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PO Box 1093, Boundary Hall
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KY1-1102, Cayman Islands

FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	The year ended December 31, 2019 RMB'000	%	The year ended December 31, 2018 RMB'000	%	The year ended December 31, 2017 RMB'000	%	The year ended December 31, 2016 RMB'000	%	The year ended December 31, 2015 RMB'000	%
Revenue	410,883	100.0	383,610	100.0	149,158	100.0	130,882	100.0	142,524	100.0
Cost of revenue	(237,017)	(57.7)	(231,478)	(60.3)	(61,320)	(41.1)	(49,343)	(37.7)	(41,395)	(29.0)
Gross profit	173,866	42.3	152,132	39.7	87,838	58.9	81,539	62.3	101,129	71.0
Selling expenses	(9)	(0.0)	(204)	(0.1)	–	–	–	–	(1)	0.0
Administrative expenses	(64,535)	(15.7)	(63,322)	(16.5)	(53,706)	(36.0)	(26,373)	(20.2)	(13,203)	(9.3)
Net impairment losses on financial assets	(1,581)	(0.4)	–	–	–	–	–	–	–	–
Other gains/(losses) – net	65,838	16.0	(57,635)	(15.0)	(120)	(0.1)	1,125	0.9	(342)	(0.2)
Other income	3,453	0.8	2,874	0.7	3,742	2.5	2,982	2.3	2,477	1.7
Operating profit	177,032	43.1	33,845	8.8	37,754	25.3	59,273	45.3	90,060	63.2
Finance income/(costs) – net	18,534	4.5	(15,962)	(4.1)	(18,526)	(12.4)	677	0.5	53	0. 0
Profit before income tax	195,566	47.6	17,883	4.7	19,228	12.9	59,950	45.8	90,113	63.2
Income tax expense	(26,120)	(6.4)	(41,304)	(10.8)	(22,912)	(15.4)	(19,248)	(14.7)	(22,788)	(16.0)
Profit/(loss) for the year	169,446	41.2	(23,421)	(6.1)	(3,684)	(2.5)	40,702	31.1	67,325	47.2
Profit from discontinued operation	–	–	–	–	12,882	8.6	779	0.6	–	–
Profit/(loss) for the year	169,446	41.2	(23,421)	(6.1)	9,198	6.2	41,481	31.7	67,325	47. 2
Other comprehensive income	–	–	–	–	–	–	–	–	–	–
Total comprehensive income/(loss) for the year	169,446	41.2	(23,421)	(6.1)	9,198	6.2	41,481	31.7	67,325	47.2

CONSOLIDATED ASSETS AND LIABILITIES

	As of December 31, 2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Total assets	4,454,969	3,805,851	1,965,516	1,287,577	1,302,029
Total liabilities	2,637,129	2,137,867	403,391	126,634	173,490
Total equity	1,817,840	1,667,984	1,562,125	1,160,943	1,128,539

Dear Shareholders,

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

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

Since 2018, the Group has fully integrated existing medical resources, set up management teams and core business teams, and 2019 was the year of implementing and developing a "Three Conforming (三符合)" value-creating medical group. The Group proactively responded to the impact of "healthcare associations (regional healthcare associations) (醫聯體(區域醫療聯合體))" and "healthcare alliances (healthcare service alliances) (醫共體(醫療服務共同體))" of domestic public hospitals on the competitive landscape of the medical market. By adjusting its business structure and innovating medical services, the Group has reduced the impact of matters such as the "zero mark-ups on drugs (藥品零加成)" and "zero mark-ups on consumables (耗材零加成)" policies and the "4+7 drug (藥品4+7)" bulk procurement scheme on its business. Meanwhile, with its reliance on the strong endorsements from and the accumulated excellent investment, operational and control capabilities in the medical field of Legend Holdings and "Hony Capital", the Group has firmly adhered to the vision of building a first-class medical group with long-term and sustainable development by following the development strategy of corporate value creation, and actively studying and responding to various policies and environmental changes. While facing challenges, the Group has kept up with the market trend of the promotion of healthcare development with social capital in China by pushing forward various tasks in an orderly manner, hence, gratifying results were achieved. During the year ended December 31, 2019 ("the **year under review**"), the Group focused on the following tasks:

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

2. Based on the general principle of "successful acquisition, well management, scale expansion (收到、管好、上量)", our strategic development goal is to build a first-class value-creating medical group in China under the "Three Conforming (三符合)" conditions of conforming to the development patterns of the medical industry, the principles of modern corporate governance and the construction standards of affiliated hospitals in universities, and we have thoroughly implemented our requirements in the investment, operation and management of the Group. With the value-creating investment and M&A judgment standards of "three internal focuses, three external focuses and one core (內三看、外三看、一核心)", we actively promoted the investment in and M&A of medical projects, strategic cooperation or various other expansion models, and accumulated rich industry resources, project investment judgment and decision-making experience. "Three internal focuses" means to focus on factors such as hospital discipline construction, future space for development and core management team of the project; "three external focuses" means to focus on the economic development, population and market competition factors of the place where the project is located from an external perspective; and "one core" means to focus on the fairness of the acquisition price of the project. During the year under review, the Group carried out due diligence for projects involving hospitals to be transferred by three large medical groups in China, and completed site inspections, initial screening and project verification on 38 target hospitals located in Beijing, Shanghai, Zhejiang, Jiangsu, Guangdong, Fujian, Hunan, Hubei, Henan, Hebei and Shandong, etc., thereby establishing a reserve for investment and M&A projects. The Group has not actually implemented project investment due to systematic considerations of investment strategy and work strategy;

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

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

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

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

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

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

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

ACKNOWLEDGMENT

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

Shan Guoxin
Executive Director and Chief Executive Officer

Beijing, China
March 23, 2020

BUSINESS OVERVIEW

Business positioning: The Group adheres to the general principle of "successful acquisition, well management, scale expansion (收到、管好、上量)" proposed by the Board of Directors, and the strategic objective of building a first-class value-creating medical group in China under the "Three Conforming (三符合)" conditions of conforming to the development patterns of the medical industry, the principles of modern corporate governance and the construction standards of affiliated hospitals in universities. We will achieve our strategic objectives by optimizing the following business development paths:

- actively seeking high-quality target hospitals, promoting medical institutions under "trusteeship (託管)", adhering to the development strategy of "investment and operation integration (投資運營一體化)", and improving the operation and management level of the Group Hospitals;

- on the basis of expanding and strengthening the main business of the Group Hospitals, we will focus on the two resource assurance services of the "centralized procurement center (集中採購中心)" and "medical group (醫生集團)" through specialized and differentiated development, and continue to explore and implement the two innovative businesses of "internet hospitals (互聯網醫院)" and the "healthcare big data production, learning and research platform (大健康數據產學研平台)" so as to accomplish the further integration and development of existing businesses and innovative businesses to achieve growth in terms of both industrial synergy and the benefits of spatial spillover; and

- cross-border cooperation, multi-party linkage and other methods to connect all parties in the healthcare industry ecosystem (such as big data, AI, finance and insurance), thereby developing a healthcare industry ecosystem with breadth, depth and strong synergies, and laying the foundation for realizing a first-class value-creating medical group in China.

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

Business layout:

(1) Through new construction or investment and M&A, the Group has a number of medical institutions of different classes in densely populated and economically developed regions in China, which form Class III hospitals with comprehensive strength as regional medical centers,

and radiates and drives a number of Class II or Class I hospitals, and each regional medical network further forms a group hospital system;

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

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

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

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

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

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

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

INDUSTRY OVERVIEW

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

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

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

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

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

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

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

RECENT DEVELOPMENTS

Time	Event
December 21, 2018	The Company and Leap Wave Limited ("**Leap Wave**") entered into a subscription agreement (as amended by an amendment agreement dated January 16, 2019) pursuant to which, among other things, the Company agreed to issue and Leap Wave agreed to subscribe for convertible bonds in the aggregate principal amount of HK$800,000,000 at a total consideration equal to the aggregate principal amount of the convertible bonds and with an initial conversion price of HK$20.00 per conversion share. The transaction was approved at an extraordinary general meeting of the Company held on February 1, 2019 and the convertible bonds were issued on February 27, 2019. For further details, please refer to the section headed "Report of the Directors – Convertible Bonds" on page 34 of this annual report.
March 12, 2019	Mr. Lin Sheng tendered his resignation as a non-executive Director of the Company, a member of the audit committee of the Company (the "**Audit Committee**") and a member of the remuneration committee of the Company (the "**Remuneration Committee**") with effect from March 12, 2019 due to his other work commitments. With effect from March 12, 2019, Mr. Shan Guoxin ("**Mr. Shan**") was appointed as an executive Director of the Company and Mr. Wei Kai ("**Mr. Wei**") was appointed as a non-executive Director of the Company. The Board appointed Mr. Shan as a member of the Remuneration Committee and Mr. Wei as a member of the Audit Committee with effect from March 12, 2019.
June 3, 2019	On June 3, 2019, Jiande Hospital, an indirect non-wholly owned subsidiary of the Company, entered into (i) a medicine procurement agreement with Zhejiang Zhongyouli Medicines Co., Ltd. (浙江中友力醫藥有限公司), pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Zhongyouli Medicines Co., Ltd. (浙江中友力醫藥有限公司) agreed to sell, certain types of medicines from time to time during the term of the medicine procurement agreement; and (ii) a medical consumables and equipment procurement agreement with Zhejiang Dajia Medical Instruments Co., Ltd. (浙江大佳醫療器械有限公司), pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Dajia Medical Instruments Co., Ltd. (浙江大佳醫療器械有限公司) agreed to sell, certain medical consumables and equipment from time to time during the term of the medical consumables and equipment procurement agreement.

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

EVENTS AFTER THE REPORTING PERIOD

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

REVIEW OF 2019 ANNUAL PERFORMANCE

Results of Operations

Revenue

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

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

Hospital management services

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

General hospital services

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

Wholesale of pharmaceutical products

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

Cost of revenue

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

Administrative expenses

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

Other gains/(losses)-net

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

Other income

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

Finance income and finance costs

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

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

Income tax expense

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

Profit for the year

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

Discussion of certain items from the consolidated balance sheet

Cash and cash equivalents

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

Other receivables, deposits and prepayments

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

Financial assets at fair value through profit or loss

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

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

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

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

The details of monetary funds that we acquired from three financial institutions during the year under review are set out below:

Financial assets at fair value through profit or loss	Name of monetary funds	Balance as at December 31, 2019 (including dividend income) *RMB*
Monetary fund	China Universal Money Market Fund B (匯添富貨幣市場基金B)	10,000,000
Monetary fund	Aegon-Industrial Monetary Market Securities Investment Fund (興全貨幣市場證券投資基金)	21,228,673
Monetary fund	Fortune SG Cash Box money Market fund B (華寶現金寶B)	5,000,000

The financial assets that the Company invested in during the year ended December 31, 2019 are monetary funds with floating rates, which carry lower expected return of principal and risk as compared to stocks or corporate debt issues. These monetary funds focus on short-term securities in the capital markets, and invest in financial instruments such as certificates of deposit and short-term commercial papers with maturities not exceeding one year.

The fundamental objectives of our financial management are safety, liquidity and profitability. In particular, we endeavor to maintain appropriate levels of risk and liquidity while satisfying the capital needs of the Group's operations and strategic developments, with the goal of enhancing the efficiency and profitability on the use of capital. These monetary funds offer liquidity, stable returns and low cost and fees, which allow the Company to meet the redemption needs from time to time in compliance with our financial management principles in managing the Company's idle funds.

Going forward, the Directors consider that it is in the Company's best interest to continue to invest in monetary funds based on our business and operational needs. The Company may deposit the unutilized amount of the net proceeds from the Listing and full exercise of the over-allotment option into short-term demand deposits and money market instruments, as disclosed in the prospectus of the Company dated February 28, 2017 (the "**Prospectus**").

Accruals, other payables and provisions

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

Our primary uses of cash during the year ended December 31, 2019 were for working capital, fixed deposits with a term of over three months and payment for financial assets at fair value through profit or loss. We financed our liquidity requirements mainly with cash flows generated from our financing activities and operating activities. In the year under review, we had net cash generated from operating activities of RMB63.0 million, consisting of RMB164.0 million in net cash inflows generated from our operations before changes in working capital, net cash outflows of RMB68.6 million relating to changes in working capital, cash outflows on income tax paid of RMB32.9 million and interests received of RMB0.5 million. Our net cash inflows generated from operating activities before changes in working capital were primarily attributable to our profit before income tax of RMB195.6 million, adjusted for non-cash and non-operating items, including gains on fair value change arising from the change in value of convertible bonds of RMB62.6 million, foreign exchange gains of RMB31.5 million arising from cash and cash equivalents, financial expenses in relation to other financial liability at amortized cost of RMB8.8 million and depreciation of property, plant and equipment, and amortization of intangible assets of RMB43.8 million. Our net cash outflows relating to changes in working capital were primarily attributable to the increase in receivables from related parties of RMB86.5 million, which was offset by the increase in accruals, other payables and provisions of RMB11.1 million.

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

Cash and Borrowings

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

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

As at December 31, 2019, the net gearing ratio of the Company was 4.8% (net gearing ratio equals borrowing balance divided by total assets). Our Directors believe that, after taking into account the financial resources available to us, including internally generated funds and the net proceeds from the Listing, we have sufficient working capital for our requirements. As at December 31, 2019, the Group did not have any material contingent liabilities or guarantees.

FUTURE PROSPECTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not undertake any material acquisitions and disposals of subsidiaries and affiliated companies from January 1, 2019 until December 31, 2019.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As of December 31, 2019, the Group did not have any significant investments or future plans for material investments or capital assets.

EXPOSURE TO FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group mainly operates in the PRC with most of its 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 December 31 2019, the Group was exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to USD and HKD.

The Group did not use any derivative financial instruments to hedge foreign exchange 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

As at December 31, 2019, the Group had pledged its assets as security for bank loans, details of which are contained in Note 30 to the consolidated financial statements.

CAPITAL EXPENDITURES

During the year ended December 31, 2019, our capital expenditures were RMB10.8 million, which were primarily related to the upgrading and improvement of our properties and purchase of new equipment.

HUMAN RESOURCES

As of December 31, 2019, we had a total of 489 employees (December 31, 2018: 473). We provide wages, employee-related insurance and employee benefits to our employees. Remuneration packages for our employees mainly consist of base salary, welfare and bonus. For the year ended December 31, 2019, the total employee benefits expenses (including Directors' remuneration) were RMB122.1 million (2018: RMB131.4 million).

We set performance targets for our employees based on their position and department and regularly review their performance. The results of these reviews are used in their salary determinations, bonus awards and promotion appraisals. Our employee-related insurance consists of employee pension insurance, maternity insurance, unemployment insurance, work-related injury insurance, medical insurance and housing accumulation funds as required by Chinese laws and regulations.

We provide ongoing training for our employees. Our doctors and other medical professionals regularly receive technical training in their relevant fields. Our administrative and management staff also receive systematic training on management skills and business operations.

The Board is pleased to present the report of the Directors together with the audited consolidated financial statements of the Group for the year ended December 31, 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The Group is a hospital operation and management company in China, led by a professional team with extensive hospital management experience. The Group is principally engaged in (i) the operation and management of its privately owned hospitals; (ii) the provision of management and consultancy services to three not-for-profit hospitals, i.e. Yangsi Hospital, Cixi Hospital and Jinhua Hospital; and (iii) the wholesale of pharmaceutical products in China.

Segment analysis of the Company for the year ended December 31, 2019 is set out in Note 5 to the consolidated financial statements. A list of the Company's subsidiaries, together with their places of incorporation, principal activities and particulars of their issued shares/registered share capital, is set out in Note 11 to the consolidated financial statements.

A discussion and analysis of the activities as required by Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), including a fair review of the business, particulars of important events affecting the Group that have occurred since the end of the year ended December 31, 2019, and an indication of likely future developments in the Group's business, can be found in the "CEO's Statement", "Management Discussion and Analysis" and "Environmental, Social and Governance Report" sections in this annual report. These discussions form part of this report of the Directors. Further discussions on the principal risks and uncertainties facing the Company, the Company's environmental policies and performance and compliance with relevant laws and regulation are set out on pages 52 to 54 of this report.

Save as disclosed on pages 16 to 17 of this annual report, there is no significant subsequent event undertaken by the Company or by the Group from January 1, 2020 to the date of this report.

FINANCIAL RESULTS

The results of the Group for the year ended December 31, 2019 are set out in the consolidated statement of comprehensive income on page 105 of this annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the years ended December 31, 2015, 2016, 2017, 2018 and 2019, as set out on page 4 of this annual report, is extracted from the audited consolidated financial statements.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year ended December 31, 2019 are set out in Note 25 to the consolidated financial statements. As of the date of this report, the total share capital of the Company was HK$138,194 divided into 138,194,000 Shares of HK$0.001 each.

FINAL DIVIDEND

As a Cayman Islands company, any dividend recommendation will be at the absolute discretion of the Directors. The Company may declare dividends after taking into account its results of operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, and other factors as the Directors may deem relevant at such time.

PRC laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which may differ from generally accepted accounting principles in other jurisdictions, including IFRS. Some of the Company's subsidiaries in China that are foreign-invested enterprises have set aside part of their net profit as statutory reserves, in accordance with the requirements of relevant PRC laws and the provisions of their respective articles of association. These portions of net profit of the Company's subsidiaries are not available for distribution as cash dividends. Distributions from the Company's subsidiaries may also be restricted if they incur debt or losses, or are subject to any restrictive covenants in bank credit facilities or other agreements that the Company or its subsidiaries may enter into. Since we rely on dividends from our PRC subsidiaries as a source of funding for the payment of dividends, these restrictions may limit or completely prevent us from paying dividends.

Any declaration and payment of dividends, as well as the amount thereof, will be subject to the articles of association of the Company (the "**Articles**") and the Companies Law of the Cayman Islands (the "**Cayman Companies Law**"). Shareholders of the Company may, at general meetings, approve and make any declaration of dividends, which must not exceed the amount recommended by the Directors. No dividend may be declared or paid except out of our profits or reserves set aside from profits at the Directors' discretion. Dividends may also be declared and paid out of the share premium account of the Company in accordance with the Cayman Companies Law and the Articles, provided that no dividend may be paid out of the Company's share premium account unless the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which the dividend is proposed to be paid.

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

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders of the Company by reason of their holding of the Company's securities.

RESERVES

Details of the movements in the reserves of the Group during the year ended December 31, 2019 are set out in Note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2019, the Company had distributable reserves of RMB147.1 million.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements of our property, plant and equipment during the year ended December 31, 2019 are set out in Note 14 to the consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange on March 16, 2017 (the "**Listing Date**"). The net proceeds received by the Company from the global offering and the exercise of the over-allotment option after deducting underwriting commissions and all related expenses was HK$465.6 million. The net proceeds received from the global offering has been and will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the Prospectus. All of the unutilized amount has been placed with licensed banks in Hong Kong, and will be utilized in the manner as described in the Prospectus and in accordance with the Company's needs from time to time. An analysis of the utilization of the net proceeds from the Listing Date up to December 31, 2019 is set out below:

	Percentage of the total amount	Net Proceeds *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	41.59	9.63	The balance is expected to be fully utilized by the end of 2021
– Upgrading and improvement of medical facilities	7%	32.59	32.59	–	–
Employee training programs at the hospitals we own or manage from time to time, efforts to recruit talents and academic research activities					
– Human resources expenses	6%	27.94	27.94	–	–
– Employing medical professionals and experts in business management	5%	23.28	17.96	5.32	The balance is expected to be fully utilized by the end of 2021
– Conducting academic research activities and developing employee training programs with a focus on management training and professional training	4%	18.62	8.75	9.87	The balance is expected to be fully utilized by the end of 2021
Upgrading and improving our information technology system	7%	32.59	24.02	8.57	The balance is expected to be fully utilized by the end of 2021
Provide funding for our working capital, rental and property related expenses and other general corporate purposes	10%	46.56	46.56	–	–
	100%	465.60	432.21	33.39	

CONVERTIBLE BONDS

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

	Percentage of the total amount	Net Proceeds *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 December 31, 2019, none of the Vanguard Convertible Bonds has been converted into shares of the Company. Details of the Vanguard Convertible Bonds were disclosed in the announcement and circular of the Company dated January 25, 2018 and February 13, 2018, respectively.

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

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

The consideration was satisfied by the issuance of the convertible bonds (the "**Hony Convertible Bonds**") in the aggregate principal amount of HK$773,879,717 by the Company to 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 December 31, 2019, none of the Hony Convertible Bonds has been converted into shares of the Company. Details of the Hony Convertible Bonds have been disclosed in the announcement and circular of the Company dated May 29, 2018 and June 24, 2018, respectively.

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 December 31, 2019 is expected to be applied according to the use of proceeds as stated in the circular of the Company dated January 16, 2019. The Company will use the unutilized portion of such net proceeds for acquisitions of other hospitals or hospital management businesses by the Group and as discussed in the section headed "Management Discussion and Analysis – Future Prospects" in this annual 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 December 31, 2019 is set out below:

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

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

During the year under review, there was no change in the use of proceeds generated from the issuances of the Vanguard Convertible Bonds and the LW Convertible Bonds. As the Group has not actually implemented project investment due to systematic considerations of investment strategy and work strategy, there has been a delay in the timetable of the Group's proposed acquisitions as previously disclosed by the Company. As disclosed in the section headed "Management Discussion and Analysis – Future Prospects" in this annual 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, given the recent novel coronavirus (COVID-19) outbreak, the Company is unable to provide the estimated timetables for these potential acquisitions at this moment.

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

During the year ended December 31, 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

During the year and up to the date of this report, the Directors were:

Executive Directors:

Mr. Shan Guoxin *(Chief Executive Officer)*
Mr. Lu Wenzuo

Non-executive Directors:

Mr. Zhao John Huan *(Chairman)*
Mr. Lin Sheng *(resigned)*
Mr. Wei Kai *(resigned)*
Mr. Li Peng
Ms. Liu Lu
Ms. Wang Nan

Independent Non-executive Directors:

Ms. Chen Xiaohong *(resigned)*
Mr. Shi Luwen
Mr. Zhou Xiangliang
Mr. Dang Jinxue

Biographical details of the Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 56 to 67 of this annual report.

Mr. Zhao John Huan, Mr. Lu Wenzuo, Mr. Zhou Xiangliang, Mr. Li Peng and Mr. Dang Jinxue shall retire at the forthcoming annual general meeting of the Company (the "**AGM**") pursuant to the Articles. Ms. Liu Lu and Ms. Wang Nan shall also voluntarily retire at the AGM. All of the aforementioned retiring Directors, being eligible, will offer themselves for re-election at the AGM.

DISCLOSURE OF DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Changes in the information of Directors required to be disclosed under Rule 13.51B(1) of the Listing Rules are set out below:

Name of Director	Details of changes
Mr. Li Peng	• Appointed as an executive director of Legend Holdings, a company listed on the Stock Exchange (stock code: 3396), with effect from February 13, 2020.
Mr. Zhao John Huan	• Re-designated from an executive director to a non-executive director of Legend Holdings, a company listed on the Stock Exchange (stock code: 3396), with effect from January 1, 2020. • Appointed as an executive director and the chairman of the board of Goldstream Investment Limited, a company listed on the Stock Exchange (stock code: 1328), with effect from December 28, 2018.

DIRECTORS' SERVICE CONTRACTS

None of the Directors offering themselves for re-election at the AGM has a service contract with the Company which is not determinable within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND COMPETING BUSINESS

Save as disclosed under Note 38 "Significant related party transactions" to the consolidated financial statements and the section headed "Convertible Bonds" in this report, no transaction, arrangement or contract of significance (as defined in Appendix 16 to the Listing Rules) in relation to our business to which the Company, its holding company or any of its subsidiaries was a party and in which a Director or controlling shareholder of the Company had a material interest, either directly or indirectly, subsisted at any time during or at the end of the year ended December 31, 2019.

As of December 31, 2019, none of the Directors was interested in any businesses other than our business which competes or is likely to compete with our business, either directly or indirectly or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in this report, at no time during the year ended December 31, 2019 did the Company or any of its subsidiaries enter into any contract of significance with a controlling shareholder of the Company or any of its subsidiaries, or any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries.

CONTINUING CONNECTED TRANSACTIONS

On June 3, 2019, Jiande Hospital, an indirect non-wholly owned subsidiary of the Company, entered into the following agreements:

(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**"), 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 (浙江省藥品招標采購平臺); 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**"), 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.

Zhejiang Xinxiangli Investment Co., Ltd. (浙江新祥利投資有限公司) (“**Xinxiangli Investment**”) is a substantial shareholder of Jiande Hospital, which is an indirect non-wholly owned subsidiary of the Company. Hence, Xinxiangli Investment is a connected person of the Company. Zhejiang Zhongyouli and Zhejiang Dajia are subsidiaries of Xinxiangli Investment and are therefore connected persons of the Company under the Listing Rules. Therefore the transactions contemplated under the Medicine Procurement Agreement and the Medical Consumables and Equipment Procurement Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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.

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 year ended December 31, 2019, 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 RMB36,142,000, comprising (i) RMB30,151,000 paid to Zhejiang Zhongyouli for the purchase of medicines; and (ii) RMB5,991,000 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.

Confirmation from Directors in respect of continuing connected transactions

The independent non-executive Directors have reviewed the continuing connected transactions of the Company and confirmed that the transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company confirms that it has complied with the reporting and annual review requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions set out above.

The Directors, including the independent non-executive Directors, consider that the continuing connected transactions and the annual caps set out above are fair and reasonable, and that such transactions have been entered into and will be carried out in the ordinary and usual course of business of the Group, are on normal or better commercial terms, and are in the interests of the shareholders of the Company as a whole.

Auditor's report on continuing connected transactions

The Company's auditor was engaged to report on the Group's continuing connected transactions as disclosed above in accordance with the Hong Kong Standard on Assurance Engagement 3000 (Revised) and the Assurance Engagements other than Audits or Reviews of Historical Financial Information, and with reference to Practice Note 740, Auditor's Letter on Continuing Connected Transactions under the Listing Rules, issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

In addition, all of the continuing connected transactions of the Company disclosed above constitute related party transactions set out in Note 38 to the consolidated financial statements in this annual report. Save as disclosed above, all other related party transactions as described in Note 38 to the consolidated financial statements did not fall under the definition of "continuing connected transaction" or "connected transaction" under the Listing Rules.

Save for the continuing connected transaction as disclosed above and the related party transactions as disclosed in Note 38 to the consolidated financial statements in this annual report, during the year ended December 31, 2019, the Company did not enter into any connected transactions and/or continuing connected transactions which were required to be disclosed in accordance with the requirements of Chapter 14A of the Listing Rules. The Company has complied with all applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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

As at December 31, 2019, the interests or short positions of the 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 ("**SFO**")) (i) which were required 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) which were required, under section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (iii) which were required under the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange 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 of the Company	Approximate percentage of shareholding interest(4)
Mr. Zhao John Huan	Interest of controlled corporation	161,693,985(1)	117.01%
	Deemed interest	2,500,000(2)	1.81%
Ms. Liu Lu	Interest of controlled corporation	9,098,800(3)	6.58%

Notes:

(1) 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.

(2) This refers to shares of the Company held by Midpoint Honour Limited ("**Midpoint Honour**") and pledged in favor of Hony Capital 2008 Management Limited ("**Hony Management**"), which is indirectly controlled by Mr. Zhao John Huan.

(3) 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.

(4) As of December 31, 2019, the total number of issued shares of the Company was 138,194,000.

Save as disclosed above, as of December 31, 2019, so far as is known to the Directors, none of the Directors and chief executives of the Company had or were deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified under Divisions 7 and 8 of Part XV of the SFO or as otherwise 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 of December 31, 2019, 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 underlying shares of the Company which were required 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:

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.[3]	Interest of controlled corporation	123,000,000	89.01%
Hony Capital Fund V GP, L.P.[3]	Interest of controlled corporation	123,000,000	89.01%
Hony Capital Fund V GP Limited[3]	Interest of controlled corporation	123,000,000	89.01%

Name of shareholder	Capacity/Nature of interest	Number of shares or underlying shares of the Company	Approximate percentage of shareholding interest[7]
Hony Group Management Limited[2][3][4]	Interest of controlled corporation;	161,693,985	117.01%
	deemed interest	2,500,000	1.81%
Hony Managing Partners Limited[2][3][4]	Interest of controlled corporation;	161,693,985	117.01%
	deemed interest	2,500,000	1.81%
Exponential Fortune Group Limited[2][3][4]	Interest of controlled corporation;	161,693,985	117.01%
	deemed interest	2,500,000	1.81%
Hony Fund VIII[4]	Beneficial owner	38,693,985	28.00%
Hony Capital Fund VIII GP (Cayman), L.P. [4]	Interest of controlled corporation	38,693,985	28.00%
Hony Capital Fund VIII GP (Cayman) Limited[4]	Interest of controlled corporation	38,693,985	28.00%
Anhui Zhong'an LP[5]	Beneficial owner	9,098,800	6.58%
Anhui Zhong'an[5]	Interest of 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 of 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 of controlled corporation	9,098,800	6.58%
Mr. Niu Yang[5]	Interest of controlled corporation	9,098,800	6.58%
Leap Wave Limited[6]	Beneficial owner	40,000,000	28.94%
Legend Holdings Corporation[6]	Interest of controlled corporation	40,000,000	28.94%

Notes:

(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 December 31, 2019. For further details, please refer to the section headed "Convertible Bonds" in this report.

(2) Aggregating the shares of the Company held by Midpoint Honour and pledged in favor of Hony Management.

(3) 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.

(4) 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.

(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 December 31, 2019. For further details, please refer to the section headed "Convertible Bonds" in this report.

(7) As of December 31, 2019, the total number of issued shares of the Company was 138,194,000.

SHARE-BASED PAYMENT SCHEMES

Save as disclosed below and under Note 26 to the consolidated financial statements, the Company does not have any other share option schemes.

(a) Share Subscription Agreement

For the benefit and long-term development of the Group, on March 31, 2016, the Company entered into a share subscription agreement (the "**Share Subscription Agreement**") with certain members of the management (collectively, the "**Management Subscribers**" and each a "**Management Subscriber**"), their respective investment holding companies, Midpoint Honour (a shareholder of the Company, which is collectively owned by the investment holding companies of the Management Subscribers), Hony Management (a management company established by Hony Capital), and Vanguard Glory (the immediate parent company of the Company).

The Share Subscription Agreement was subsequently amended on December 4, 2016 and January 23, 2017 (the "**Amendment Agreements**").

Pursuant to the Share Subscription Agreement, the Company allotted and issued 300 new shares ("**Subscription Shares**") to Midpoint Honour, representing 3% of the Company's then issued share capital, for RMB31,152,000, and such Subscription Shares were treated as treasury shares. On December 4, 2016, the Company repurchased 14 Subscription Shares at a price of HK$1,787,000 and subsequently cancelled these shares. Pursuant to the Amendment Agreements, the Subscription Shares with par value amounting to RMB2,000 were treated as treasury shares. On March 16, 2017, the remaining 286 Subscription Shares were divided into 2,860,000 shares with a par value of HK$0.001 each upon the capitalization issue.

Pursuant to the Share Subscription Agreement and the Amendment Agreements, Midpoint Honour is subject to lock-up restrictions and shall put back the Subscription Shares to the Company when a Management Subscriber resigns with the Company's consent, at a consideration equal to the subscription consideration plus interest where available (the "**Put Back Consideration**"). As a result, it is accounted for as a share option scheme in accordance with relevant accounting standards, under which the Management Subscribers were granted 300 share options and the Group receives services from the Management Subscribers. The share options are conditional on the employees completing the first year and second year's services, which are the vesting period. The share options are exercisable starting 12 months (the "**First Batch Share Options**") or 24 months (the "**Second Batch Share Options**") from the Listing Date. The exercise price of the granted share options is equal to the Put Back Consideration. The granted share options were considered as an equity-settled share-based payment to the subscriber.

On March 15, 2018, pursuant to the Share Subscription Agreement and the Amendment Agreements, the First Batch Share Options of unlocked treasury shares were vested to the respective Management Subscribers. In 2018, one of the Management Subscriptions resigned and the Company agreed not to exercise its right to repurchase the relevant shares attributable to him that were subject to lock-up restrictions.

On March 15, 2019, pursuant to the Share Subscription Agreement and the Amendment Agreements, the Second Batch Share Options of unlocked treasury shares were vested to the respective Management Subscribers. In 2019, one of the remaining Management Subscribers resigned and the Company agreed not to exercise its right to repurchase the relevant shares attributable to him that were subject to lock-up restrictions.

The share-based compensation expense related to the Share Subscription Agreement of RMB311,000 were recognized as 'cost of revenue' for the year ended December 31, 2019 (2018: RMB2,549,000).

(b) **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 and of 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 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.

The share-based compensation expense related to the Pre-IPO SARs Scheme of RMB2,862,000 were derecognized as "cost of revenue" for the year ended December 31, 2019 (2018: RMB1,055,000 were recognized as "cost of revenue").

(c) **Service Contract with Mr. Lu Wenzuo**

Pursuant to a service contract entered into between New Pride Holdings Limited ("**New Pride**") and Mr. Lu Wenzuo (the "**Service Contract**"), New Pride conditionally granted the following awards to Mr. Lu Wenzuo if he could work for Weikang Investment Management Co., Ltd. ("**Weikang Investment**") and provide hospital management services to Yangsi Hospital as the hospital administrator until December 31, 2017:

(i) Certain share awards (the "**Share Awards**") to acquire 1% of the equity interest in each of Weikang Investment and Tibet Dazi Honghe Ruixin Business Management Co., Ltd. ("**Honghe Ruixin**") for each of the three years ending December 31, 2017 from New Pride and Tibet Honghe Zhiyuan Business Management Co., Ltd., or receive a cash payment equivalent to the value of 1% of the equity interest in each of Weikang Investment and Honghe Ruixin for each of the three years ending December 31, 2017. Such Share Awards will be settled by New Pride at the end of Mr. Lu's tenure at the same time; and

(ii) Share appreciation rights ("**Mr. Lu's SARs**") to receive a cash payment based on the appreciation of 1% of the notional equity interest in Weikang Investment and Honghe Ruixin. Mr. Lu's SARs will be settled by New Pride at the end of Mr. Lu's tenure.

On May 30, 2018, pursuant to an exercise notification from Mr. Lu Wenzuo to New Pride, Mr. Lu Wenzuo confirmed his choice to settle the Share Awards in shares rather than in cash. Pursuant to the Service Contract, the fair value of the debt component of the Share Awards amounting to RMB40,500,000 was recognised as capital reserve upon the date of the exercise notification.

On January 25, 2019, Mr. Lu Wenzuo submitted an application to New Pride for the exercise of Mr. Lu's SARs. As at December 31, 2019, the amount in respect of Mr. Lu's SARs had not been settled.

The share-based compensation expenses related to Mr. Lu's SARs of RMB277,000 were derecognized as "cost of revenue" for the year ended December 31, 2019 (2018: RMB7,200,000 were recognized as "cost of revenue").

(d) 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 year ended December 31, 2019 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.

Share-based compensation expenses related to the Share Incentive Scheme of RMB5,182,000 were recognized as 'cost of revenue' for the year ended December 31, 2019 (2018: RMB11,855,000).

(e) 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 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 its the subsidiaries. The Post-IPO SARs Scheme does not involve the grant of options over new securities of the Company. Under the Post-IPO SARs Scheme, directors, employees, advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture partners and service providers of the Company or any of its subsidiaries (the "**Post-IPO SARs Eligible Participants**") who, in the sole opinion of the Board, have contributed to the Company and/or any of its 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 and rights to dividends entitled by the shareholders of the Company.

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

During the year, the movement of shares and share appreciation rights granted under the above-mentioned incentive schemes were as follows:

Category	Type	Date of grant	Exercise price per share	Exercise period	Balance as at January 1, 2019	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Balance as at December 31, 2019
Employees of the Group	Management Subscription	March 31, 2016	RMB10.384	March 15, 2018 – March 15, 2019	2,860,000	–	–	–	2,860,000
	Pre-IPO Share Appreciation Rights Scheme	November 28, 2016	HK$12.80	March 15, 2018 – March 15, 2021	1,562,500	–	(312,500)	(250,000)	1,000,000

EQUITY-LINKED AGREEMENTS

Save for the share-based payment schemes as set out above and the convertible bonds issued by the Company as disclosed in the section headed "Convertible Bonds" in this report, no equity-linked agreement that would or might result in the Company issuing shares, or requiring the Company to enter into an agreement that would or might result in the Company issuing shares, was entered into by the Company during the year ended December 31, 2019 or subsisted at the end of 2019.

DONATIONS

During the year ended December 31, 2019, donations for charity or other purposes made by the Group amounted to RMB2 million.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

Details of compliance by the controlling shareholders of the Company with the deed of non-competition entered into with the Company on December 13, 2016 is set out in the "Corporate Governance Report" of this annual report.

MINIMUM PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors, as of the date of this report, the Company has maintained the prescribed public float as approved by the Stock Exchange since the Listing Date.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the laws of the Cayman Islands (being the place of incorporation of the Company) or under the Articles which would require the Company to offer new shares on a pro-rata basis to its existing shareholders.

CORPORATE GOVERNANCE

The Company has adopted the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. The Board considered that during the year ended December 31, 2019, the Company has complied with the applicable code provisions set out in the CG Code. For details, please refer to the "Corporate Governance Report" on pages 68 to 79 of this annual report.

EMOLUMENT POLICY AND SENIOR MANAGEMENT'S EMOLUMENTS

The Directors' fees are subject to approval by the shareholders of the Company at general meetings. Their emoluments are determined by the Board with reference to factors such as Directors' duties, responsibilities and performance and the results of the Group.

The five individuals whose remuneration was the highest in the Group for the year ended December 31, 2019 included two Directors and three members of the senior management. The annual remuneration of the members of the senior management (other than the Directors) by band for the year ended December 31, 2019 is set out below:

Remuneration bands	Number of individuals
HK$1,500,000 to HK$2,000,000	1
HK$2,000,000 to HK$2,500,000	1
HK$4,000,000 to HK$4,500,000	1

Details of the remuneration of the five highest paid individuals and each of the Directors for the year ended December 31, 2019 are set out in Note 9 and Note 41 to the consolidated financial statements, respectively. None of the Directors has agreed to waive any emoluments for the year ended December 31, 2019.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or a substantial part of the business of the Company were entered into or existed during the year ended December 31, 2019.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in his/her favor, or in which he/she is acquitted. Such permitted indemnity provision was in force throughout the year ended December 31, 2019 and up to the date of this report.

MAJOR CUSTOMERS AND SUPPLIERS

In 2019, Yangsi Hospital, Cixi Hospital and Jinhua Hospital were our largest customers, and the Group received management service fees from Yangsi Hospital, Cixi Hospital and Jinhua Hospital in respect of the provision of management and consultancy services to them. In 2019, the management service fees recognised from them (net of value-added tax) were RMB212.2 million, accounting for approximately 51.6% of our revenue, and the management service fees recognised from the largest customer accounted for approximately 36.3% of our revenue for the year ended December 31, 2019. Our other customers are patients of Jiande Hospital, from whom we derive revenue by providing general hospital services. The majority of these patients rely on public medical insurance programs to pay for their medical treatments.

In 2019, our purchases from the top five suppliers of the Group amounted to RMB82.3 million in total (net of value-added tax), accounting for approximately 67.1% of our total purchase costs, and the amount of purchase from the largest supplier accounted for approximately 36.5% of our total purchase costs for the year ended December 31, 2019.

None of the Directors, their close associates or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has an interest in any of our five largest customers and suppliers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year ended December 31, 2019 was the Company or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

RISK MANAGEMENT

Market Risk

We conduct our business in China, from where we derive our revenue. The functional currency for all of our operating subsidiaries is RMB. In Hong Kong, where the currency is HKD, we accept certain exchange rate risks to meet investment and financing business needs. We are not exposed to significant commodity price risk. The wealth management products we held in 2019 were classified as financial assets at fair value through profit and loss. In view of the short maturity and relatively stable prices of those wealth management products, we assess its price risk to be low. Borrowings obtained at variable rates expose us to cash flow interest rate risk, which may be offset in part by cash and wealth management products held at variable rates, and also expose us to fair value interest rate risk. As of December 31, 2019, our borrowings amounted to RMB214.4 million. The interest rates of our loans which bear floating rates are linked to HIBOR. In order to meet daily business capital requirements, we accept the interest rate risk within HIBOR's fluctuation.

Credit risk

Credit risk mainly arises from cash and cash equivalents, term deposit, financial assets at fair value through profit or loss ("**FVPL**"), amounts due from related parties, and trade and other receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets.

The credit risk of cash and cash equivalents, term deposit, financial assets at FVPL of the Company is limited because the counterparties are mainly state-owned or public listed commercial banks which are high-credit-quality financial institutions in the PRC.

The trade receivables of the Group are subject to the expected credit loss model. While financial assets at FVPL are also subject to the impairment requirements of IFRS 9, no impairment was identified. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 12 month before December 31, 2019 or January 1, 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the gross domestic product ("**GDP**") and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Other financial assets at amortised cost include other receivables, deposits and amounts due from related parties. The Directors have assessed that other receivables, deposit and amounts due from related parties have not had a significant increase in credit risk since initial recognition. Thus, a 12-month expected credit loss approach that results from possible default event within 12 months of the reporting period of the Group is adopted by management. The Directors do not expect any losses from non-performance by the counterparties of other receivables, deposits and amounts due from related parties to be recognised.

Details of the credit risk of the Group during the year ended December 31, 2019 are set out in Note 3.1(ii) to the consolidated financial statements.

Liquidity Risk

We are exposed to liquidity risk. We aim to maintain sufficient cash and cash equivalents to meet our operating capital requirements.

Capital Risk

Our primary objectives when managing capital are to safeguard our ability to continue as a going concern in order to provide returns to our shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. We actively and regularly review and manage our capital structure to maintain a balance between the higher equity shareholders' returns that may be achieved with higher levels of borrowings and the advantage and security afforded by a sound capital position, and make adjustments to our capital structure in light of changes in economic conditions. In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debt. We monitor our capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. Our liability-to-asset ratio was 56% as of December 31, 2018 and 59% as of December 31, 2019. In 2019, the increase in our liability-to-asset ratio was mainly due to our issuance of convertible bonds and there were no changes in our approach to capital management. Neither our Company nor any of our subsidiaries is subject to externally imposed capital requirements.

ENVIRONMENTAL POLICIES AND PERFORMANCE

It is our corporate and social responsibility to promote sustainable development and foster an environmentally-friendly environment. The Group has implemented internal policies and procedures with respect to environmental protection at the Group Hospitals and has engaged qualified service providers to dispose of our Group Hospitals' medical waste. The Group has established a hospital infection management committee that sets out annual work plans and carries out supervision on preventing hospital infections. For the year ended December 31, 2019, the Group incurred RMB425,248 (2018: RMB242,897) in environmental compliance costs. The Group integrates international standards, national regulations and industry standards into its medical services, and procurement and business management activities. The specific tasks are performed by the Group's subsidiaries and medical institutions. The Group's functional departments are connected to ensure that daily operations are in line with the environmental, social and governance regulations. During the year ended December 31, 2019 and up to the date of this report, none of our management received reports concerning environmental claims, lawsuits, penalties or administrative sanctions.

COMPLIANCE WITH LAWS AND REGULATIONS

Our operations are mainly carried out by the Company's subsidiaries in China while the Company's shares are listed on the Stock Exchange. Our operations shall comply with relevant laws and regulations in China, Hong Kong and the Cayman Islands. During the year ended December 31, 2019 and up to the date of this report, the Group has complied with all the relevant laws and regulations in China, Hong Kong and the Cayman Islands in all material respects.

AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2019 have been audited by PricewaterhouseCoopers, who will retire at the conclusion of the AGM and offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the AGM.

On behalf of the Board

Shan Guoxin
Executive Director and Chief Executive Officer

Hong Kong
March 23, 2020

DIRECTORS

Shan Guoxin (單國心)

Executive Director and Chief Executive Officer

Mr. Shan, aged 58, is an executive Director and the chief executive officer of our Company and was appointed as the chief executive officer of the Company on June 5, 2018 and as a Director on March 12, 2019. Mr. Shan has over 30 years of experience in the management of hospitals and healthcare groups, investment in hospitals and hospital operations. Prior to joining the Group, he was the deputy director of the medical education department at Zhujiang Hospital, an affiliate hospital of First Military Medical University (currently known as Southern Medical University) (第一軍醫大學(現南方醫科大學)附屬珠江醫院). Since 2005, Mr. Shan served as the assistant to hospital administrator, vice hospital administrator, executive hospital administrator and hospital administrator of Guangdong 999 Neurology Hospital (廣東三九腦科醫院), a Class IIIA specialty hospital. From November 2012 to November 2016, he also served as the chief operating officer and vice general manager of China Resources Healthcare Group (華潤醫療集團), and concurrently as the hospital administrator of Xuzhou Mining Hospital (徐州市礦山醫院), a Class IIA general hospital under China Resources Healthcare Group.

Mr. Shan graduated from the First Military Medical University (Guangzhou) (第一軍醫大學(廣州)) in August 1984 with a major in military clinical medicine. He completed his postgraduate program at First Military Medical University in August 1995 and has attended various educational programs, including a hospital management program at Second Military Medical University (第二軍醫大學), EMBA program at South China University of Technology (華南理工大學), public relations courses (through correspondence) at Language and Logic University of China (中國語言與邏輯函授大學), and economic management courses (through correspondence) at Central Party School of the Communist Party of China (中共中央黨校). Mr. Shan became a vice professor at First Military Medical University in October 1995 and has served as the chairman of Guangdong Community Health Association (廣東社區衛生學會).

Lu Wenzuo (陸文佐)

Executive Director

Mr. Lu, aged 74, is an executive Director of our Company and was appointed as a Director on December 16, 2015. Mr. Lu is responsible for the overall hospital operation and management of Yangsi Hospital. He joined our Group in December 2003. He currently serves as a director of Weikang Investment and also held the position of hospital administrator of Yangsi Hospital upon its establishment. As the hospital administrator of Yangsi Hospital, Mr. Lu is primarily responsible for the overall management and operations of Yangsi Hospital. Mr. Lu has significant decision-making authority in the administrative matters of Yangsi Hospital, including decision-making authority in daily operations, hiring and promotion of personnel and remuneration. Mr. Lu is also responsible for the implementation of plans and the financial auditing of Yangsi Hospital. Furthermore, Mr. Lu is responsible for overseeing and executing the tasks formulated by the Chinese government and the Group. Mr. Lu has more than 34 years of experience in hospital management. Prior to joining our Group, he served as the deputy hospital administrator of the First People's Hospital of Nantong (南通市第一人民醫院), a Class IIIA general hospital located in Nantong, Jiangsu province, from July 1983 to March 1987. He joined Shanghai Punan Hospital (上海浦南醫院), a Class II general hospital located in Shanghai, in April 1987 and served as the deputy hospital administrator from January 1992 to December 2003.

Mr. Lu graduated from Shanghai Medical College (復旦大學上海醫學院) (previously known as Shanghai First Medical College (上海第一醫學院)) in China in August 1969 and majored in medicine. Mr. Lu received the qualification of chief physician (主任醫師) from the Medical Technical Worker Advanced Qualifications Review Committee of Shanghai (上海衛生技術人員高級職稱評審委員會) in December 1996. He was awarded as one of the Top Ten Outstanding Administrators in Shanghai by the Shanghai Association for Non-government Medical Institutions (上海市社會醫療機構協會) in November 2013.

Zhao John Huan (趙令歡)

Chairman and non-executive Director

Mr. Zhao, aged 57, is the chairman and a non-executive Director of our Company and was appointed as a Director on February 21, 2014. Mr. Zhao is responsible for overseeing the corporate development and strategic planning of our Group.

Mr. Zhao is currently the chairman and chief executive officer of Hony Capital (a series of private equity investment funds, together with their respective management companies/general partners). He is also a non-executive director of Legend Holdings Corporation (HKEX Stock Code: 3396), a non-executive director of Lenovo Group Limited (HKEX Stock Code: 0992), a non-executive director of China Glass Holdings Limited (HKEX Stock Code: 3300), an executive director and the chairman of Best Food Holding Company Limited (HKEX Stock Code: 1488), a non-executive director of Zoomlion Heavy Industry Science and Technology Co., Ltd. (HKEX Stock Code: 1157; Shenzhen Stock Exchange Stock Code: 000157), a non-executive director of ENN Ecological Holdings Co., Ltd. (Shanghai Stock Exchange Stock Code: 600803), a non-executive director of Shanghai Jin Jiang International Hotels Development Co., Ltd. (上海錦江國際酒店發展股份有限公司) (Shanghai Stock Exchange Stock Code: 600754 (A shares) and 900934 (B shares)), and an executive director and the chairman of the board of Goldstream Investment Limited (HKEX Stock Code: 1328). For directorships held by Mr. Zhao in substantial shareholders of the Company within the meaning of Part XV of the SFO, please also refer to the section headed "Report of the Directors – Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company" in this annual report.

Mr. Zhao obtained his bachelor's degree in physics from Nanjing University in China in July 1984, dual master's degrees in electronic engineering and physics from Northern Illinois University in the United States in May 1990 and a master of management degree from the Kellogg School of Management (previously known as the J.L. Kellogg Graduate School of Management) at Northwestern University in the United States in June 1996.

Li Peng (李蓬)

Non-executive Director

Mr. Li, aged 48, is a non-executive Director of our Company and was appointed as a Director on July 24, 2019. Mr. Li has been appointed as a senior vice president and a member of the executive committee of Legend Holdings Corporation (HKEX Stock Code: 3396) since July 2015. Mr. Li joined Legends Holdings Corporation in 2003 and served consecutively as a deputy head of the corporate planning office and general manager of the investment management department, a general manager, an assistant president, a vice president as well as a senior vice president of the financial assets department and a general manager of the strategic investment department. Prior to joining Legend Holdings Corporation, Mr. Li served as a finance manager of Sinotrans Corporation (中國對外貿易運輸總公司) from 1994 to 1999. He also served as a senior financial analyst of Teradyne Connection Systems in the United States from June 2001 to December 2002.

Mr. Li currently holds directorships in various companies. He currently serves as an executive director and the chief executive officer of Legend Holdings Corporation, a director of Lakala Payment Company Limited (拉卡拉支付股份有限公司), a company listed on the Shenzhen Stock Exchange (Shenzhen Stock Exchange Stock Code: 300773), a director of Zhengqi Financial Holdings Corporation (正奇金融控股股份有限公司), and a director of Tibet Kaola Science & Technology Development Co., Ltd. (西藏考拉科技發展有限公司). Mr. Li also serves as a vice president of Banque Internationale à Luxembourg S.A. (盧森堡國際銀行).

Mr. Li obtained his bachelor's degree in international finance from the University of International Business & Economics in China in 1994, and a Master of Business Administration from the University of New Hampshire in the United States in 2001.

Liu Lu (劉路)

Non-executive Director

Ms. Liu Lu (劉路), aged 46, is a non-executive Director of our Company and was appointed as a Director on May 26, 2017. Ms. Liu is mainly responsible for overseeing the corporate development and strategic planning of our Group. From November 2008 to March 2015, Ms. Liu served as an assistant to the general manager and subsequently a deputy general manager at Anhui Venture Capital Investment Co., Ltd. (安徽省創業投資有限公司). From March 2015 to February 2016, Ms. Liu was a deputy general manager at Anhui Hi-Tech Industry Investment Co., Ltd. (安徽省高新技術產業投資公司). Since December 2015, Ms. Liu has been the general manager of Anhui Zhong'an Health Investment Management Co., Ltd. (安徽中安健康投資管理有限公司). She currently serves as a director of multiple companies, including Anhui Fengshou Investment Co., Ltd. (安徽豐收投資有限公司), Shanghai Huilun Life Technology Co., Ltd.(上海匯倫生命科技有限公司) and Anhui Sunhere Pharmaceutical Excipients Co., Ltd. (安徽山河藥用輔料股份有限公司), a company listed on the Shenzhen Stock Exchange (Shenzhen Stock Exchange Stock Code: 300452). For directorships held by Ms. Liu in substantial shareholders of the Company within the meaning of Part XV of the SFO, please refer to the section headed "Report of the Directors – Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company" in this annual report. Ms. Liu obtained her bachelor's degree and master's degree in biology from Hebei University (河北大學) in June 1994 and from Nankai University (南開大學) in June 1997, respectively.

Wang Nan (王楠)

Non-executive Director

Ms. Wang Nan (王楠), aged 43, is a non-executive Director of our Company and was appointed as a Director on May 26, 2017. Ms. Wang is mainly responsible for overseeing the corporate development and strategic planning of our Group. Since August 1995, Ms. Wang has been serving in Neusoft Corporation (東軟集團股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 600718), where she holds various positions, including the head of the mobile internet division, a deputy director of the advanced automotive electronic technology research center and the general manager of the strategic alliance and international business development division. Ms. Wang has been serving as a senior vice president and the secretary to the board of directors at Neusoft Corporation since May 2011 and December 2011, respectively. Ms. Wang obtained her Doctor of Philosophy degree in computer applications from Northeastern University (東北大學) in China in July 2009.

Shi Luwen (史錄文)

Independent non-executive Director

Mr. Shi Luwen (史錄文), aged 56, is an independent non-executive Director of our Company and was appointed as a Director on December 13, 2016 with effect from the Listing Date. Mr. Shi has served as the director of the International Research Center for Medical Administration of Peking University (北京大學醫藥管理國際研究中心) since 2002.

Mr. Shi currently holds positions in various organizations, including those set out below:

Name of organization	Position	Time of commencement
Pharmaceutical Affairs Management Subcommittee of National Health Commission for Professional Training of Administrative Leaders in Public Hospitals (衛生健康委員會公立醫院行政領導人員職業化培訓藥事管理分委會)	Vice chairman	2018
Medicine Policy Professional Committee of China Health Economics Association (中國衛生經濟學會藥物政策專委會)	Vice chairman	2018
Medicine Policy Professional Committee of China Pharmaceutical Industry Research and Development Association (中國藥促會藥物政策專委會)	Vice chairman	2018
Pharmaceutical Affairs Management Commission of Chinese Pharmaceutical Association (中國藥學會藥事管理專委會)	Vice chairman	2018
Pharmacoeconomics Expert Committee of Chinese Research Hospital Association (中國研究型醫院學會藥物經濟學專業委員會)	Chairman	2017
Rare Disease Branch of Beijing Medical Association (北京醫學會罕見病分會)	Vice chairman	2017
Paediatrics Committee of Chinese Research Hospital Association (中國研究型醫院學會兒科專業委會)	Vice chairman	2016
Pharmacoeconomics Expert Committee of Beijing Pharmaceutical Association (北京藥學會藥物經濟學專業委員會)	Chairman	2016
Chinese Hospital Association Expert Committee of Clinical Pharmacists Practice (中國醫院協會臨床藥師工作專家委員會)	Standing committee member	2014
Pharmacy Administration Professional Commission of Beijing Association of Chinese Medicine (北京中醫藥協會藥事管理專業委員會)	Vice chairman	2012

In addition, Mr. Shi has held positions in various organizations, including those set out below:

Name of organization	Position	Term of service
Medical and Health System Reform Intensifying Expert Advisory Panel of the Ministry of Health of the PRC (中國衛生部深化醫藥衛生體制改革專家諮詢組)	Expert	2010-2012
Basic Medical Insurance System for Urban Resident Joint Conference of the State Council (國務院城鎮居民基本醫療保險部聯席會議)	Pilot evaluation expert	2007-2010

Mr. Shi has been an independent non-executive director of China Meheco Co., Ltd. (中國醫藥健康產業股份有限公司), a company listed on the Shanghai Stock Exchange (Shanghai Stock Exchange Stock Code: 600056), since December 2015. Mr. Shi was awarded the Scientific Chinese Person (2011) (科學中國人(2011)年度人物) by the Scientific Chinese Magazine in 2012, the Hospital Science and Technology Innovation Award (醫院科技創新獎) by the Chinese Hospital Association in 2011 and the Xue Muqiao Price Research Award (薛暮橋價格研究獎) by the Price Association of China (中國價格協會) in 2010. He was awarded the Beijing Science and Technology Award (北京市科學技術獎) by the People's Government of Beijing Municipality in 2002. Mr. Shi obtained his bachelor's degree in science from the Peking University Health Science Center (北京大學醫學部) (formerly known as Peking Medical University in China (中國北京醫科大學)) in July 1987 and his master's degree in health professions education from the University of Illinois in the United States in July 1992.

Zhou Xiangliang (周向亮)

Independent non-executive Director

Mr. Zhou Xiangliang (周向亮), aged 39, is an independent non-executive Director of our Company and was appointed as a Director on December 13, 2016 with effect from the Listing Date. Mr. Zhou has served as the chief financial officer of Beijing Science Technology Co., Ltd. (北京中環信科科技股份有限公司) since July 2010 and has also held the position of board secretary since August 2011. Prior to working in Beijing Science Technology Co., Ltd., Mr. Zhou worked as a consultant in KPMG Huazhen LLP.

Mr. Zhou obtained his bachelor's degree in management from the Central University of Finance and Economics (中央財經大學) in China in June 2003. He was qualified as a Chinese Certified Public Accountant (中國註冊會計師) by the Beijing Institute of Certified Public Accountants (北京註冊會計師協會) in July 2007 and as a board secretary by the Shenzhen Stock Exchange in November 2012. He has served as the manager of Tianjin Hexinyuan Investment Company (天津和信源投資公司) since July 2018.

Dang Jinxue (党金雪)

Independent non-executive Director

Mr. Dang Jinxue (党金雪), aged 65, is an independent non-executive Director of our Company and was appointed as a Director on March 9, 2020. He has extensive experience as a hospital director, has outstanding ability in handling all aspects of hospital development and management, and also has in-depth knowledge of the medical capital market. Mr. Dang served as the dean of sales of Xijing Hospital (西京醫院) from December 2003 to 2010, and the dean of Weinan Economic Development Zone People's Hospital (private) (渭南經開區人民醫院(民營)) from 2011 to 2014. He served as the dean of Xi'an Chang'an Hospital (private) (西安長安醫院(民營)) from July 2013 to December 2016 and the medical director of Xi'an Xin Chang'an Medical Investment Company Limited (西安新長安醫療投資有限公司) from January 2017 to January 2018. Since March 2018, Mr. Dang has been serving as the deputy general manager of Beijing Kangjia Yongjian Medical Investment Management Company Limited (北京康嘉永健醫療投資管理有限公司) and since August 2019, he has been serving as the dean of preparation of Yulin Rehabilitation Hospital (Youfang Hospital) (榆林康復醫院(友芳醫院)).

Mr. Dang graduated from the military medical department of the Fourth Military Medical University (第四軍醫大學軍醫系) in 1984 and joined the Department of Psychology of Shaanxi Normal University (陝西師範大學) as a guest researcher in 2002. Mr. Dang formerly served as the leader of the rating review team of Shaanxi Provincial Hospital (陝西省醫院) and an expert of the Shaanxi Provincial Rural Cooperative Medical Technical Guidance Group (陝西省農村合作醫療技術指導組) from 2006 to 2010. He is currently a registered medical practitioner.

SENIOR MANAGEMENT

Huang Meiliang (黃美良)

Deputy general manager of the Company

Mr. Huang Meiliang (黃美良), aged 55, was appointed as a deputy general manager of the Company in August 2018. He is primarily responsible for supervising the Personnel and Administration Department, supply chain management and information construction of the Group. Mr. Huang has more than 26 years of experience in medical administration. He joined the Group in December 2017 and served as the chief medical officer and was later promoted to be a deputy general manager of the Group. Prior to joining the Group, Mr. Huang served as the director of healthcare office since March 2000, the director of medical affairs department since March 2007, and an executive vice hospital administrator since March 2012 of Chinese People's Liberation Army Air Force General Hospital (中國人民解放軍空軍總醫院). From 1992 to February 2000, Mr. Huang was an orthopedist at the Air Force Beijing Hospital (空軍北京醫院), where he later served as medical assistant and deputy director of the medical affairs department.

Mr. Huang obtained his master's degree in public health from the Third Military Medical University (第三軍醫大學) in December 2010, graduated from the military medical class of the Air Force Medical College (空軍醫學高等專科學校) in May 1989, and studied full time for half a year in the first training class for hospital administrators held by the Health Department of General Logistics Department (總後勤部衛生部) in 2009.

Zhang Rui (章睿)

Chief financial officer

Ms. Zhang Rui (章睿), aged 43, was appointed as the chief financial officer of the Company in September 2019. She is primarily responsible for overseeing the finance and operations of the Company. Ms. Zhang obtained her master's degree in applied finance from Macquarie University in Australia in 2016. She has been a member of the Chinese Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants and the Institute of Certified Management Accountants since 2004, and holds a senior accountant qualification certificate of the PRC. Prior to joining the Group, Ms. Zhang was an audit manager at Deloitte Touche Tohmatsu, where she accumulated nearly 7 years of experience and was mainly responsible for the overseas listing audit of domestic companies in the medical industry. Ms. Zhang Rui has been the financial controller and the compliance application and full-time director of Gem Flower Healthcare Investment Holdings Group Co., Ltd. since 2017. She has extensive practical experience in the reformation, mergers and acquisitions, reorganisation and proposed listings of medical institutions.

Chen Wenming (陳文明)

Deputy general manager of the Company

Mr. Chen Wenming (陳文明), aged 56, was appointed as a deputy general manager of the Company in September 2018. He is primarily responsible for the academic construction of the Company and overall hospital operation and management of Jinhua Hospital. Mr. Chen has over 30 years of experience in the medical industry. Prior to joining the Group, Mr. Chen served as the director of the neurology department of Chinese People's Liberation Army 458 Hospital (中國人民解放軍第458醫院), a Class IIIA general hospital, since September 2000, and successively served as director of the neurology department, director of medical affairs department, assistant to hospital administrator and vice hospital administrator of Guangdong 999 Neurology Hospital (廣東三九腦科醫院), a Class IIIA neurology hospital located in Guangzhou, from 2006 to August 2018. Mr. Chen was also a resident physician in the department of gastroenterology of Beijing Military General Hospital (北京軍區總醫院) from July 1987 to September 1989.

Mr. Chen obtained his master's and bachelor's degree in medicine from the First Military Medical University (第一軍醫大學) (currently known as Southern Medical University (現南方醫科大學)) in July 1992 and July 1987, respectively.

Ding Yue (丁玥)

Chief nursing officer of the Company

Ms. Ding Yue (丁玥), aged 47, was appointed as the chief nursing officer (護理總監) of our Company in March 2014. She is primarily responsible for supervising the healthcare quality management of our Company. She joined our Group in March 2014. Prior to joining our Group, Ms. Ding served as nursing supervisor (護理主管) of the hospital management office in Peking University Health Science Center (北京大學醫學部醫院管理處) from July 2012 to February 2014. From August 1996 to June 2012, Ms. Ding worked at Beijing Cancer Hospital as the head of the nursing department and the deputy head of the nursing department.

Ms. Ding obtained her bachelor's degree in medicine in July 1996 from the School of Nursing of Peking University in China.

Yang Wen (楊文)

Deputy general manager of Weikang Investment, chief medical service officer of Weikang Investment

Mr. Yang Wen (楊文), aged 56, was appointed as a deputy general manager and chief medical service officer of Weikang Investment in September 2014 and August 2016, respectively. He is primarily responsible for overseeing medical education and training activities of the hospitals of the Company, the upgrading and maintenance of medical facilities and infrastructure of the hospitals and overseeing quality control of medical services of the hospitals. He joined our Group in May 2005 and has worked for over 11 years in Weikang Investment. He served as the head of the department of respiratory medicine from 2005 to 2014 and has served as the head of the department of internal medicine since 2010 and has been in charge of overseeing the organization of educational activities of the Group since March 2010. Apart from his position at Weikang Investment, Mr. Yang, in the capacity of deputy hospital administrator of Yangsi Hospital, is also responsible for business and infrastructure work, medical dispute resolutions and regular inspection of service performance of Yangsi Hospital.

Mr. Yang obtained his bachelor's degree in medicine from Wannan Medical College in China in July 1986. He was accredited with the title of chief physician (主任醫師) by the Medical Technical Worker Advanced Qualifications Review Committee of Anhui Province (安徽省衛生技術高級職務評審委員會) in December 2005.

Le Meifen (樂美芬)

Deputy general manager of Weikang Investment

Ms. Le Meifen (樂美芬), aged 59, was appointed as a deputy general manager of Weikang Investment in April 2008. She is primarily responsible for supervising the general administrative affairs, human resources and nursing services of the hospitals of the Company. She joined our Group in August 2003 and has worked for 12 years in Weikang Investment where she served as the director of the human resources and administration department. Apart from her position at Weikang Investment, Ms. Le, in the capacity of deputy hospital administrator of Yangsi Hospital, is also responsible for assisting the hospital administrator in general administrative work and internal coordination of Yangsi Hospital.

Ms. Le received her graduation certificate through the self-taught higher education examination from the School of Nursing of Fudan University (復旦大學護理學院), majoring in nursing, in China in December 2004. She was accredited with the title of associate chief nurse by the Qualifications Reform Affairs Group of Shanghai (上海市職稱改革工作領導小組) in December 2004.

Yuchi Min (尉遲敏)

Deputy general manager of Weikang Investment

Ms. Yuchi Min (尉遲敏), aged 66, was appointed as a deputy general manager of Weikang Investment in April 2008. She is primarily responsible for supervising research and development of the hospitals of the Company and overseeing the clinical education of the hospitals. She joined our Group in March 2004 and has worked for 12 years in Weikang Investment where she currently serves as the head of the departments of gastroenterology and endoscopy. Apart from her position in Weikang Investment, Ms. Yuchi, in the capacity of deputy hospital administrator of Yangsi Hospital, is responsible for design of devising scientific research plans and clinical research.

Ms. Yuchi obtained a bachelor's degree in Medicine from Wannan Medical College in China in August 1982. She was accredited with the title of chief physician by the Qualifications Reform Affairs Group of Shanghai (上海市職稱改革工作領導小組) in November 1999.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions as set out in the CG Code contained in Appendix 14 to the Listing Rules. The Board considered that, during the year under review, the Company has complied with the applicable code provisions set out in the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a code of conduct regarding the transactions of securities of the Company by the Directors and the relevant employees (who likely possess inside information of the Company) (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 throughout the year ended December 31, 2019.

BOARD OF DIRECTORS

The Board of the Company comprises the following directors:

Executive Directors:
Mr. Shan Guoxin *(Chief Executive Officer)*
Mr. Lu Wenzuo

Non-executive Directors:
Mr. Zhao John Huan *(Chairman)*
Mr. Li Peng
Mr. Wei Kai *(resigned)*
Mr. Lin Sheng *(resigned)*
Ms. Liu Lu
Ms. Wang Nan

Independent Non-executive Directors:
Ms. Chen Xiaohong *(resigned)*
Mr. Shi Luwen
Mr. Zhou Xiangliang
Mr. Dang Jinxue

The biographical information of the Directors is set out in the section headed “Biographies of Directors and Senior Management” on pages 56 to 67 of this annual report.

Insurance for Directors

Code provision A.1.8 of the CG Code stipulates that an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Company has arranged for appropriate insurance cover to protect Directors from possible legal action against them.

Chairman and Chief Executive Officer

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.

The Company has appointed Mr. Zhao John Huan as the chairman of the Board, who is primarily responsible for overseeing the corporate development and strategic planning of the Group, and Mr. Shan Guoxin as the chief executive officer, who is primarily responsible for the overall business operation and strategic planning of the Group, as well as overseeing investment and supervising the public affairs management, resources development and logistics management of the Group.

Independent Non-executive Directors

During the year under review, the Board has complied with the requirements of the Listing Rules to appoint at least three independent non-executive Directors, representing at least one-third of the Board, with one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Directors’ Re-election

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Save for two of the non-executive Directors who are engaged on an appointment letter for a term of 1 year, each of the Directors is engaged on a service contract or appointment letter (as the case may be) for a term of 3 years.

In accordance with the Articles, all Directors are subject to retirement by rotation and re-election at an annual general meeting of the Company at least once every three years and any Director appointed by the Board or elected by the shareholders to fill a casual vacancy or as an addition to the Board shall hold office until the next following general meeting, as the case may be, of the Company after his/her appointment and be subject to re-election at such meeting.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for the leadership and control of the Company and oversees the businesses, strategic decisions and performance of the Group, and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflicts of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors keep abreast of their responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure an appropriate understanding of the business and operations of the Company and full awareness of directors' responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors, where appropriate.

During the year under review, all Directors have been provided with the relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors and duty of disclosure of interests. During the year under review, relevant reading materials, including legal and regulatory updates, have been provided to the Directors appointed (if any) for their reference and study.

BOARD COMMITTEES

The Board has established three Board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference. The terms of reference of the Board committees are posted on the website of the Company and of Hong Kong Exchanges and Clearing Limited ("**HKEX**") and are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of this annual report.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting system, internal control procedures and risk management system, relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee held 2 meetings during the year. The Audit Committee members Mr. Zhou Xiangliang and Mr. Shi Luwen attended the meetings in person and the following matters have been discussed and considered:

(a) the audit related matters for 2019 (including but not limited to the Group's financial accounting policies and practices, and the work performed by the external auditor of the Company);

(b) the annual results announcement and annual report of the Company for the year ended December 31, 2018, and the interim results announcement and interim report of the Company for the six months ended June 30 2019;

(c) the independent auditor's report prepared by the external auditor of the Company;

(d) the Company's risk management and internal control system and the effectiveness thereof, and discussed the same with management;

(e) the re-appointment of the external auditor of the Company for 2020; and

(f) the Company's continuing connected transactions in 2019.

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors, non-executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee held 2 meetings during the year and considered and recommended the following matters to the Board:

(a) remuneration and other benefits paid by the Company to the Directors and senior management of the Company; and

(b) terms of service and remuneration plan for newly appointed Directors.

All members of the Remuneration Committee attended the meeting in person.

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning for directors, and assessing the independence of independent non-executive Directors.

The Board has adopted a board diversity policy ("**Board Diversity Policy**") to achieve and maintain diversity on the Board in order to strengthen the performance of the Board, promote effective decision-making and better corporate governance and monitoring. The Company considers that the Board Diversity Policy is beneficial for enhancing the Company's comprehensive performance and operating capability, and provides support for the Company in achieving strategic goals and maintaining sustainable and balanced development. According to the Board Diversity Policy, in selecting Director candidates, we will consider board diversity, including but not limited to skills, experience and cultural and educational background, geographical location, industry and professional experience, ethnicity, gender, age, knowledge and length of service.

Based on the business needs of the Group, the Nomination Committee has recommended and the Board has adopted the following measurable objectives:

(a) a prescribed proportion of Board members shall be non-executive Directors or independent non-executive Directors; and

(b) a prescribed proportion of Board members shall have obtained accounting or other professional qualifications.

The Nomination Committee shall monitor the implementation of the Board Diversity Policy and review the progress of its measurable objectives from time to time.

In evaluating and selecting any candidate for directorship, the following criteria are considered: (i) character and integrity; (ii) qualifications; (iii) the above-mentioned measurable objectives adopted for achieving diversity on the Board; (iv) requirement for the Board to have independent Directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the Listing Rules; (v) potential contributions; (vi) willingness and ability to devote adequate time to discharge duties; and (vii) such other perspectives that are appropriate to the Company's business and succession plan. Upon receipt of a proposal on appointment of a new Director and his/her biographical information, the Nomination Committee and the Board will evaluate such candidate based on the aforementioned criteria to determine whether he/she is qualified for directorship. The Nomination Committee will then recommend to the Board the candidate for are directorship, if appropriate.

The Nomination Committee held 4 meetings during the year and determined and adopted the Board Diversity Policy, reviewed the structure, size and composition of the Board, assessed the independence of independent non-executive Directors, and considered and made recommendations to the Board on the appointment or re-appointment of Directors. All members of the Nomination Committee attended the meeting in person.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Securities Dealing Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORD OF BOARD AND BOARD COMMITTEE MEETINGS AND GENERAL MEETINGS

Code provision A.1.1 of the CG Code requires that at least four regular Board meetings should be held each year at approximately quarterly intervals, with active participation of a majority of directors, either in person or through other electronic means of communication.

The attendance records of each Director at Board and Board committee meetings and general meetings of the Company held during the year ended December 31, 2019 are set out in the table below:

	Number of meetings attended/held				
	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	General meetings
Executive Directors					
Mr. Shan Guoxin (appointed on March 12, 2019)	4/4	–	2/2	–	1/2
Mr. Lu Wenzuo	3/5	–	–	–	1/2
Non-executive Directors					
Mr. Zhao John Huan	5/5	–	–	4/4	1/2
Mr. Lin Sheng (resigned on March 12, 2019)	1/1	–	–	–	0/1
Mr. Wei Kai (resigned on July 24, 2019)	2/3	1/1	–	–	1/1
Mr. Li Peng (appointed on July 24, 2019)	1/1	1/1	–	–	0/0
Ms. Liu Lu	4/5	–	–	–	0/2
Ms. Wang Nan	3/5	–	–	–	1/2
Independent Non-executive Directors					
Ms. Chen Xiaohong	3/5	–	2/2	2/4	0/2
Mr. Shi Luwen	4/5	2/2	–	3/4	0/2
Mr. Zhou Xiangliang	4/5	2/2	2/2	–	0/2

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2019.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 97 to 104 of this annual report.

AUDITORS' REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, PricewaterhouseCoopers, in respect of audit services and non-audit services for the year ended December 31, 2019 is set out below:

Service Category	Fees paid/ payable *RMB'000*
Audit services for annual report	3,308
Non-audit services	1,912
Total	5,220

RISK MANAGEMENT, INTERNAL CONTROLS AND INTERNAL AUDIT

The Board is responsible for setting up and implementing an appropriate and effective risk management and internal control system, and ensuring the effectiveness thereof, including evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives. In addition, they provide only a reasonable but not an absolute assurance against material misstatement or loss.

A series of risk management and internal control policies and procedures are adopted both in the Group and the hospitals the Company manages, which includes risk management, internal control system and internal audit function. The risk management system contains identifying and categorizing current and emerging risks in our business operations, assessing and prioritizing risks, mitigating risks, and measuring our risk management. The internal control system includes employee code of conduct, internal audit, management report and internal control system in the hospitals the Company owns or manages. The internal audit function accesses and monitors key risks, controls and procedures to assure our management and the Directors that the internal control system is functioning as intended and is sound and effective. The Audit Committee is responsible for supervising our internal audit function and its effectiveness, and is supported by the legal and risk control department of the

Company. In addition, a standardized internal control system has been adopted by the hospitals the Company owns or manages to improve their internal policies and procedures. Yangsi Hospital, Cixi Hospital, Jiande Hospital and Jinhua Hospital have improved their internal policies and procedures based on this standardized systems.

Procedures on Identifying, Evaluating and Managing Significant Risks

Risk management is a continuous process and requires regular monitoring and review. The Company's procedures on identifying, evaluating and managing significant risks are as follows:

- Risk identification and assessment: Risks that may have a potential impact on the business and operations of the Group's various business units are identified, and a risk database is established and continuously updated; the assessment criteria that have been reviewed and approved by the management are used in the assessment of the identified risks, during which the likelihood of their occurrence and their impact on the business are taken into account;

- Risk-countering: Through comparison of risk assessment outcomes, risks are ranked by priority, and risk management strategies and internal control procedures are determined for preventing, avoiding or reducing risks; and

- Risk monitoring and reporting: Relevant risks are monitored on an ongoing and regular basis, and appropriate internal control procedures are guaranteed to be in place; in the event of any material change, the risk management policies and internal control procedures would be amended; and the risk monitoring results are reported to the Audit Committee and the management on a regular basis.

We strive to enhance the Company's risk management and internal control structure and capability to ensure long-term growth and sustainable development for the Company's business. In this regard, we are required to implement consistently an effective risk management and internal control structure. We will continue along the same direction, aiming to integrate risk management and internal control into our daily operations.

The Board of Directors reviews the effectiveness of the Group's risk management and internal control system once a year. During the reporting period ended December 31, 2019, the Company's risk management and internal control system was effective and sufficient, and there were no matters of major concerns relating to financial, operational or compliance controls.

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management, internal control system and internal audit function of the Company and considered the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function. The Company confirms that the above-mentioned risk management, internal control system and internal audit function are adequate and effective.

PROCEDURES ON AND INTERNAL CONTROLS FOR HANDLING AND DISSEMINATING INSIDE INFORMATION

In order to regulate information disclosure, strengthen management of information disclosure, and protect the rights and interests of the Company and its shareholders and other stakeholders, the Group has put in place procedures and internal controls for the handling and dissemination of inside information (the "**Procedures**") in accordance with the principles and requirements under laws and regulations such as the SFO and the Listing Rules. The Procedures are applicable to persons including the Directors, secretary to the Board, senior management, responsible person of each department and subsidiary, other persons having the duty for information disclosure, and staff who have access to inside information by virtue of his/her office or capacity. The Procedures provide detailed guidelines on the appropriate timing, contents, formats, internal vetting processes and disseminating procedures of information under different circumstances, the review and disclosure procedures of releasing results announcements, ad hoc announcements, inside information announcements, regular reports and circulars, duties of confidentiality and penalty provisions for all management staff who are responsible for information disclosure.

The Board is of the view that the Company's procedures on and internal controls for handling and disseminating inside information are effective.

COMPANY SECRETARY

Ms. Kwong Yin Ping Yvonne, a vice president of SWCS Corporate Services Group (Hong Kong) Limited, an external service provider, has been engaged by the Company as its company secretary. Ms. Kwong has confirmed that she has complied with Rule 3.29 of the Listing Rules. The primary contact person at the Company is Mr. Huang Meiliang, the senior management of the human resources department.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of HKEX after each general meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 12.3 of the Articles, any two or more shareholders or any one shareholder which is a recognized clearing house (or its nominee(s)) (the "**Requisitionist(s)**") holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the Requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Putting Forward Proposals at General Meetings

There are no provisions in the Articles or the Cayman Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Suite 2701, One Exchange Square, Central, Hong Kong
(For the attention of the Company Secretary)

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Company's business performance and strategies. The Company endeavors to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

The Company maintains a website at www.hcclhealthcare.com as a communication platform with shareholders of the Company and investors, where the financial information and other relevant information of the Company are available for public access.

Constitutional Documents

During the year ended December 31, 2019, the Company has not made any changes to the Articles. An up-to-date version of the Articles is also available on the Company's website and HKEX's website.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

Vanguard Glory Limited, Hony Capital Fund V, L.P., Hony Capital Fund V GP, L.P. and Hony Capital Fund V GP Limited are the controlling shareholders (as defined in the Listing Rules) of the Company (collectively, the "**Controlling Shareholders**"). To ensure that direct and indirect competition does not develop between us and the Controlling Shareholders' other activities, our Controlling Shareholders have entered into a deed of non-competition (the "**Deed of Non-Competition**") as set out in section headed "Relationship with Our Controlling Shareholders—Non-Competition Undertaking" in the Prospectus. The Controlling Shareholders confirmed its compliance of all the undertakings provided under the Deed of Non-Competition. There are no matters which are required to be deliberated by the independent non-executive Directors in relation to the compliance and enforcement of the Deed of Non-Competition and it is considered that the terms of the Deed of Non-Competition have been complied by the Controlling Shareholders.

This Environmental, Social and Governance Report was prepared in compliance with the disclosure requirements of the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules, and sets out Group's performance on environmental, social and governance-related issues.

Continuous active dialogue is maintained with stakeholders, which include shareholders, creditors, customers, suppliers, employees, regulators and the public. The Group seeks to balance the interests of these various stakeholders and their views on environmental, social and governance-related issues for the long-term prosperity and sustainable development of the Group and the communities it touches.

A. ENVIRONMENT

Emissions

As a medical group engaged in integrated hospital investments and operations, the Group's operating activities do not generate any emissions or wastes that would severely pollute the environment, and the Group is committed to achieving environmental sustainability in its daily operations, which are subject to various Chinese laws, rules and regulations with respect to environmental matters, including the Regulations on the Management of Medical Waste (《醫療廢物管理條例》), the Implementation Measures of the Management of Medical Waste (《醫療衛生機構醫療廢物管理辦法》), the Regulation on the Safety and Protection of Radioisotopes and Radiation Devices (《放射性同位素與射線裝置安全和防護條例》) and other Chinese laws, rules and regulations with respect to the disposal of medical waste and the discharge of wastewater, pollutants and radioactive substances.

The Group had no major incidents of non-compliance in relation to environmental laws and regulations during the year ended December 31, 2019.

Hazardous Waste (Medical Waste)

During the year ended December 31, 2019, the Group generated 523.78 tonnes of hazardous waste (medical waste). The measures in respect of medical waste management and sewage treatment implemented by the Group include, but are not limited to:

1. collecting medical waste separately, storing it in corresponding special containers and sterilizing the special containers and transportation tools upon disposal of medical waste;

2. delivering medical waste to a specially designated site for centralized disposal, in which highly hazardous waste is sterilized before being delivered to the specially designated site;

3. cleaning and sterilizing the disposal site and the related surrounding facilities upon disposal of medical waste;

4. obtaining a Sewage Disposal Drainage License (污水排入排水管網許可證) before discharging sewage into urban drainage facilities;

5. engaging a sewage expert in setting up and managing the sewage treatment system;

6. providing strict pre-job training and assessment to sewage treatment staff, who are required to hold the relevant certifications; and

7. sterilizing the sewage and conducting regular checks on residual chlorine and certain indicator bacteria in the sewage in accordance with the relevant laws, rules and regulations.

Use of Resources

Energy

We continue to promote various energy saving measures in the workplace including installation of an energy-saving lighting system, setting the optimal temperature for air-conditioning, and switching off the lighting and air-conditioning after office hours. We also encourage our employees to switch off their computers and other office equipment when not in use.

We regularly inspect and maintain the vehicles under the Group to ensure the normal operation of the vehicles, improve fuel efficiency and reduce fuel consumption.

In addition to the above energy saving and consumption reduction measures, the Group also endeavors to promote environment protection and energy saving education, and publicizes the significance of energy saving and feasible energy saving measures to employees through its public account, publicity boards and publicity banners.

During the year ended December 31, 2019, the Group consumed 17,589,874 kWh of electricity and 462,556 m^3 of natural gas in total (2018: 18,139,584 kWh of electricity and 464,497 m^3 of natural gas). In the future, the Group will continue to monitor and control its electricity consumption and natural gas consumption in business operations.

Water Resources

Water resources are becoming increasingly scarce. The Group always reviews its water consumption habits and adopts water-saving measures, including posting water-saving signs in toilets and reminding users to turn off the tap properly and only using water when needed. At the same time, the Group focuses on daily maintenance and management of water equipment, and regularly checks for leakages of water pipes and promptly repairs any leakages.

During the year ended December 31, 2019, the Group consumed approximately 457,599 m^3 of water in total (2018: 449,592 m^3). In the future, the Group will continue to monitor and control its water consumption in business operations.

Paper

The Group continues to promote a green and paperless office across the Group by realizing electronic business to reduce paper usage.

Printing and copying of medical records and inspection and testing reports of patients account for a large portion of the paper consumption of the Group's business. The Group has been striving to transform from printing paper medical records to using paperless electronic records. Medical records prepared by medical staff are stored electronically and can be accessed whenever necessary. The Group will print relevant medical records at the request of patients or their families.

During the year ended December 31, 2019, the Group consumed approximately 10,649 packs (500 sheets/pack) of paper in total (2018: 10,987 packs). In the future, the Group will continue to monitor and control its paper consumption in business operations and actively implement a paperless office.

Environment and Natural Resources

The business operations of the Group have no impact on the environment and natural resources. Meanwhile, as an ongoing commitment of a good corporate citizen, the Group also regularly assesses the environmental risks of business operations, and adopts preventive measures as necessary to reduce risks and ensure compliance with relevant laws and regulations. The specific measures taken by the Group include, but are not limited to, enhancing the management of the safety of biological and radioactive sources, regulating operations in the use, storage and disposal of radioactive sources and liquid waste across the Group Hospitals, and setting up a radioactive liquid waste treatment facility in radiology and radiotherapy rooms across the Group Hospitals and performing radiation protection treatment beforehand and professional testing afterwards, to ensure that the impact on the environment is minimized and that there are no infectious disease transmissions or environmental radiation pollution accidents.

B. SOCIAL

Employment

During the year ended December 31, 2019, the Group did not violate any laws and regulations in respect of compensation, assessment, recruitment, working hours, holidays, diversity, benefits and welfare, and prevention of child or forced labor.

The principal policies and regulations formulated by the Group are as follows:

1. In respect of compensation and assessment, the Group rewards and recognizes employees with good performance with competitive remuneration packages (mainly consisting of base salary and target bonus), sets assessment content and rules for the employees based on their position and department, and regularly reviews their performance with guidelines such as work plans, ethics, performance of duties, work execution, labor discipline and service quality, and the assessment results are used in total annual salary determinations and promotion appraisals of the employees.

2. In respect of employee recruitment, the Group carries out the strategy of jointly introducing talents by the Group and the Group Hospitals, and systematically implements annual human resources planning, cooperates with recruitment agencies and headhunters in talent recruitment and encourages employees to recommend outstanding medical talents.

To ensure a reasonable talent structure and talent reserve, the Group follows the basic principle of "openness, justice and fairness (公開、公正、公平)" in the recruitment of employees, and considers whether the candidates' educational background, working experience and skills meet the requirements of the post. The Group adopts equal opportunities for candidates with the same or similar education level regardless of gender, age, race, religion or disability in the process of staff recruitment if they meet the job objective. In the screening and selection process, the Group will undertake a rigorous review of the candidates' documentary proof to ensure their identity and prevent employment of child labor.

3. In respect of working hours and holidays of employees, the Group strictly observes the Labor Law of the PRC (《中華人民共和國勞動法》), and provides all statutory holidays in China and two days off per week for employees. In addition to statutory holidays, the Group also provides them with paid annual leave, marriage leave, bereavement leave, maternity leave, miscarriage leave, paternity leave, lactation leave, sick leave, occupational injury leave, and personal leave in strict compliance with the Regulation on Paid Annual Leave of the Employees (Decree No. 514) (《職工帶薪年休假條例》) issued by the State Council of the PRC.

4. In respect of employee diversity and benefits and welfare, the Group provides a variety of benefits and welfares to all staff pursuant to the requirements as stipulated by the local governments of places where its enterprises are located, including employee pension insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing provident funds. The Group also provides food allowance, overtime meal allowance, high-temperature allowance in summer, festival allowance, birthday allowance and accommodation arrangements for its employees to meet their needs in all aspects.

Health and Safety

The Group is committed to complying with the relevant regulatory laws and regulations in preventing and reducing various hazards and risks associated with its operation, and ensuring the health and safety of its employees. The Group has implemented internal policies and systems designed with a view to ensuring compliance with such requirements, which primarily include the following measures:

1. Written guidelines: The Group and the Group Hospitals have written procedures and guidelines in place for health and safety, including in relation to hospital infection prevention, infectious disease control and medical waste disposal. These written procedures and guidelines are handed out to the doctors and other medical professionals;

2. Provision of training: The Group and the Group Hospitals provide training to their doctors and other medical professionals so that they are familiar with the relevant hospital medical procedures and technology and the health and safety related policies (including procedures for dealing with occupational exposure or accidental injury, and preventive measures against occupational diseases to reduce and eliminate occupational health hazards and risks), as well as personal protection knowledge; and

3. Review of measures: The Group and the Group Hospitals periodically evaluate the health and safety measures in our hospitals against current and new health and safety regulations (including maintenance and repair of all equipment, machinery and work systems, ensuring the use, processing, storage and transportation of all items and materials are safe, providing employees with safety equipment and protective clothing when necessary and keeping those equipment in good working condition, providing easy and safe access in workplaces, and maintaining a high standard of hygiene in workplaces) to identify areas which may need improvement. Further, they are subject to periodic licensing renewal requirements and inspections by various competent government agencies and departments.

During the year ended December 31, 2019, the Group did not violate any laws and regulations in relation to providing a safe working environment and protecting employees from occupational hazards, and its employees did not experience any material health or safety accidents, work injuries or work-related fatalities in the course of its business operations.

Development and Training

The Group provides ongoing and targeted training for its employees and has been using part of its financial resources for employee training at the Group Hospitals and other hospitals the Group owns or manages from time to time. The doctors and other medical professionals in the Group Hospitals regularly receive technical training in their relevant fields. The administrative and management staff of the Group and the Group Hospitals also receive systematic training on management skills and business operations.

Employee training includes pre-employment training and on-the-job professional knowledge training. Pre-employment training essentially covers an introduction of the Group and the Group Hospitals, rules and regulations and articles on training management, education on clinical medical safety, basic knowledge of logistics and fire protection, and medical record writing specifications, etc., and on-the-job professional knowledge training covers basic theoretical knowledge, common clinical nursing techniques, professional theory and practical ability.

After the training, trainees are also required by the Group to take professional examinations which are mainly divided into two major parts: examination on theoretical knowledge and examination on clinical practical skills. The examination on theoretical knowledge includes basic aspects such as laws and regulations, normative standards, rules and regulations, safety management, nursing documentation, health education, psychological nursing, communication skills, medical humanities, and professional quality. For the examination on clinical practical skills, trainees are tested in the form of standardized patients nursing or case nursing to evaluate their performance of nursing patients selected from the cases of common clinical diseases, to monitor the effectiveness of the training.

Labor Standards

The Group prohibits recruitment of child labor and does not tolerate forced labor. The Group enters into employment contracts with its employees in accordance with relevant Chinese laws and regulations. Review and verification of applicants' information, including age, identity, academic qualification and working experience, is required during the recruitment process. Applicants who fail to provide or forges such information will not be employed.

As for preventing child labor or forced labor, the Group strictly complied with the Labor Law of the PRC (《中華人民共和國勞動法》), the Employment Contract Law of the PRC (《中華人民共和國勞動合同法》) and other relevant laws and regulations.

Across all companies under the Group, internal administrative institutions were set up to manage their employees in a professional manner when such employees were recruited and employed, so as to eliminate situations such as child labor and forced labor in the Group. Employees are hired in accordance with specific job requirements and a talent matching process to build a sustainable workforce.

Supply Chain Management

The supplies required for the Group's business operations primarily include pharmaceuticals, medical equipment and medical consumables purchased by the Group Hospitals.

The Group strictly complies with the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), Regulations for Implementation of the Drug Administration Law of the PRC (《中華人民共和國藥品管理法實施條例》), Regulations for the Control of Narcotic Drugs and Psychotropic Drugs (《麻醉藥品和精神藥品管理條例》), Regulations for the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》) and Management Provisions for Medical Device Distributing Enterprise License (《醫療器械經營企業許可證管理辦法》) and other laws and regulations. The Group has implemented comprehensive policies and guidelines governing its procurement process, such as procurement management guidelines, supplier management guidelines and code of conduct for its procurement personnel. When the Group enters into contracts with suppliers, it clearly states its professional integrity and specifies various requirements including regulatory compliance, anti-corruption and other business ethics to counterparties and ensures its supply chain management is socially responsible.

The Group implements public tendering in accordance with the tendering and procurement management system, establishes and improves its systematic and standardized supply chain management system, and realizes seamless connection of various processes in a closed-loop management manner.

The Group enters into quality assurance agreements with the suppliers as pharmaceuticals purchases are conducted. Under these agreements, the suppliers undertake to ensure the quality of the supplies, and the Group may return the supplies if they are defective, have expired or do not meet the standards of the hospital guidelines upon inspection after delivery to guarantee the Group's benefits.

When selecting suppliers, the Group will consider their product type, price, reputation, service quality and delivery time. It also requires suppliers to obtain business licenses and Good Manufacturing Practice (GMP) and Good Storage Practice (GSP) certifications and other licenses and permits necessary for operation. The Group gives priority to suppliers with strong production, technical and quality assurance capabilities, normal production management, reasonable prices and eco-friendly materials. Meanwhile, to strengthen the management of suppliers, the Group conducts unannounced inspections on suppliers with quality problems, performs periodic assessments and evaluations of qualified suppliers, and puts forward related suggestions for treatment according to the results of the review.

During the year ended December 31, 2019, the major suppliers of the Group were from more economically developed regions such as Hangzhou, Zhejiang.

Product Responsibility

The Group provides hospital management services to the Group Hospitals and medical services to the patients at the Group Hospitals.

The Group emphasizes the quality and safety of the medical services it provides. The Group carries out supervision and management over all the Group Hospitals in strict compliance with the Regulation on the Administration of Medical Institutions (《醫療機構管理條例》), Detailed Rules for the Implementation of the Regulation on the Administration of Medical Institutions (《醫療機構管理條例實施細則》), Mental Health Law of the PRC (《中華人民共和國精神衛生法》) and other laws and regulations on healthcare services. The Group has established a group healthcare service quality management system to minimize medical risks. In addition to the periodic inspections the Group conducts, the Group Hospitals are subject to regular and unscheduled inspections by the relevant government authorities, including competent health administration departments of the places where the Group Hospitals are located, which reviews the medical service management systems of and the medical services provided by hospitals to determine the compliance status and areas that can be further improved.

The skills, competence and attitude of the medical professionals and other staff are essential for medical services in determining the quality of care that patients receive. The employees of the Group Hospitals receive regular training on relevant safety policies, standards, protocols and procedures, and are required to strictly comply with such safety policies, standards, protocols and procedures in all aspects of the business operations of the hospitals.

Furthermore, according to hospital evaluation standards and the Measures for the Administration of Medical Quality (《醫療質量管理辦法》) issued by the National Health Commission of the People's Republic of China, the Group Hospitals have set up a medical management department, which is responsible for regulating medical quality and safety management, working out quantitative criteria and grading criteria for medical quality and safety and supervising the implementation of quality control measures to prevent medical accidents. In respect of nursing services, the Group Hospitals have also set up a nursing supervision department, which is responsible for nursing safety management, supervision of implementation of core nursing systems and enhancing nursing quality management.

During the year ended December 31, 2019, the Group did not receive any written notice or punishment for non-compliance with or violation of medical quality and safety laws or regulations resulting in material consequences, nor did it receive any recommendation for improvement with respect to medical quality and safety from any government authority.

Anti-corruption

The Group is committed to adhering to the highest ethical standards. The laws and regulations related to anti-corruption include article 163 of the Criminal Law of the PRC (《中華人民共和國刑法》), the Anti-Money Laundering Law of the PRC (《中華人民共和國反洗錢法》), article 8 of the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》), the Code of Conduct for the Practitioners of Medical Institutions (《醫療機構從業人員行為規範》), the Notice on Printing and Circulating of "Nine Prohibitions" for Strengthening Ethical Conduct in the Healthcare Industry (《關於印發加強醫療衛生行風建設「九不准」的通知》) and the Provisions on the Establishment of Commercial Bribery Records in the Purchase and Sale of Medicines (《關於建立醫藥購銷領域商業賄賂不良記錄的規定》). The Group has taken a number of measures to prevent improper activities including bribery and kickbacks by employees and the Group Hospitals in connection with, among others, the provision of healthcare services and the procurement of pharmaceuticals, medical consumables and medical devices.

Specific measures include promotion of national policies and regulations, improvement of internal systems, provision of internal training, governing the employees, and review and discussion of any suspicious incidents by the Board. In addition, the Group requires all of its employees to comply with anti-bribery policies and codes of conduct. The Group adopts a zero-tolerance approach to all forms of corruption, including deception, bribery, forgery, extortion, conspiracy, embezzlement and collusion. To strengthen the supervision of medical staff, the Group has specially set up a tip-off hotline to encourage its staff, the public, patients and their families to report relevant illegal activities.

During the year ended December 31, 2019, the Group did not receive any report on crimes such as bribery, extortion, fraud and money laundering within the Group, and there were no litigation or legal cases regarding corruption, bribery, extortion, fraud and money laundering brought against the Group or its employees.

COMMUNITY INVESTMENT

The Group always adheres to the spirit of gratitude, firmly believes in giving back to society, actively fulfills social responsibilities, carries out a series of public welfare activities, improves community welfare and carries out social service activities, and promotes the harmonious development of work in the group system.

The Group has developed and planned several community activities which cover areas including public healthcare services, child healthcare services, nursing home care for the elderly, public health education, poverty alleviation and brand building. The goals of such community activities align with the value and mission the Group upholds. During the year ended December 31, 2019, the Group's community activities included:

1. *Community Building*

The Group forms "resource sharing, party building co-operation, complementary advantages, and coordinated development (資源共享、黨建共做、優勢互補、協調發展)" with communities where it operates to expand the depth and breadth of medical services and solve social issues:

Yangsi Hospital

- It entered into co-construction agreements with the Party Committee of Yangdong Community, Yangdong Community of Meili Jiayuan and the Party Committee of Yangsi Community in relation to establishing a green medical service channel and carried out 15 party building co-operation activities, including organizing 9 free medical treatments; and

- All the staff of its Family Bed Department traveled to various households on electric bicycles all year round, providing more than 20 types of medical services for the elderly and disabled and providing medical services at individual households 24 hours a day. More than 28,690 medical services at individual households were performed, including 6,700 fluid replacements, 700 catheterizations, 300 nasal feeding tube replacements, 3,900 pressure ulcer care, 1,100 bladder irrigations, 1,000 intramuscular injections, and 400 blood samplings.

Yangsi Hospital provided free medical treatments in communities, carried out tuberculosis curing activities and established the Yangdong Community Citizen Center.

Jinhua Hospital

- It provided public healthcare promotion and education and free medical treatments in 17 communities;
- It visited more than 50 residential areas in 6 communities of Chengbei Street in the neighboring district and completed 5,785 tumor screening questionnaires; and
- It provided care cards for Tangya Retirement Home and Caozhai Retirement Home, serving a total of 166 persons.

Jinhua Hospital held community health talk activities during 'Golden September' (金秋九月)

Jinhua Hospital carried out free medical treatments in relation to "Three Services (三服務)" during 'Golden September' (金秋九月)

Cixi Hospital

- It established green medical service channels with 35 enterprises and formed co-constructed counterparts with 11 enterprises to effectively integrate resources and provide assistants for resident health.

Cixi Hospital carried out free onsite medical treatments

Cixi Hospital held health seminars for the elderly

Jiande Hospital

- It entered into village co-construction agreements with 8 villages, under which it shall arrange 2 free medical treatments and more than 40 disease knowledge promotion and education activities each year for every village; and
- It entered into green medical service agreements with 16 enterprises and signed medical care agreements with 5 nursing homes, providing free hospital shuttle services for the elderly, serving more than 250 persons.

Jiande Hospital carried out free medical treatments

Jiande Hospital carried out free medical treatments named Jiankangxing (健康行)

Yongkang Hospital

- It provided services such as health lectures, free medical visits to the countryside and free consultations. It conducted free large-scale medical service activities around the hospital twice a month, held a total of 73 health lectures, benefiting more than 2,400 persons, and provided 58 free medical services, benefiting more than 5,500 persons; and

- It provided adolescent health education on how to protect adolescents' vision and prevent dental caries, benefiting more than 1,300 students; more than 300 students benefited from "Spring pediatric massage + acupoint application (growth patch) (春季小兒推拿+穴位貼敷(生長貼))".

Yongkang Hospital carried out free medical treatments for the disabled

Yongkang Hospital carried out free door-to-door medical treatments

2. *Support at the Basic Level*

In response to the nation's call for "Medical Unity (醫聯體)" to promote a hierarchical diagnosis and treatment pattern, the Group provides different medical assistance and technical guidance in accordance with different regional characteristics and needs of primary medical institutions to promote improvement and cultivation of continuous service scope of the hospitals:

Yangsi Hospital

- It cooperated with Sanlin Social Organization Service Center in Pudong New Area, serving a total of 93 elderly persons with no family; and
- It cooperated with the Sanlin Town Government to complete more than 1,200 consultations on family planning at the basic level, more than 40 consultations on menopause, more than 200 consultations on contraceptive guidance and 4 promotion and education activities for migrant population;

Jinhua Hospital：

- It carried out 36 free medical treatments and dispatched 216 medical staff, benefiting more than 3,600 persons;
- It dispatched 52 specialists to 23 hospitals at the basic level who provided 874 regular medical services, serving 5,160 persons;
- It dispatched 17 specialists to 20 hospitals at the basic level who provided 189 teaching ward inspections and carried out various training, benefiting 1,715 persons;
- It dispatched 14 specialists to 18 hospitals at the basic level who provided 130 surgical instructions; and
- It provided 45 health lectures to institutions in Medical Unity and medical units in surrounding counties and cities, benefiting 2,600 persons.

Cixi Hospital

- It deepened medical technology training to communities, factories and schools, effectively improving the health awareness and protection level of people at the basic level. Such health training benefited 4,300 persons.

Jiande Hospital

- It arranged 27 free medical services, benefiting 2,276 patients, and specialists from the hospital who provided nearly 200 regular medical services.

Yongkang Hospital

- It carried out activities including health knowledge tour lectures on "women's pelvic floor muscle function recovery (《女性盆底功能康復》)" and "prevention of osteoporosis (《骨質疏鬆防止》)", and "cardiopulmonary resuscitation training (心肺復蘇培訓)" in Zhu Village, Tangxian Village, Xiangzhu Village of Huajie Town, as well as Xicheng Health Center to improve health awareness of the public and medical institutions at the basic level.

3. *Charitable Activities*

The Group takes public welfare and charitable activities as an important measure to fulfill its social responsibilities, continuously improve social image of the hospitals, and also promote comprehensive, continuous and coordinated development of the Group Hospitals:

Yangsi Hospital：

- It actively participated in free medical services in the public welfare activity named "Child Growth, Guarding with Love (童成長，愛守護)" organized by the "Growing Angel Fund (成長天使基金)" under the Chinese Red Cross Foundation, waiving registration fees and expert registration fees for 78 people and paying RMB140 per person for filming of skeletal age of migrant patients;

- It established a children's rehabilitation base with Children's Hospital of Fudan University to provide systemic treatment for 99 children patients;

- It established University of Rational Drug Use for the Elderly (老年人合理用藥大學), and provided promotion and education lessons on rational drug use for nearly 500 persons in Wuliqiao Street of Huangpu District, Siping Road Street of Yangpu District, Tianlin Street of Xuhui District, Shanghai Changzheng Hospital, Nanmatou Street of Pudong New District, Shiyunjiayuan Street, Fengxian District Elderly University and Oriental Beauty Valley Industrial Park; and

- It provided a lecture on endocrine health for 200 patients to promote health science popularization and provided free consultations and blood glucose measurements for more than 400 persons.

Jinhua Hospital

- It set up the volunteer service project named "Medical Road Companion (醫路相伴)" in Jinhua City, serving more than 5,000 cancer patients through the model of "social workers + psychological consultants + old cancer patient + N (社工+心理諮詢師+老癌症病友+N)" to build a professional anti-cancer group system;

- It served the elderly through the elderly mental care service project named "Golden Ages" ("金色年華"老人心靈呵護服務項目) and the "Love and Companion" community silver angel program ("愛與陪伴"社區銀天使計劃), and won the second prize of the second session of Social Worker Stories (社工故事) in Jinhua City, the silver and bronze awards of the fourth session of Volunteer Project Contest named "Bawu Volunteers, Jinhua Civilization (志願八婺，文明金華)" and the most popular award of the fifth session of Public Welfare Venture Capital Carnival (公益創投嘉年華); and

- It established a close cooperation relationship with the Sunshine Volunteer Service Team of Jinhua City. Across the year, more than 1,000 volunteers were organized to participate in volunteer services in the hospital, providing services for nearly 30,000 patients.

Cixi Hospital

- It launched a rehabilitation care program to provide rehabilitation treatments for 4,767 persons for free.

Yongkang Hospital

- It carried out activities such as "Science Popularization into Culture Hall (科普走進文禮堂)", Warm Chung Yeung Festival (九九情暖重陽) and Waste Sorting Knowledge into Households (垃圾分類知識進萬家), and successively went to more than 20 villages and elderly homes to carry out the activity of "Entering into Villages and Households (進村入戶)" to measure blood pressure, blood glucose, wash faces and feet, cut hair for the elderly and provide health lectures, serving more than 1,000 persons; and

- It provided free health care to more than 400 elderly persons in Sheng'ai Church (聖愛堂).

4. *Poverty Alleviation with Love*

The Group regards poverty alleviation as the primary practice for fulfilling its social responsibilities. Through measures such as reducing fees for patients with financial difficulties, issuing poverty relief cards (貧困救助卡) and waiving fees for low-income patients, the Group effectively tackles the challenges faced by the poor in accessing medical services and enhances its reputation among patients, reflecting its responsibilities as a listed company.

To the Shareholders of Hospital Corporation of China Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Hospital Corporation of China Limited (the "Company") and its subsidiaries (the "Group") set out on pages 105 to 208, which comprise:

- the consolidated balance sheet as at December 31, 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

OUR OPINION

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Assessment of goodwill impairment
- Assessment of control over not-for-profit hospitals
- Fair value estimation of convertible bonds

Key Audit Matter

Assessment of goodwill impairment

Refer to note 2.8(i), 4(i) and 16 to the consolidated financial statements.

Goodwill of RMB1,617,767,000 was resulted from acquisitions of subsidiaries in 2014 and 2018, among which RMB1,306,506,000 was allocated to hospital management services segment, RMB301,995,000 was allocated to general hospital services segment and the rest RMB9,266,000 was allocated to wholesale of pharmaceutical products segment. Management reviews the business performance and monitors goodwill on operating segment level.

Goodwill impairment reviews were undertaken annually or more frequently if events or changes in circumstances indicated a potential impairment. The recoverable amount of each cash-generating units was determined based on fair value less costs of disposal calculations. These calculations required the use of estimates and judgements.

How our audit addressed the Key Audit Matter

We understood and evaluated the internal controls over goodwill impairment assessment, and we tested the relevant controls.

We assessed the independence, competence, capabilities and objectivity of the professional valuer who was involved in management's impairment assessment.

We further assessed the relevant key assumptions used in determining the recoverable amount of each operating segment as follows:

- compound growth rate of revenue by reference to management's research and analysis based on industry information and data provided by the industry consultant;
- cost and operating expense percentage to revenue by reference to the historical financial performance of each operating segment;
- long-term growth rate by reference to the long-term inflation rate of China;
- post-tax discount rate by reference to the cost of equity of comparable companies.

KEY AUDIT MATTERS – *continued*

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of goodwill impairment	
Management engaged an independent valuer in determining the recoverable amount of each operating segment in the calculation. The key assumptions used in the calculations were: compound growth rate of revenue, cost and operating expense percentage to revenue, long-term growth rate and post-tax discount rate. Based on the management's assessment, no impairment was provided as at December 31, 2019. We focused on this area due to the relevant key assumptions applied involving significant estimates and judgements.	We also checked the mathematical accuracy of the calculations of fair value less costs of disposal performed by management and independent valuer on sample basis. We discussed with management and independent valuer regarding the sensitivity analysis performed by management and independent valuer on the above key assumptions to further understand the extent to which adverse changes, either individually or in aggregate, would result in the goodwill being impaired. In light of the above work conducted, we found the significant judgements and estimates made by management on relevant key assumptions and assessment were supported by the evidences we gathered.
Assessment of control over not-for-profit hospitals	
Refer to note 4(iii) to the consolidated financial statements. Shanghai Yangsi Hospital ("Yangsi Hospital") is a not-for-profit hospital founded by Shanghai Weikang Investment Management Co., Ltd. ("Weikang Investment"), a subsidiary of the Company. Weikang Investment and another subsidiary of the Company entered into agreements under which the Group has obtained contractual rights to provide management services to Yangsi hospital for certain periods and is entitled to performance-based service fee. Cixi Union Hospital ("Cixi Hospital"), a not-for-profit hospital, was founded by Cixi Honghe Medical Management Co., Ltd. ("Cixi Honghe"), a subsidiary of the Company. Cixi Honghe entered into agreements under which the Group has obtained contractual rights to provide management services to Cixi Hospital for certain periods and is entitled to performance-based service fee.	We discussed with management to understand the basis of their assessment, including analysis of the purpose and design, the governing power, variable returns and the ability to affect the variable returns considered by management when assessing the control over the Relevant Not-for-Profit Hospitals. We corroborated management's assessment of the relevant activities of the Relevant Not-for- Profit Hospitals and whether the Group has the power over those relevant activities through discussion with management, inspecting the Relevant Not-for-Profit Hospitals' articles of association, the meeting minutes of internal governance body and conducting interviews with certain members of internal governance body of the Relevant Not-for-Profit Hospitals. We obtained and inspected the hospital management agreements and other relevant documents with the Relevant Not-for-Profit Hospitals.

KEY AUDIT MATTERS – *continued*

Key Audit Matter	How our audit addressed the Key Audit Matter
Assessment of control over not-for-profit hospitals	
Zhejiang Jinhua Guangfu Oncological Hospital ("Jinhua Hospital"), Dongyang Guangfu Hospital ("Dongyang Hospital") and Yongkang Hospital, three not-for-profit hospitals, were founded by Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd. ("Zhejiang Honghe Zhiyuan"), a subsidiary of the Company. Zhejiang Honghe Zhiyuan entered into agreements with Jinhua Hospital under which the Group has obtained contractual rights to provide management services to Jinhua Hospital for certain periods and is entitled to performance-based service fee. In determining whether the Group has control over Yangsi Hospital, Cixi Hospital, Jinhua Hospital, Dongyang Hospital and Yongkang Hospital ("the Relevant Not-for-Profit Hospitals"), management exercised significant judgements in relation to (i) whether the Group has power over the relevant activities of the Relevant Not-for-Profit Hospitals; and (ii) whether the magnitude and variability of returns from the Relevant Not-for-Profit Hospitals indicate that the Group has substantive power and thus has control. Management concluded that the Group does not control and thus does not consolidate the Relevant Not-for-Profit Hospitals. We focused on this matter because the assessment of control over the Relevant Not-for-Profit Hospitals involved significant judgements.	We assessed management's analysis of monetary and non-monetary variable returns received by different parties resulting from their involvement in the operation of the Relevant Not-for-Profit Hospitals. Based on the work performed, we found that the management's assessment was supported by the evidences we gathered.

KEY AUDIT MATTERS – *continued*

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value estimation of convertible bonds	
Refer to note 4(v) and 33 to the consolidated financial statements. The convertible bonds issued by the Company are designated as financial liabilities at fair value through profit or loss. The fair value of these convertible bonds was determined by management with reference to the valuation report issued by an independent professional valuer, using valuation techniques. Judgements and estimates were applied in determining valuation method and assumptions. The key assumptions included risk free rate of interest, volatility, dividend yield, and time to expiration. We focused on this area because of the fair value determination of convertible bonds could have significant impact to the consolidated financial statements and the relevant key assumptions applied in valuation involved significant judgements and estimates.	We assessed the independence, competence, capabilities and objectivity of the professional valuer. We assessed the valuation methods applied and the relevant key assumptions with the assistance from valuation specialists as follows: • risk free rate of interest by reference to the market yield of Hong Kong government bond with a term close to time to maturity of the convertible bonds as of the valuation date; • volatility by reference to the annualized standard deviation of the daily return embedded in historical stock prices of the Company with a time horizon close to the expected term; • dividend yield by reference to the dividend policy of the Group; • time to expiration by reference to the convertible bonds instruments. We also checked the mathematical accuracy of the calculation of fair value of the convertible bonds with the assistance from valuation specialists. In light of the above work conducted, we found the significant judgements and estimates made by management on relevant key assumptions were supported by the evidences we gathered.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – *continued*

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tsun NG.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 23, 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended December 31, 2019 RMB'000	2018 RMB'000
Revenue	5	410,883	383,610
Cost of revenue	6	(237,017)	(231,478)
Gross profit		173,866	152,132
Selling expenses	6	(9)	(204)
Administrative expenses	6	(64,535)	(63,322)
Net impairment losses on financial assets		(1,581)	—
Other income	7	3,453	2,874
Other gains/(losses) – net	8	65,838	(57,635)
Operating profit		177,032	33,845
Finance income	10	42,102	2,618
Finance costs	10	(23,568)	(18,580)
Profit before income tax		195,566	17,883
Income tax expense	12	(26,120)	(41,304)
Profit/(loss) for the year		169,446	(23,421)
Other comprehensive income		—	—
Total comprehensive income/(loss) for the year		169,446	(23,421)
Attributable to:			
Owners of the Company		150,900	(50,490)
Non-controlling interests		18,546	27,069
Total comprehensive income/(loss) for the year		169,446	(23,421)
Earnings/(losses) per share for profit/(loss) attributable to owners of the Company:			
– Basic earnings/(losses) per share (in RMB)	13	1.092	(0.368)
– Diluted earnings/(losses) per share (in RMB)	13	0.228	(0.368)

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

CONSOLIDATED BALANCE SHEET

	Notes	As at December 31, 2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**146,176**	143,940
Right-of-use assets	15	**42,011**	—
Intangible assets	16	**2,905,829**	2,936,539
Land use right		**—**	39,487
Deferred income tax assets	32	**1,413**	933
Other receivables, deposits and prepayments	20	**2,012**	3,243
Amount due from a related party	21	**80,000**	—
Total non-current assets		**3,177,441**	3,124,142
Current assets			
Inventories	19	**5,021**	8,664
Trade receivables	18	**30,332**	33,822
Other receivables, deposits and prepayments	20	**16,405**	2,895
Amounts due from related parties	21	**217,947**	191,040
Financial assets at fair value through profit or loss	22	**36,829**	249,767
Term deposits	23	**134,370**	—
Cash and cash equivalents	24	**836,624**	195,521
Total current assets		**1,277,528**	681,709
Total assets		**4,454,969**	3,805,851
EQUITY			
Equity attributable to owners of the Company			
Share capital	25	**123**	123
Share premium	25	**435,304**	432,993
Treasury shares	25	**—**	—*
Reserves	27	**924,231**	910,458
Retained earnings/(accumulated losses)	28	**123,448**	(19,172)
		1,483,106	1,324,402
Non-controlling interests		**334,734**	343,582
Total equity		**1,817,840**	1,667,984

* The balance stated above was less than RMB500.

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

	Notes	As at December 31, 2019 RMB'000	2018 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	30	**99,658**	173,923
Convertible bonds	33	**1,693,430**	1,073,856
Lease liabilities	15	**650**	—
Deferred income tax liabilities	32	**350,087**	350,512
Accruals, other payables and provisions	31	**362**	1,466
Total non-current liabilities		**2,144,187**	1,599,757
Current liabilities			
Trade payables	29	**13,325**	16,885
Accruals, other payables and provisions	31	**78,860**	137,836
Amounts due to related parties	21	**23,749**	40,136
Contract liabilities		**539**	549
Current income tax liabilities		**28,713**	31,212
Borrowings	30	**114,744**	89,692
Lease liabilities	15	**2,412**	—
Other financial liability at amortised cost	10(a)	**230,600**	221,800
Total current liabilities		**492,942**	538,110
Total liabilities		**2,637,129**	2,137,867
Total equity and liabilities		**4,454,969**	3,805,851

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

The financial statements on page 105 to page 208 were approved by the Board of Directors on March 23, 2020 and were signed on its behalf.

Zhao John Huan   Shan Guoxin

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Attributable to non-controlling interests RMB'000	Total equity RMB'000
		Attributable to owners of the Company							
Balance at January 1, 2018		123	(3)	404,021	1,070,628	39,344	1,514,113	48,012	1,562,125
Comprehensive income -(Loss)/profit for the year		—	—	—	—	(50,490)	(50,490)	27,069	(23,421)
Non-controlling interests on acquisition of subsidiaries		—	—	—	—	—	—	292,973	292,973
Value of other financial liability at amortised cost	27	—	—	—	(223,100)	—	(223,100)	—	(223,100)
Shares vested under management subscription scheme and share awards	25&27	—	3	28,972	40,500	—	69,475	—	69,475
Share-based payments – share subscription agreement	27	—	—	—	2,549	—	2,549	—	2,549
Share-based payments – share option scheme	27	—	—	—	11,855	—	11,855	—	11,855
Transfer of reserve	27&28	—	—	—	8,026	(8,026)	—	—	—
Dividends provided for or paid	34	—	—	—	—	—	—	(24,472)	(24,472)
Balance at December 31, 2018		123	—*	432,993	910,458	(19,172)	1,324,402	343,582	1,667,984
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 year		—	—	—	—	150,900	150,900	18,546	169,446
Shares vested under management subscription scheme	25	—	—*	2,311	—	—	2,311	—	2,311
Share-based payments – share subscription agreement	27	—	—	—	311	—	311	—	311
Share-based payments – share option scheme	27	—	—	—	5,182	—	5,182	—	5,182
Transfer of reserve	27&28	—	—	—	8,280	(8,280)	—	—	—
Dividends provided for or paid	34	—	—	—	—	—	—	(27,394)	(27,394)
Balance at December 31, 2019		123	—	435,304	924,231	123,448	1,483,106	334,734	1,817,840

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

* The balance stated above was less than RMB500.

	Notes	Year ended December 31, 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	35(i)	95,454	152,565
Income tax paid		(32,934)	(30,727)
Interest received	10	464	513
Net cash generated from operating activities		62,984	122,351
Cash flows from investing activities			
Payments for property, plant and equipment		(10,788)	(30,146)
Payments for intangible assets		(799)	(1,460)
Payments for financial assets at fair value through profit or loss	3.3(iii)	(103,000)	(267,041)
Payment for monetary fund receivable from asset management company	20	(15,000)	—
Payment of professional fees for acquisition		(2,182)	(14,299)
Placement of term deposits with initial terms of six months	23	(134,370)	—
Loans to related parties	38(iii)	(77,932)	(7,123)
Payment for acquisition of subsidiaries, net of cash acquired		—	(314,386)
Proceeds from sale of property, plant and equipment		79	—
Proceeds from sale of financial assets at fair value through profit or loss	3.3(iii)	315,338	40,831
Interest received on financial assets at fair value through profit and loss	3.3(iii)	5,626	584
Interest received on fixed deposits	10	9,252	—
Recovery of deposit for acquisition		—	80,000
Entrusted loan collected from related party	38(iii)	—	3,000
Interest received on structured deposits		—	805
Net cash used in investing activities		(13,776)	(509,235)

	Notes	Year ended December 31, 2019 RMB'000	2018 RMB'000
Cash flows from financing activities			
Proceeds from borrowings		**59,800**	70,000
Proceeds from convertible bonds	33	**682,160**	378,706
Loans from related parties	38(ii)	**6,452**	202
Repayment of borrowings		**(110,995)**	(54,965)
Repayment to related parties	38(ii)	**(28,177)**	(33,599)
Payment of loan interests		**(17,686)**	(17,255)
Payment of professional fees for financing		**(1,623)**	—
Principal elements of lease payments	35(ii)	**(1,405)**	—
Dividend and withholding tax paid		**(33,174)**	(26,590)
Net cash generated from financing activities		**555,352**	316,499
Net increase/(decrease) in cash and cash equivalents		**604,560**	(70,385)
Cash and cash equivalents at beginning of the year		**195,521**	260,787
Effects of exchange rate changes on cash and cash equivalents		**36,543**	5,119
Cash and cash equivalents at end of the year		**836,624**	195,521

The above 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 ('the Listing') on March 16, 2017.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

(i) Compliance with IFRS and Hong Kong Companies Ordinance

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

(ii) Historical cost convention

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2019:

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

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

2.2 Changes in accounting policies

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

As indicated in Note 2.1(iii), the Group has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on January 1, 2019. The new accounting policies are disclosed in Note 15.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Changes in accounting policies – *continued*

(i) Practical expedients applied

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

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

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

(ii) Measurement of lease liabilities

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Changes in accounting policies – *continued*

(iii) Measurement of right-of-use assets

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

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

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

- right-of-use assets (properties) – increased by RMB1,109,000
- right-of-use assets (land use right) – increased by RMB39,487,000
- prepayments – decreased by RMB234,000
- land use right – decreased by RMB 39,487,000
- lease liabilities – increased by RMB875,000.

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

2.3 Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

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

2.6 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Since the majority of the operations of the Group are located in the PRC, the consolidated financial statements are presented in RMB, which is the Group's functional currency and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to cash and cash equivalents and borrowings are presented in the consolidated statement of comprehensive income within 'finance income and cost – net'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other gains/(losses) – net'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.7 Property, plant and equipment

Property, plant and equipment is stated at historical costs less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replace. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate the cost or revalued amounts of the assets, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, as follows:

–	Buildings	20-50 years
–	Medical equipment	5-10 years
–	Vehicles	5 years
–	Office equipment and furniture	3-10 years
–	Leasehold improvements	Shorter of remaining lease term or estimated useful lives

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains/(losses)– net' in the consolidated statement of comprehensive income.

Construction-in-progress (the 'CIP') represents buildings under construction and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the cost are transferred to buildings and depreciated in accordance with the policy as stated above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.8 Intangible assets

(i) Goodwill

The excess of the consideration transferred, amount of any non-controlling interest and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired in business combination is recorded as goodwill. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 5).

(ii) Medical licences

Medical licences acquired in a business combination are recognised at fair value at the acquisition date. These medical licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

(iii) Contractual rights to provide management services

Contractual rights to provide management services are the rights to provide management services to three not-for-profit hospitals. These contractual rights acquired in a business combination are recognised at fair value at the acquisition date. These contractual rights have finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of contractual rights over their estimated useful lives.

(iv) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives of 5 or 10 years. Costs associated with maintaining computer software programmes are recognised as expense as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Right-of-use assets – land use right

Right-of-use assets – land use right are up-front payments to acquire long-term interest in land. These payments are stated at cost and charged to the consolidated statement of comprehensive income on a straight-line basis over the remaining period of the lease.

2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

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

- Those to be measured at amortised cost.

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

For assets measured at fair value, gains and losses will be recorded either in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ('FVOCI').

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.11 Investments and other financial assets – *continued*

(ii) Recognition and derecognition

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

(iii) Measurement

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

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

Debt instruments

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

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

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.11 Investments and other financial assets – *continued*

(iii) Measurement (continued)

Debt instruments *(continued)*

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

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and its receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(ii) for further details.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is determined on first-in-first-out method. Net realizable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale.

2.14 Trade and other receivables

Trade receivables are amounts due from patients and customers for goods sold or services performed and governments' social insurance schemes rendered in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 18 for further information about the Group's accounting for trade receivables and Note 3.1(ii) for a description of the Group's impairment policies.

2.15 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows and consolidated balance sheets, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any entity within the Group purchases the Company's equity share capital (treasury shares), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the owners of the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The convertible bonds were designated as financial liabilities at FVPL by management, the amount of change in fair value of the financial liabilities that is attributable to change in the credit risk of that liabilities shall be presented in other comprehensive income, the remaining amount of change in the fair value of liabilities shall be presented in profit or loss.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.20 Current and deferred income tax – *continued*

Deferred income tax (continued)

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.21 Employee benefits

(i) Pension obligations

The subsidiaries of the Group which are companies incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payables to the existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.21 Employee benefits – *continued*

(ii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2.22 Share-based payments

(i) Equity-settled share-based payment transactions

The Group operates a number of equity-settled share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (including shares or share options) of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions (for example, remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of share options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.22 Share-based payments – *continued*

(ii) Cash-settled share-based payment transactions

The Group operates a number of cash-settled share-based compensation plans, under which the entity receives services from employees by incurring liabilities for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity (the share appreciation rights). The employee services received and the liability incurred is measured at the fair value of the liability.

The liability shall be measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date.

At the end of each reporting period and at the date of settlement, the Group re-measures the fair value of the liability, with any changes in fair value recognized in profit or loss for the period.

(iii) Share-based payment transactions among group entities

The Company settling a share-based payment transaction when another entity in the Group receives the goods or services shall recognize the transaction as an equity-settled share-based payment transaction only if it is settled in the Company's own equity instruments. Otherwise, the transaction shall be recognized as a cash settled share-based payment transaction. In its separate financial statements, the Company records a debit, recognizing an increase in the investment in subsidiaries as a capital contribution from the parent and a credit to equity as no goods or services are received by the Company.

(iv) Modification and cancellation

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.23 Revenue recognition

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.23 Revenue recognition – *continued*

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

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

The following is a description of the accounting policy for the principal revenue streams of the Group.

(i) Hospital Management Services

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

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

Relevant revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. The progress towards the complete satisfaction of performance obligation is measured by direct measurements of the value to the customer of service transferred by the Group.

The Group receives the payment according to the contracts. Any unconditional rights to consideration of the contract is presented as a receivable. If the Group performs by transferring services to the customer before the customer pays consideration or before payments is due, the Group presents the contract as a contract asset, excluding any amounts presented as a receivable. If a customer pays consideration before the Group transfer services to the customer, the Group presented the contract as a contract liability when the payment is made or the payment is due.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.23 Revenue recognition – *continued*

(ii) General hospital services

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

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

Relevant revenue of outpatient services is recognized at a point in time.

The Group usually receives the payment from customers in advance before the hospital services are rendered. Customers normally do not ask for a refund of payment and the services not yet rendered are recorded as contract liability. The contract liability is recognised as revenue when the related services are rendered.

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

(iii) Wholesale of pharmaceutical products

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.24 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains on these assets, see Note 8 below. Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other income.

2.25 Leases

As explained in Note 2.1 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described in Note 15 and the impact of the change in Note 2.2.

Until December 31, 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 37). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.26 Dividends distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate. Note 7 provides further information on how the Group accounts for government grants.

2.28 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cashflow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group and approved by the executive directors.

(i) Market risk

(a) 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 December 31 2019, the Group was exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US dollars (USD) and HK dollars (HKD).

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.

The amounts denominated in the currency other than the functional currency of the Group were as follows:

	As at December 31, 2019		As at December 31, 2018	
	USD	HKD	USD	HKD
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related parties	—	410	1,639	346
Cash and cash equivalents	5,447	614,650	8,541	93,371
Term deposits	—	134,370	—	—
Borrowings	—	(174,402)	—	(223,615)
Convertible bonds	—	(1,693,430)	—	(1,073,856)
Accruals, other payables and provisions	(1,543)	(2,541)	(802)	(494)
Amounts due to related parties	(1,517)	—	—	—
	2,387	(1,120,943)	9,378	(1,204,248)

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(i) Market risk (continued)

(a) Foreign exchange risk *(continued)*

As at December 31, 2019, if RMB had weakened/strengthened by 5% against USD, with all other variable held constant, post-tax profit for the year of the Group would have been RMB107,000 higher/lower (2018: RMB469,000 higher/lower)

As at December 31, 2019, if RMB had weakened/strengthened by 5% against HKD, with all other variable held constant, post-tax profit for the year of the Group would have been RMB56,047,000 lower/higher (2018: RMB60,212,000 lower/higher)

(b) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from borrowings with variable rates, which expose the Group to cash flow interest rate risk.

The Group's borrowings and receivables are carried at amortised cost. The borrowings are periodically contractually repriced (see below) and to that extent are also exposed to the risk of future changes in market interest rates.

The exposure of the Group's borrowing to interest rate changes and the contractual re-pricing dates of the borrowings at the end of the reporting period are as follows:

	As at December 31, 2019		As at December 31, 2018	
	RMB'000	**% of total loans**	RMB'000	% of total loans
Fixed rate borrowings	**40,000**	**19%**	30,000	11%
Other borrowings				
– repricing dates:				
3 months or less	**174,402**	**81%**	233,615	89%
	214,402	**100%**	263,615	100%

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(i) Market risk (continued)

(b) Cash flow and fair value interest rate risk *(continued)*

An analysis by maturities is provided in Note 3.1(iii). The percentage of total loans shows the proportion of loans that are currently at fixed and variable rates in relation to the total amount of borrowings.

At December 31, 2019, if interest rates on borrowings with variable interest rates had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB2,246,000 (2018: RMB2,489,000) lower/higher.

(ii) Credit risk

Credit risk mainly arises from cash and cash equivalents, term deposit, financial assets at FVPL, amounts due from related parties and trade and other receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets.

The credit risk of cash and cash equivalents, term deposit, financial assets at FVPL is limited because the counterparties are mainly state-owned or public listed commercial banks which are high-credit-quality financial institutions in the PRC.

(a) Impairment of financial assets

The Group has three types of financial assets that are subject to the expected credit loss model:

- Trade receivables from the provision of general hospital services and sales of pharmaceutical products;
- Debt investments carried at FVPL; and
- Debt investments carried at amortised cost.

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

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(ii) Credit risk (continued)

(a) Impairment of financial assets *(continued)*

Trade receivables

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

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 12 month before December 31, 2019 or December 31, 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance of trade receivable as at December 31, 2019 and 2018 was determined as follows:

	Current	More than 90 days past due	More than 180 days past due	More than one year past due	Total
December 31, 2019					
Expected loss rate	0.9%	12.4%	18.9%	0.0%	3.2%
Gross carrying amount					
– Trade receivables	25,428	1,658	2,947	1,299	31,332
Loss allowance	237	205	558	—	1,000
December 31, 2018					
Expected loss rate	2.9%	3.0%	3.0%	0.0%	2.9%
Gross carrying amount					
– Trade receivables	28,843	2,150	2,795	1,034	34,822
Loss allowance	850	65	85	—	1,000

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(ii) Credit risk (continued)

(a) Impairment of financial assets *(continued)*

Trade receivables (continued)

The loss allowances for trade receivables as at December 31, 2019 and 2018 reconcile to the opening loss allowances as follows:

	Trade receivables	
	2019	2018
	RMB'000	RMB'000
Opening loss allowance as at January 1	**1,000**	—
Business combination	—	800
Increase in trade receivables loss allowance recognised in profit or loss during the year	**1,581**	1,190
Receivables written off during the year as uncollectible	**(1,581)**	(190)
Unused amount reversed	—	(800)
Closing loss allowance as at December 31	**1,000**	1,000

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Debt investments

All of the Group's debt investments at amortised cost and FVPL are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months' expected losses. The investment instruments are considered to be low credit risk where they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Other financial assets at amortised cost include other receivables, deposits and prepayment, amounts due from related parties. Debt investments carried at FVPL include investment in monetary funds and call option to acquire subsidiaries' remaining interests. The directors of the Group do not expect any losses from non-performance by the counterparties of the debt investment. Thus no loss allowance provision was recognised.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(iii) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents to meet operating capital requirements.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
At December 31, 2019					
Borrowing and interests	126,028	68,201	39,590	—	233,819
Lease liabilities	2,507	691	—	—	3,198
Trade payables	13,325	—	—	—	13,325
Accruals, other payables and provisions (excluding accrued employee benefits, share-based payments and other tax liabilities)	15,440	—	—	—	15,440
Amounts due to related parties	23,749	—	—	—	23,749
Convertible bonds	—	392,174	1,301,256	—	1,693,430
Other financial liability at amortised cost	230,600	—	—	—	230,600
	411,649	461,066	1,340,846	—	2,213,561
Group					
At December 31, 2018					
Borrowing and interests	101,887	83,873	106,719	—	292,479
Trade payables	16,885	—	—	—	16,885
Accruals, other payables and provisions (excluding accrued employee benefits, share-based payments and other taxes)	78,427	—	—	—	78,427
Amounts due to related parties	40,136	—	—	—	40,136
Convertible bonds	—	—	1,073,856	—	1,073,856
Other financial liability at amortised cost	221,800	—	—	—	221,800
	459,135	83,873	1,180,575	—	1,723,583

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(iv) Price risk

The Group is mainly exposed to price risk in respect of convertible bonds held by the Group. The Group is not exposed to commodity price risk. The significant inputs in the valuation model related to convertible bonds were listed in Note 33.

The sensitivity analysis is performed by the management. If the fair values of convertible bonds held by the Group had been 5% higher/lower, the profit before income tax for the year ended December 31, 2019 would have been approximately RMB84,672,000 lower/higher.

Fair value of convertible bonds is affected by changes in share price of the Company. If the Company's share price had increased/decreased by 5% with all other variables held constant, the profit before income tax for the year ended December 31, 2019 would have been approximately RMB18,888,000 lower or 16,092,000 higher.

3.2 Capital Risk Management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Group as at December 31, 2019 was 59% (2018: 56%).

There were no changes in the Group's approach to capital management for the years ended December 31, 2019 and 2018.

3.3 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 that are measured at fair value at December 31, 2019 and 2018.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation – *continued*

(i) Fair value hierarchy (continued)

At December 31, 2019	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
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**

At December 31, 2018	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at FVPL				
– Monetary funds with floating rates	—	248,567	—	248,567
– Call option to acquire subsidiaries' remaining interests	—	—	1,200	1,200
Total assets	—	248,567	1,200	249,767
Liabilities				
Financial liabilities at FVPL				
– Convertible bonds	—	—	1,073,856	1,073,856
Total liabilities	—	—	1,073,856	1,073,856

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation – *continued*

(i) Fair value hierarchy (continued)

There were no transfers between level 1, 2 and 3 for recurring fair value measurements during the year.

The Group's policy is to recognise transfers into and 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. This is the case for unlisted equity securities.

(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).

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation – *continued*

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

The following table presents the changes in level 2 instruments for the year ended December 31, 2019 and 2018, respectively.

	Monetary funds with floating rates RMB'000
Opening balance as at January 1, 2018	17,396
Additions	267,041
Settlements	(41,415)
Gains recognised in other gains/(losses)-net*	5,545
Closing balance as at December 31, 2018	248,567
Opening balance as at January 1, 2019	248,567
Additions	103,000
Settlements	(320,964)
Gains recognised in other gains/(losses)-net*	5,626
Closing balance as at December 31, 2019	36,229
* Includes unrealised gains recognised in profit or loss attributable to balance held at the end of the reporting period	
2019	—
2018	4,961

Financial instruments in level 2 were monetary funds with floating rates treated as financial assets at FVPL held by the Group. The fair value changes resulting from the change of the monetary funds' value held by the Group is RMB5,626,000 during the year ended December 31, 2019 and was recognised in other gains/(losses) – net (2018: RMB5,545,000).

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 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 years ended December 31, 2019 and 2018, respectively.

	Call option to acquire subsidiaries' remaining interests (Note 22) RMB'000	Convertible bonds (Note 33) RMB'000	Total RMB'000
Opening balance as at January 1, 2018	1,700	(1,008,706)	(1,007,006)
Losses recognised in other gains/(losses) – net	(500)	(65,150)	(65,650)
Closing balance as at December 31, 2018	1,200	(1,073,856)	(1,072,656)
Opening balance as at January 1, 2019	**1,200**	**(1,073,856)**	**(1,072,656)**
Additions	—	**(682,160)**	**(682,160)**
(Losses)/gains recognised in other gains/(losses) – net	**(600)**	**62,586**	**61,986**
Closing balance as at December 31, 2019	**600**	**(1,693,430)**	**(1,692,830)**

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Estimation of goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on fair value less costs of disposal calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering an eight-year period for general hospital services segment, hospital management services segment and wholesale of pharmaceutical products segment ('Forecast Period'). When applying valuation technique, the Group relies on a number of factors and judgements, including, among others, historical results, business plans, forecasts and market data.

Cash flows beyond the Forecast Period are extrapolated using the estimated growth rates stated in Note 16. These growth rates are consistent with management's research and analysis based on industry information and data provided by an independent industry consultant specific to the industry in which each CGU operates.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 16.

(a) Revenue (% compound growth rates)

The revenue compound growth rates over the Forecast Period is based on the Group's forecast of its average revenue growth rate. The Group considers the business transition strategy and other market forecasts in estimating this growth rate.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

(i) Estimation of goodwill impairment – *continued*

(b) Cost and operation expenses (% of revenue)

The cost and operation expenses (% of revenue) for the Forecast Period are determined on the basis of management's past experience.

(c) Long-term growth rate

The long-term growth rate after the Forecast Period is estimated on the basis of the inflation rate of China. It is a commonly used valuation assumption that the long-term growth rate of a company will converge with the long-term growth rate of the country in which it operates.

(d) Discount rates

The discount rates for the Forecast Period and after that period are determined by reference to discount rates provided by an independent valuer. Discount rates were estimated based on the weighted average cost of capital ('WACCs') with reference to the industry risk premium and the debt to equity ratio of some guideline companies in China healthcare sector.

Changes in the conditions for these estimates and assumptions can significantly affect the assessed result of goodwill impairment test.

For the sensitivity analysis and other details, please refer to Note 16.

No impairment was charged during the years ended December 31, 2019 and 2018.

(ii) Estimation of current and deferred income tax

There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgement is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group recognises deferred tax assets based on estimates that it is probable to generate sufficient taxable profits in the foreseeable future against which the deductible losses will be utilised. The recognition of deferred tax assets mainly involves management's judgements and estimations about the timing and the amount of taxable profits of the companies who had tax losses.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

(iii) Assessment of control over not-for-profit hospitals

Shanghai Yangsi Hospital ('Yangsi Hospital'), a not-for-profit hospital, was founded by Shanghai Weikang Investment Management Co., Ltd. ('Weikang Investment'), a subsidiary of the Company. Despite the fact that Weikang Investment founded the hospital, Weikang Investment is not entitled to the dividend of the hospital in accordance with relevant PRC rules and regulation. Weikang Investment and Tibet Dazi Honghe Ruixin Business Management Co., Ltd. ('Honghe Ruixin') have entered into agreements with the hospital in which Weikang Investment and Honghe Ruixin obtained contractual rights to provide management services for certain periods and was entitled to receive performance-based management fees for the years ended December 31, 2019 and 2018.

Cixi Union Hospital ('Cixi Hospital'), a not-for-profit hospital, was founded by Cixi Honghe Medical Management Co., Ltd. ('Cixi Honghe'), a subsidiary of the Company. Despite the fact that Cixi Honghe founded the hospital, Cixi Honghe is not entitled to the dividend of the hospital in accordance with relevant PRC rules and regulation. Cixi Honghe has entered into agreements with the hospital in which Cixi Honghe obtained contractual rights to provide management services for certain periods and was entitled to receive performance-based management fees for the year ended December 31, 2019 and the nine months ended December 31, 2018.

Zhejiang Jinhua Guangfu Oncological Hospital ('Jinhua Hospital'), Dongyang Guangfu Hospital ('Dongyang Hospital') and Yongkang Hospital, three not-for-profit hospitals, were founded by Zhejiang Guangsha Medical Technology Co., Ltd.('Guangsha Medical'), a subsidiary of the Company which had changed its registered name to Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd. ('Zhejiang Honghe Zhiyuan') on April 28, 2019. Despite the fact that Zhejiang Honghe Zhiyuan founded the hospitals, Zhejiang Honghe Zhiyuan is not entitled to the dividend of the hospitals in accordance with relevant PRC rules and regulation. Zhejiang Honghe Zhiyuan has entered into agreements with Jinhua Hospital in which Zhejiang Honghe Zhiyuan obtained contractual rights to provide management services for certain periods and was entitled to receive performance-based management fees for the years ended December 31, 2019 and 2018.

The Group has exercised significant judgements in determining whether the Group has control over Yangsi Hospital, Cixi Hospital, Jinhua Hospital, Dongyang Hospital and Yongkang Hospital (the 'Relevant Not-for-profit Hospitals'). In exercising such judgement, the Group considers the purpose and design of the Relevant Not-for-profit Hospitals, what the relevant activities are and how decisions about those activities are made, whether the rights of the Group gives the current ability to direct the relevant activities, whether rights exercisable by other parties as internal governance body members are substantive, whether the Group is exposed, or has rights, to variable returns from its involvement with the Relevant Not-for-profit Hospitals, and whether the Group has the ability to use its power over the Relevant Not-for-profit Hospitals to affect the amount of the Group's returns.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

(iii) Assessment of control over not-for-profit hospitals – *continued*

After assessment, the management has concluded that the Group does not have the decision making power over internal governance body to direct the relevant activities of the Relevant Not-for-profit Hospitals, so the Group does not control and thus does not consolidate the Relevant Not-for-profit Hospitals. Instead, agreements are considered as management contracts to generate management services income.

(iv) Share-based payments

Share-based compensation expense for share-based payment schemes granted is determined based on the fair value of each scheme as at grant date, each reporting date and at the date of settlement. The fair value of the share-based payment schemes was determined by using valuation techniques. The Group applied judgements and estimates in determining valuation method and assumptions. For the details of the valuation method and key assumptions used, please refer to Note 26 to the consolidated financial statements.

(v) Convertible bonds

The fair values of the convertible bonds were determined by using valuation techniques. The Group applied judgements to select a variety of methods and made assumptions that were mainly based on market conditions existing at the end of each reporting period. If there was any change in methods or assumptions, the gains or losses relating to fair value changes could be changed. For the details of the valuation method and key assumptions used, please refer to Note 33.

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 of the Company that make strategic decisions.

The CODM considers the business from both the service and product perspective. When the Group companies have similar economic characteristics, and the segments are similar in each of the following respects: (i) the nature of the products and services; (ii) the nature of the production processes; (iii) the type or class of customer for their products and services; (iv) the methods used to distribute their products or provide their services; and (v) if applicable, the nature of the regulatory environment, the Group's operating segments are aggregated. In the view of CODM, the Group is principally engaged in three different segments which are subject to different business risks and different economic characteristics.

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

(i) General hospital services

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

For general hospital services, revenue primarily derives from highly diversified individual patients and no single patient contributed 1% or more of the Group's respective revenue for the years ended December 31, 2019 and 2018, respectively.

5 SEGMENT INFORMATION – *continued*

(ii) Hospital management services

Revenue from this segment is generated in the PRC and derived from providing comprehensive management services and receiving management service fee by Weikang Investment, Honghe Ruixin, Cixi Honghe and Zhejiang Honghe Zhiyuan.

Pursuant to the hospital management framework agreement and the letter of intent signed by Weikang Investment and Yangsi Hospital on January 1, 2013 and October 8, 2014, respectively, the long-term hospital management agreements signed by Honghe Ruixin and Yangsi Hospital on January 1, 2016 and the annual hospital management agreements signed by Weikang Investment and Honghe Ruixin with Yangsi Hospital on January 1, 2019 and 2018, Weikang Investment and Honghe Ruixin will provide management and consultancy services to Yangsi Hospital with a period of 50 years from 2016 to 2065 and the management fee has been calculated based on the pre-set formulas set out in the annual hospital management agreement accordingly.

Cixi Honghe had entered into a letter of intent with Cixi Hospital on February 1, 2018 and signed a supplemental letter of intent with Cixi Hospital on March 7, 2018. Pursuant to the letter of intent, Cixi Honghe has provided management and consultancy services to Cixi Hospital with a period of 50 years from 2018 to 2067. On March 26, 2018, Cixi Honghe entered into a 5-year hospital management agreement with Cixi Hospital, covering the period from 2018 to 2022. Pursuant to the hospital management agreement, Cixi Honghe can derives management fee based on the pre-set formulas set out in the 5-year hospital management agreement.

Zhejiang Honghe Zhiyuan had entered into a 50-year hospital management letter of intent with Jinhua Hospital, covering the period from January 1, 2017 to December 31, 2066. Pursuant to the Jinhua Hospital letter of intent, Zhejiang Honghe Zhiyuan has agreed to provide consultancy and management services to Jinhua Hospital, and Jinhua Hospital has agreed to pay Zhejiang Honghe Zhiyuan management service fees. The detailed service content and pricing are concluded and effective in a separate 3-year hospital management agreement which was signed by Zhejiang Honghe Zhiyuan and Jinhua Hospital on June 30, 2017, covering the period from January 1, 2017 to January 1, 2020. Pursuant to the 3-year hospital management agreement, the management fee has been calculated based on the pre-set formulas.

(iii) Wholesale of pharmaceutical products

Revenue from this segment is generated in the PRC and is derived from wholesale of pharmaceutical products by Zhejiang Dajia Medicines Co., Ltd. ('DJ Medicines').

5 SEGMENT INFORMATION – *continued*

(iv) Unallocated

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

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

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

5 SEGMENT INFORMATION – *continued*

(iv) Unallocated – *continued*

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

	General hospital services RMB'000	Hospital management services RMB'000	Wholesale of pharmaceutical products RMB'000	Elimination RMB'000	Unallocated RMB'000	Total RMB'000
Year ended December 31, 2018						
Segment revenue	183,823	199,194	32,425	(31,832)	—	383,610
Inter-segment revenue	—	—	(31,832)	31,832	—	—
Revenue from external customers	183,823	199,194	593	—	—	383,610
Timing of revenue recognition						
– At a point in time	90,611	—	593	—	—	91,204
– Over time	93,212	199,194	—	—	—	292,406
	183,823	199,194	593	—	—	383,610
EBITDA	12,237	146,453	3,505	(373)	—	161,822
Depreciation	(6,582)	(2,053)	(242)	—	(117)	(8,994)
Amortization	(7,538)	(13,365)	(383)	—	(69)	(21,355)
Finance (costs)/income	(1,653)	421	20	—	(14,750)	(15,962)
Unallocated cost-net					(97,628)	(97,628)
(Loss)/profit before tax	(3,536)	131,456	2,900	(373)	(112,564)	17,883
As at December 31, 2018						
Segment assets	385,417	1,586,238	22,788	(386)	194,027	2,188,084
Goodwill	301,995	1,306,506	9,266	—	—	1,617,767
Total assets	687,412	2,892,744	32,054	(386)	194,027	3,805,851
Total liabilities	154,280	407,985	8,947	—	1,566,655	2,137,867

6 EXPENSES BY NATURE

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Employee benefits expenses (Note 9)	122,100	131,407
Cost of inventories	103,665	90,958
Amortisation and depreciation	43,826	30,349
Professional fees	13,348	19,180
Auditor's remuneration	3,308	2,930
Utilities and office expenses	2,810	3,969
Business tax and other transaction taxes	1,694	1,298
Travelling and entertainment expenses	1,474	2,179
Operating lease rental expenses	1,337	2,411
Other expenses	7,999	10,323
	301,561	295,004

7 OTHER INCOME

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Government grants and subsidies (a)	2,138	2,416
Others	1,315	458
	3,453	2,874

(a) The Government grants and subsidies mainly consist of RMB1,677,000 granted by the People's Government of Sanlin Town in Shanghai for the year ended December 31, 2019 in consideration of the taxation contribution of Weikang Investment (2018: RMB1,380,000).

8 OTHER GAINS/(LOSSES) – NET

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

9 EMPLOYEE BENEFIT EXPENSE

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Wages, salaries, bonuses and other benefits	103,525	88,911
Share-based compensation expenses	2,386	24,265
Contribution to pension plans and others	16,189	18,231
	122,100	131,407

The employees of the Group in the PRC are members of a state-managed pension obligations operated by the PRC Government. The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the pension obligations to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

9 EMPLOYEE BENEFIT EXPENSE – *continued*

(i) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2018: two) directors whose emoluments are reflected in the analysis shown in Note 41. The emoluments payables to the remaining three (2018: three) individuals during the year are as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**3,060**	2,655
Bonuses	**936**	1,315
Share-based compensation expenses	**3,255**	6,199
	7,251	10,169

The number of highest paid non-director individuals whose remunerations fell within the following band is as follows:

	Year ended December 31,	
	2019	2018
	no. of individual	no. of individual
Emolument band		
HKD1,500,000 – HKD2,000,000	**1**	—
HKD2,000,000 – HKD2,500,000	**1**	1
HKD4,000,000 – HKD4,500,000	**1**	1
HKD4,500,000 – HKD5,000,000	**—**	1
	3	3

10 FINANCE INCOME AND COSTS

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Finance income		
Interest income on bank deposits	9,716	1,318
Interest income on loan to related parties	876	—
Finance income on other financial liability at amortised cost (a)	—	1,300
Foreign exchange gains-net	31,510	—
	42,102	2,618
Finance costs		
Interest expense on bank borrowings	(14,618)	(15,903)
Interest expense on lease liabilities	(87)	—
Finance cost on other financial liability at amortised cost (a)	(8,800)	—
Foreign exchange losses – net	—	(2,677)
Others	(63)	—
	(23,568)	(18,580)
Finance income/(costs) – net	18,534	(15,962)

(a) The Company has used the amortization method and estimated that the present value of the redemption amount of a put option granted by the Company to be RMB230,600,000 (2018: RMB221,800,000) as at December 31, 2019, with the reference to a valuation report issued by an independent valuer.

11 SUBSIDIARIES

The Group's principal subsidiaries at December 31, 2019 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Country/place and date of incorporation/establishment/ kind of legal entity	Principal activities/ place of operation	Registered/ Issued and paid-up capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2019 %	2018 %	2019 %	2018 %
Directly owned:							
Acute Sky Holdings Limited (天銳控股有限公司)	The BVI, on January 2, 2014	Investment holding, the BVI	US$1	100%	100%	–	–
Ever Surpass Investments Limited (恒越投資有限公司)	The BVI, on December 10, 2013	Investment holding, the BVI	US$1	100%	100%	–	–
Oriental Ally Holdings Limited (東協控股有限公司)	The BVI, on May 2, 2014	Investment holding, the BVI	US$1	100%	100%	–	–
Indirectly owned:							
Bliss Success Holdings Limited (妙榮控股有限公司)	Hong Kong, on December 20, 2011	Investment holding, Hong Kong	HK$1	100%	100%	–	–
New Pride Holdings Limited (捷穎控股有限公司)	Hong Kong, on April 11, 2012	Investment holding, Hong Kong	HK$1	100%	100%	–	–
Impeccable Success Limited (成臻有限公司)	Hong Kong, on June 9, 2014	Investment holding, Hong Kong	US$1	100%	100%	–	–
Honghe Yixin Investment Management (Shanghai) Co., Ltd. (弘和醫信投資管理(上海)有限公司)	The PRC, limited liability company, on July 29, 2014	Investment holding, the PRC	RMB 30,000,000	100%	100%	–	–
Tibet Honghe Zhiyuan Business Management Co., Ltd. (西藏弘和志遠企業管理有限公司)	The PRC, limited liability company, on October 10, 2014	Management services, the PRC	RMB 30,000,000	100%	100%	–	–
Tibet Dazi Honghe Ruixin Business Management Co., Ltd. (西藏達孜弘和瑞信企業管理有限公司)	The PRC, limited liability company, joint venture, on December 23, 2014	Hospital management, the PRC	RMB 500,000	77%	77%	23%	23%
Shanghai Weikang Investment Management Co., Ltd. (上海維康投資管理有限公司)	The PRC, limited liability company, joint venture, on April 15, 2002	Hospital management, the PRC	RMB 30,000,000	77%	77%	23%	23%
Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd. (浙江弘和致遠醫療科技有限公司)*	The PRC, limited liability company, joint venture, on October 29, 2014	Hospital management, the PRC	RMB 200,000,000	75%	75%	25%	25%

11 SUBSIDIARIES – *continued*

Name of entity	Country/place and date of incorporation/establishment/ kind of legal entity	Principal activities/ place of operation	Registered/ Issued and paid-up capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2019	2018	2019	2018
				%	%	%	%
Jiande Heyue Enterprise Management Co., Ltd. (建德和悦企業管理有限公司)	The PRC, limited liability company, on September 20, 2017	Investment holding, the PRC	RMB 80,000,000	100%	100%	–	–
Jiande Hexu Enterprise Management Co., Ltd. (建德和煦企業管理有限公司)	The PRC, limited liability company, on September 19, 2017	Investment holding, the PRC	RMB 80,000,000	100%	100%	–	–
Jiande Hospital of Traditional Chinese Medicine Co., Ltd. (建德中醫院有限公司)	The PRC, limited liability company, joint venture, on September 19, 2016	General hospital services,the PRC	RMB 10,000,000	70%	70%	30%	30%
Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. (建德大家中醫藥科技有限公司)	The PRC, limited liability company, joint venture, on November 12 2014	Property management provided to Jiande Hospital, the PRC	RMB 40,000,000	70%	70%	30%	30%
Zhejiang Dajia Medicines Co., Ltd. (浙江大佳醫藥有限公司)	The PRC, limited liability company, joint venture, on August 11, 2005	Wholesale of pharmaceutical products, the PRC	RMB 10,000,000	70%	70%	30%	30%
Cixi Hongai Medical Management Company Limited. (慈溪弘愛醫療管理有限公司)	The PRC, limited liability company, on November 22, 2017	Investment holding, the PRC	RMB 24,500,000	100%	100%	–	–
Cixi Honghe Medical Management Company Limited. (慈溪弘和醫療管理有限公司)	The PRC, limited liability company, joint venture, on November 22, 2017	Hospital management, the PRC	RMB 35,000,000	70%	70%	30%	30%
Jiande Xinlin Pharmacy Co., Ltd. (建德鑫林大藥房有限公司)	The PRC, limited liability company, on October 10, 2015	Wholesale of pharmaceutical products, the PRC	RMB 5,000,000	70%	70%	30%	30%
Cixi Union Hospital Limited. (慈溪協和醫院有限公司)	The PRC, limited liability company, on March 1, 2019	General hospital services, the PRC	RMB 35,000,000	70%	–	30%	–
Tibet Hongai Business Management Co., Ltd. (西藏弘愛企業管理有限公司)	The PRC, limited liability company, on December 13, 2019	Management services, the PRC	RMB 1,000,000	100%	–	–	–

* On April 28, 2019, Zhejiang Guangsha Medical Technology Co., Ltd changed its registered name to "Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd."

11 SUBSIDIARIES – *continued*

(i) Investment in subsidiaries

Investment in subsidiaries is recorded at cost, which is the fair value of the consideration paid.

(ii) Significant restrictions

Cash and cash equivalents of RMB106,657,000 (2018: RMB93,602,000) is held in China and is subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

(iii) Material non-controlling interests (NCI)

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

Summarised balance sheet

	Weikang Investment As at December 31,		Honghe Ruixin As at December 31,		Jiande Hospital As at December 31,		Cixi Honghe As at December 31,		Zhejiang Honghe Zhiyuan As at December 31,	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Current assets	71,645	159,896	99,529	102,507	113,424	75,324	26,950	12,504	138,316	157,917
Current liabilities	(23,668)	(104,874)	(22,686)	(20,709)	(129,628)	(84,710)	(6,784)	(4,095)	(82,335)	(93,579)
Current net assets/(liabilities)	47,977	55,022	76,843	81,798	(16,204)	(9,386)	20,166	8,409	55,981	64,338
Non-current assets	109,989	114,203	14	64	251,168	250,608	311,553	318,037	698,278	713,148
Non-current liabilities	(25,925)	(27,500)	—	(59)	(48,924)	(50,476)	(77,888)	(79,509)	(174,563)	(178,277)
Non-current net assets	84,064	86,703	14	5	202,244	200,132	233,665	238,528	523,715	534,871
Net assets	132,041	141,725	76,857	81,803	186,040	190,746	253,831	246,937	579,696	599,209
Accumulated NCI	26,468	28,695	16,485	17,623	55,812	57,224	76,149	74,081	144,923	149,801

11 SUBSIDIARIES – *continued*

(iii) Material non-controlling interests (NCI) – *continued*

Summarised statement of comprehensive income

	Weikang Investment Year ended December 31,		Honghe Ruixin Year ended December 31,		Jiande Hospital Year ended December 31,		Cixi Honghe Year ended December 31,		Zhejiang Honghe Zhiyuan Year ended December 31,	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	44,288	56,555	105,068	106,093	194,004	182,204	21,092	13,382	41,757	25,003
Profit/(loss) before income tax	27,146	40,459	100,381	90,910	(5,734)	(1,074)	9,192	6,608	(23,226)	17,744
Income tax expense	(6,020)	(11,890)	(17,041)	(13,637)	169	409	(2,298)	(1,652)	3,714	(4,436)
Profit/(loss) for the year	21,126	28,569	83,340	77,273	(5,565)	(665)	6,894	4,956	(19,512)	13,308
Other comprehensive income	—	—	—	—	—	—	—	—	—	—
Total comprehensive income/(loss)	21,126	28,569	83,340	77,273	(5,565)	(665)	6,894	4,956	(19,512)	13,308
Profit/(loss) allocated to NCI	4,859	6,064	19,168	16,717	(1,669)	(199)	2,068	1,487	(4,878)	3,327
Dividends paid to NCI	7,088	10,381	20,306	14,093	—	—	—	—	—	—

Summarised statement of cash flows

	Weikang Investment Year ended December 31,		Honghe Ruixin Year ended December 31,		Jiande Hospital Year ended December 31,		Cixi Honghe Year ended December 31,		Zhejiang Honghe Zhiyuan Year ended December 31,	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Net cash generated from/ (used in) operating activities	18,609	4,139	32,278	97,100	21,065	(40,464)	7,061	12,279	13,544	(2,983)
Net cash generated from/ (used in) investing activities	113,912	(94,975)	50,346	(15,309)	(36,368)	(13,387)	(20,000)	—	—	(31,057)
Net cash (used in)/generated from financing activities	(118,793)	(8,305)	(84,760)	(72,580)	32,998	38,309	1,227	—	1,120	—
Net increase/(decrease) in cash and cash equivalents	13,728	(99,141)	(2,136)	9,211	17,695	(15,542)	(11,712)	12,279	14,664	(34,040)

12 INCOME TAX EXPENSE

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

	Year ended December 31,	
	2019 RMB'000	2018 RMB'000
Current income tax:		
– PRC corporate income tax	27,025	40,155
Deferred income tax (Note 32)	(905)	1,149
	26,120	41,304

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of the PRC, the principal place of the Group's operations, as follows:

	Year ended December 31,	
	2019 RMB'000	2018 RMB'000
Profit before income tax	195,566	17,883
Calculated at taxation rate of 25%	48,892	4,471
Effect of different tax rates available to different subsidiaries of the Group	(35,794)	(9,098)
Expenses not tax deductible	8,532	32,132
Tax effect of unrecognized tax losses	3,444	4,796
Utilization of tax losses in previous years	(3,193)	—
Withholding tax	4,239	9,003
Income tax expense	26,120	41,304

12 INCOME TAX EXPENSE – *continued*

(i) Cayman Islands Income Tax

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

(ii) Hong Kong Profits Tax

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

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

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

(iv) Withholding Tax

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

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

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

13 EARNINGS/(LOSSES) PER SHARE

(i) Basic earnings/(losses) per share

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

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

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

(ii) Diluted earnings/(losses) per share

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

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

13 EARNINGS/(LOSSES) PER SHARE – *continued*

(ii) Diluted earnings/(losses) per share – *continued*

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

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Medical equipments RMB'000	Office equipment, furniture and vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2018						
Cost	23,255	2,644	—	1,125	—	27,024
Accumulated depreciation	(5,491)	(2,624)	—	(526)	—	(8,641)
Net amount	17,764	20	—	599	—	18,383
Year ended December 31, 2018						
Net book value						
Opening net amount	17,764	20	—	599	—	18,383
Additions	—	—	6,536	970	—	7,506
Business combination	101,990	313	17,982	6,760	—	127,045
Depreciation charge	(4,076)	(99)	(3,199)	(1,620)	—	(8,994)
Closing net amount	115,678	234	21,319	6,709	—	143,940
At December 31, 2018						
Cost	125,245	2,957	24,518	8,855	—	161,575
Accumulated depreciation	(9,567)	(2,723)	(3,199)	(2,146)	—	(17,635)
Net amount	115,678	234	21,319	6,709	—	143,940
Year ended December 31, 2019						
Net book value						
Opening net amount	115,678	234	21,319	6,709	—	143,940
Additions	—	107	7,393	609	4,743	12,852
Disposals	(290)	—	(75)	(39)	—	(404)
Transfer upon completion	—	185	—	16	(201)	—
Depreciation charge	(4,071)	(96)	(4,488)	(1,557)	—	(10,212)
Closing net amount	111,317	430	24,149	5,738	4,542	146,176
At December 31, 2019						
Cost	124,955	3,249	31,836	9,441	4,542	174,023
Accumulated depreciation	(13,638)	(2,819)	(7,687)	(3,703)	—	(27,847)
Net amount	111,317	430	24,149	5,738	4,542	146,176

14 PROPERTY, PLANT AND EQUIPMENT – *continued*

Depreciation expense of RMB7,613,000 (2018:RMB6,276,000) was charged in 'cost of revenue', and RMB2,599,000 (2018: RMB2,718,000) in 'administrative expenses' for the year ended December 31, 2019.

Some land and buildings of the Group have certain title defects. The Group does not hold the land use right certificates or building ownership certificates for the relevant properties, nor the construction work planning permits, commencement permits or completion inspection certificates. The Group has not yet obtained properties title certificates and is in the process of obtaining ownership certificates for all its properties.

Furthermore, PRC legal advisors of the Group have advised that the title defects on the land and buildings will not create any substantive legal obstacle for the Group to continue using the land and the buildings located on it or cause suspension to the operations of the Group. The management of the Group reasonably and firmly believes that the risk of the Group being required to suspend using the land and buildings is extremely remote. Moreover, the management has considered and assessed the feasibility of relocation and made a relocation plan accordingly. In addition, the controlling shareholder have confirmed to the management of the Group that they have sufficient financial resources (including capital commitments of the limited partners of Hony Fund V and assets of Hony Fund V) to fully indemnify the Group for any damages or costs incurred in relation to the title defects.

Based on the aforementioned facts, the directors of the Company are of the view that:

(i) The title defects of the land and buildings did not have a significant impact on the operation and going concern issue related to the basis of preparation of the financial information of the Group during the periods; and

(ii) Any damages or costs incurred in relation to the title defects of the land and building will be indemnified by the controlling shareholder of the Company, thus there will be no significant financial impact on the financial information of the Group.

The acquisition cost of buildings is comprising of the land and its building cost. According to an independent valuer, due to the title defects, it is infeasible and impractical to separately evaluate the fair value of the land and the buildings, which would be required to split the value between land and building cost. The directors of the Company consider as there is no reasonable basis to allocate the consideration to the land and the buildings located thereon, respectively, the total consideration has been recognized in the 'Property, Plant and Equipment' as buildings and depreciated over the estimated useful lives of 20 to 50 years. The directors of the Company is of the view that the reclassification of non-current assets in the balance sheet and the difference between depreciation and amortization charges resulting from different useful lives is immaterial.

15 LEASES

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

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at December 31, 2019 RMB'000	As at January 1, 2019* RMB'000
Right-of-use assets		
Properties	3,467	1,109
Land use right	38,544	39,487
	42,011	40,596
Lease Liabilities		
Current	2,412	277
Non-current	650	598
	3,062	875

In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. For adjustments recognised on adoption of IFRS 16 on January 1, 2019, please refer to Note 2.2.

Additions to the right-of-use assets during the 2019 financial year were RMB4,219,000.

(ii) Amounts recognised in the statement of comprehensive income

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

	Year ended December 31,	
	2019 RMB'000	2018 RMB'000
Depreciation charge of right-of-use assets- properties	1,861	—
Amortisation charge of right-of-use assets- land use right	943	—
Interest expense (included in finance cost)	87	—
Expense relating to short-term leases (included in cost of revenue and administrative expenses)	1,304	—
Expense relating to leases of low-value assets (included in administrative expenses)	33	—

The total cash outflow for leases in 2019 was RMB3,643,000.

15 LEASES – *continued*

(iii) The Group's leasing activities and how these are accounted for

The Group leases a warehouse, a retail store, various equipment, offices, apartments and lands. Rental contracts are typically made for fixed periods of 6 months to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. From January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of use assets in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

15 LEASES – *continued*

(iii) The Group's leasing activities and how these are accounted for – *continued*

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets mainly comprise IT, medical equipment and small items of office furniture.

(iv) Extension and termination options

Extension and termination options are included in a number of property leases across the group. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor.

16 INTANGIBLE ASSETS

	Goodwill RMB'000	Contractual rights to provide management services RMB'000	Licenses RMB'000	Software RMB'000	Total RMB'000
At January 1, 2018					
Cost	950,916	116,000	—	215	1,067,131
Accumulated amortisation	—	(7,687)	—	(42)	(7,729)
Net amount	950,916	108,313	—	173	1,059,402
Year ended December 31, 2018					
Opening amount as at January 1, 2018	950,916	108,313	—	173	1,059,402
Additions	—	—	—	1,462	1,462
Business combination	666,851	1,042,200	186,900	136	1,896,087
Amortisation	—	(13,360)	(6,853)	(199)	(20,412)
Closing amount as at December 31, 2018	1,617,767	1,137,153	180,047	1,572	2,936,539
At December 31,2018					
Cost	1,617,767	1,158,200	186,900	1,813	2,964,680
Accumulated amortisation	—	(21,047)	(6,853)	(241)	(28,141)
Net amount	1,617,767	1,137,153	180,047	1,572	2,936,539
Year ended December 31, 2019					
Opening amount as at January 1, 2019	1,617,767	1,137,153	180,047	1,572	2,936,539
Additions	—	—	—	100	100
Amortisation	—	(23,647)	(6,853)	(310)	(30,810)
Closing amount as at December 31, 2019	1,617,767	1,113,506	173,194	1,362	2,905,829
At December 31,2019					
Cost	1,617,767	1,158,200	186,900	1,913	2,964,780
Accumulated amortisation	—	(44,694)	(13,706)	(551)	(58,951)
Net amount	1,617,767	1,113,506	173,194	1,362	2,905,829

16 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill

Goodwill of RMB1,617,767,000 is mainly resulted from the acquisitions of subsidiaries, among which RMB950,916,000 was arising from the acquisition of Weikang Investment on September 30, 2014, RMB308,854,000 was arising from the acquisition of Jiande Hexu Enterprise Management Co., Ltd. ('Jiande Hexu') on January 11, 2018, RMB166,613,000 was arising from the acquisition of Cixi Hongai Medical Management Company Limited ('Cixi Hongai') on March 14, 2018, RMB188,977,000 was arising from the acquisition of Oriental Ally Holdings Limited ('Oriental Ally') on August 7, 2018, RMB2,407,000 was arising from the acquisition of Xinlin Pharmacy on August 31, 2018.

Management reviews the business performance and monitors goodwill resulted from each acquisition on operating segment level respectively. Goodwill arising from the acquisition of Weikang Investment was allocated to general hospital services segment and hospital management services segment. Goodwill arising from the acquisition of Jiande Hexu was allocated to general hospital services segment and wholesale of pharmaceutical products. Goodwill arising from the acquisition of Cixi Hongai and Oriental Ally was fully allocated to hospital management services segment. Goodwill arising from the acquisition of Xinlin Pharmacy was allocated to general hospital services segment.

The following is a summary of goodwill allocation for each operating segment:

	Opening RMB'000	Addition RMB'000	Impairment RMB'000	Disposal RMB'000	Closing RMB'000
Year ended December 31, 2019					
General hospital services segment	**301,995**	—	—	—	**301,995**
Hospital management services segment	**1,306,506**	—	—	—	**1,306,506**
Wholesale of pharmaceutical products segment	**9,266**	—	—	—	**9,266**
	1,617,767	—	—	—	**1,617,767**
Year ended December 31, 2018					
General hospital services segment	—	301,995	—	—	301,995
Hospital management services segment	950,916	355,590	—	—	1,306,506
Wholesale of pharmaceutical products segment	—	9,266	—	—	9,266
	950,916	666,851	—	—	1,617,767

16 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

As at December 31, 2019, the management of the Group had set up a cash flow forecasts including future investments covering an eight-year period based on reasonable and supportable assumptions. These assumptions and estimates are considered reliable and are supported by management's research and analysis based on industry information and data provided by an independent industry consultant specific to the industry in which each CGU operates. Cash flows beyond the eight-year period are extrapolated using the estimated growth rates stated below.

The management consider 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. According to management's research and analysis based on industry information and data provided by an independent industry consultant, it is shown that as driven by the Chinese government's measures to stimulate private capital investing in healthcare services, non-public hospital market and the market of wholesale of pharmaceutical is projected to maintain a high-speed growth from 2020 to 2027. As a result, taking into account the transitional development stage and the steady and above-industry-average historical growth rate, the management of the Group is confident that the operating performance of each CGU will maintain high growth rates in the eight-year forecast period and will not enter into the relatively low long-term growth stage until after the forecast period. The long-term growth rate by reference to the long-term inflation rate of China was identified by management as 3.00% in the goodwill impairment test as at December 31, 2019 and 2018.

Based on the forecast and assumptions approved by management, the recoverable amount of each CGU as at December 31, 2019 and 2018 was determined by assessing the fair value less cost of disposal (FVLCOD) of the underlying assets with reference to a valuation report 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. No impairment was identified.

16 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

(a) Goodwill arising from the acquisition of Weikang Investment

Hospital Management Service Segment

As at December 31, 2019 and 2018, the recoverable amount of hospital management services segment was determined based on FVLCOD. The key assumptions used were as follows:

	Hospital management services segment	
	2019	2018
Revenue (% compound growth rate)	**8.66%**	8.69%
Post-tax discount rate	**13.00%**	13.00%
Recoverable amount of operating segment (RMB'000)	**1,608,000**	1,658,000

The table below sets forth each key assumption for the eight-year forecast period as of each year end (estimates based on the operations for the periods indicated) used in goodwill impairment testing and the breakeven point of such key assumptions:

	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%**

	Year ended December 31, 2018	
	Key Assumption	Breakeven Point
Percentage of the compound growth rate of revenue	8.69%	7.08%
Percentage of the post-tax discount rate	13.00%	13.90%

No impairment was charged for Weikang Investment and Honghe Ruixin operating CGU during the years ended December 31, 2019 and 2018.

16 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

(b) Goodwill arising from the acquisition of Jiande Hexu

General Hospital Services Segment

As at December 31, 2019 and 2018, the recoverable amount of general hospital services segment was determined based on FVLCOD. The key assumptions used were as follows:

	General hospital services segment	
	2019	2018
Revenue (% compound growth rate)	**14.65%**	15.72%
Post-tax discount rate	**14.50%**	14.50%
Recoverable amount of operating segment (RMB'000)	**717,000**	687,000

The table below sets forth each key assumption for the eight-year forecast period as of the year end (estimates based on the operation for the period indicated) used in goodwill impairment testing and the breakeven point of such key assumptions:

	Year ended December 31, 2019	
	Key Assumption	**Breakeven Point**
Percentage of the compound growth rate of revenue	**14.65%**	**14.12%**
Percentage of the post-tax discount rate	**14.50%**	**14.83%**

	Year ended December 31, 2018	
	Key Assumption	Breakeven Point
Percentage of the compound growth rate of revenue	15.72%	15.05%
Percentage of the post-tax discount rate	14.50%	14.90%

16 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

(b) Goodwill arising from the acquisition of Jiande Hexu (continued)

Wholesale of Pharmaceutical Products Segment

As at December 31, 2019, the recoverable amount of wholesale of pharmaceutical products segment was determined based on FVLCOD. The key assumptions used were as follows:

	Wholesale of pharmaceutical products segment	
	2019	**2018**
Revenue (% compound growth rate)	**45.90%**	71.24%
Post-tax discount rate	**14.50%**	14.50%
Recoverable amount of operating segment (RMB'000)	**15,000**	29,000

The table below sets forth each key assumption for the eight-year forecast period as of the year end (estimates based on the operation for the period indicated) used in goodwill impairment testing and the breakeven point of such key assumptions:

	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%**

	Year ended December 31, 2018	
	Key Assumption	Breakeven Point
Percentage of the compound growth rate of revenue	71.24%	69.41%
Percentage of the post-tax discount rate	14.50%	15.08%

No impairment was charged for Jiande Hospital operating CGU and DJ Medicine operating CGU during the years ended December 31, 2019 and 2018.

16 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

(c) *Goodwill arising from the acquisition of Cixi Hongai*

Hospital Management Service Segment

As at December 31, 2019 and 2018, the recoverable amount of hospital management services segment was determined based on FVLCOD. The key assumptions used were as follows:

	Hospital management services segment	
	2019	2018
Revenue (% compound growth rate)	**18.26%**	21.96%
Post-tax discount rate	**13.50%**	13.50%
Recoverable amount of operating segment (RMB'000)	**514,000**	505,000

The table below sets forth each key assumption for the eight-year forecast period as of the year end (estimates based on the operation for the period indicated) used in goodwill impairment testing and the breakeven point of such key assumptions:

	Year ended December 31, 2019	
	Key Assumption	**Breakeven Point**
Percentage of the compound growth rate of revenue	**18.26%**	**17.47%**
Percentage of the post-tax discount rate	**13.50%**	**14.32%**

	Year ended December 31, 2018	
	Key Assumption	Breakeven Point
Percentage of the compound growth rate of revenue	21.96%	21.21%
Percentage of the post-tax discount rate	13.50%	14.27%

No impairment was charged for Cixi Honghe operating CGU during the years ended December 31, 2019 and 2018.

16 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

(d) Goodwill arising from the acquisition of Oriental Ally

Hospital Management Service Segment

As at December 31, 2019 and 2018, the recoverable amount of hospital management services segment was determined based on FVLCOD. The key assumptions used were as follows:

	Hospital management services segment	
	2019	2018
Revenue (% compound growth rate)	**19.58%**	14.74%
Post-tax discount rate	**13.50%**	13.50%
Recoverable amount of operating segment (RMB'000)	**957,000**	887,000

The table below sets forth each key assumption for the eight-year forecast period as of the year end (estimates based on the operation for the period indicated) used in goodwill impairment testing and the breakeven point of such key assumptions:

	Year ended December 31, 2019	
	Key Assumption	**Breakeven Point**
Percentage of the compound growth rate of revenue	**19.58%**	**18.07%**
Percentage of the post-tax discount rate	**13.50%**	**14.36%**

	Year ended December 31, 2018	
	Key Assumption	Breakeven Point
Percentage of the compound growth rate of revenue	14.74%	14.06%
Percentage of the post-tax discount rate	13.50%	13.87%

No impairment was charged for Zhejiang Honghe Zhiyuan Medical operating CGU during the years ended December 31, 2019 and 2018.

17 FINANCIAL INSTRUMENTS BY CATEGORY

	Financial assets As at December 31, 2019 RMB'000	2018 RMB'000
Financial assets		
Financial assets at amortised cost		
Trade receivables	30,332	33,822
Other receivables and deposits	16,647	2,089
Amounts due from related parties	297,947	191,040
Cash and cash equivalents	836,624	195,521
Term deposits	134,370	—
Financial assets at FVPL		
Call option to acquire subsidiaries' remaining interest	600	1,200
Monetary funds with floating rates	36,229	248,567
	1,352,749	672,239

	Financial liabilities As at December 31, 2019 RMB'000	2018 RMB'000
Financial liabilities		
Liabilities at amortised cost		
Borrowing	214,402	263,615
Trade payables	13,325	16,885
Accruals, other payables and provisions (excluding accrued employee benefits, share-based payments and other tax liabilities)	15,440	78,427
Amounts due to related parties	23,749	40,136
Financial liabilities at amortised cost	230,600	221,800
Lease liabilities	3,062	—
Financial liabilities at FVPL		
Convertible bonds	1,693,430	1,073,856
	2,194,008	1,694,719

18 TRADE RECEIVABLES

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Trade receivables	**31,332**	34,822
Less: provision for impairment of trade receivables (Note 3.1(ii))	**(1,000)**	(1,000)
Trade receivables – net	**30,332**	33,822

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

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

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
1 – 90 days	**25,428**	28,843
91 – 180 days	**1,658**	2,150
181 days – 1 year	**2,947**	2,795
Over 1 year	**1,299**	1,034
	31,332	34,822

19 INVENTORIES

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Pharmaceuticals	3,941	7,626
Medical consumables	1,080	1,038
	5,021	8,664

The cost of inventories recognised as expense and included in 'cost of revenue' during the year ended December 31, 2019 amounting to RMB103,665,000 (2018: included in 'cost of revenue' amounting to RMB90,958,000).

20 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Monetary fund receivable from asset management company	15,000	—
Prepayments for constructions and equipment	1,455	3,243
Deposits for rental	590	539
Advances to employees	569	516
Receivables from social security bureau	—	303
Other prepayments	315	806
Others	488	731
	18,417	6,138
Less: non-current portion	(2,012)	(3,243)
Current portion	16,405	2,895

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

21 BALANCES WITH RELATED PARTIES

As at December 31, 2019 and 2018, the balances with related parties are unsecured, receivable/payable on demand and are denominated in RMB.

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Amounts due from related parties		
– Trade in nature		
Jinhua Hospital	**122,120**	97,858
Yangsi Hospital	**88,540**	32,456
Cixi Hospital	**6,384**	226
– Others		
Jinhua Hospital (a)	**80,429**	21,102
Vanguard Glory Limited	**366**	360
Yangsi Hospital	**64**	56
Midpoint Honour Limited	**36**	36
Han Prestige Limited	**8**	8
Grand Roc Holdings Limited	**—**	9
Dongyang Guangfu Hospital	**—**	37,356
Hony Capital Fund VIII	**—**	1,573
	297,947	191,040
Less: non-current portion (a)	**(80,000)**	—
Current portion	**217,947**	191,040

(a) Honghe Zhiyuan, as a lender, entered into three loan agreements with Jinhua Hospital in July, November and December of 2019 with the principle amounting to RMB40,000,000, RMB20,000,000, RMB20,000,000, respectively. The loans will mature 36 months from the date of drawdown and bear an interest rate of 5.23% per annum, which is subject to adjustment according to the applicable benchmark interest rates as published by the People's Bank of China from time to time. As at December 31, 2019, the remaining principal of RMB80,000,000 and interest of RMB429,000 have not been recovered.

21 BALANCES WITH RELATED PARTIES – *continued*

As at December 31, 2019 and 2018, the aging analysis based on trading date of the amount due from related parties which are trade in nature was as follows:

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Within 90 days	58,293	49,725
90 to 180 days	48,159	14,319
Over 180 days	110,592	66,496
	217,044	130,540

As at December 31, 2019, none of the trade receivables was individually determined to be impaired (2018: nil).

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Amounts due to related parties		
– Trade in nature		
Zhejiang Zhongyouli Medicines Co., Ltd	6,196	—
Dajia Medical Equipment Co., Ltd.	2,546	4,207
– Others		
Yangsi Hospital	6,235	2,268
Jinhua Hospital	4,988	3,152
Vanguard Glory Limited	1,517	1,492
Cixi Hospital	1,243	17
Zhejiang Xinxiangli Investment Co., Ltd.	1,024	4,000
Dajia Group Co., Ltd.	—	25,000
	23,749	40,136

Their carrying values due as at December 31, 2019 and 2018 approximated their fair values.

21 BALANCES WITH RELATED PARTIES – *continued*

As at December 31, 2019 and 2018, the aging analysis based on trading date of the amount due to related parties which are trade in nature was as follows:

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Within 90 days	7,621	1,621
90 to 180 days	179	2,517
Over 180 days	942	69
	8,742	4,207

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Classification of financial assets at FVPL

The Group classifies the following financial assets at FVPL:

- Debt investments that do not qualify for measurement at either amortised cost or FVOCI, and
- Equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

Financial assets mandatorily measured at FVPL include the following:

	As at 31 December,	
	2019	2018
	RMB'000	RMB'000
Current assets		
Monetary funds with floating rates	36,229	248,567
Call option to acquire subsidiaries' remaining interests	600	1,200
	36,829	249,767

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – *continued*

(ii) Amounts recognised in profit or loss

During the year, the following gains were recognised in profit or loss:

	Year ended 31 December,	
	2019	2018
	RMB'000	RMB'000
Fair value gains on monetary funds with floating rates recognised in other gains	**5,626**	5,545
Fair value loss on call option recognised in other losses	**(600)**	(500)
	5,026	5,045

(iii) Risk exposure and fair value measurements

For information about the methods and assumptions used in determining fair value please refer to Note 3.3.

23 TERM DEPOSITS

	As at 31 December,	
	2019	2018
	RMB'000	RMB'000
HKD term deposits	**134,370**	—

The effective interest rate for the term deposits of the Group with initial terms of six months during the year ended December 31, 2019 was 2.50% (2018: nil).

Term deposits with initial terms of six months were neither past due nor impaired. As at December 31, 2019, the carrying amounts of the term deposits with initial terms of six months approximated their fair values.

24 CASH AND CASH EQUIVALENTS

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Cash at banks	305,779	102,388
Cash on hand	44	71
Term deposits with initial terms within three months	497,816	—
Deposits held at call with financial institutions	32,985	93,062
	836,624	195,521

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
US dollars	5,447	8,541
Hong Kong dollars	614,650	93,371
RMB	216,527	93,609
	836,624	195,521

Cash at banks earns interest at floating rates based on daily bank deposit rates, and deposits held at call with financial institutions earns interest at the fixed rates.

The Group's balances of cash at banks, cash on hand, term deposits with initial terms within three months and deposits held at call which are mainly denominated in RMB are deposited with banks in the PRC. The conversion of these RMB-denominated balances into foreign currencies and the remittance of funds out of the Mainland China are subject to the rules and regulations of foreign exchange control promulgated by the Government of the PRC.

25 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
Issued and Paid					
As at January 1, 2018	138,194,000	123	(3)	404,021	404,141
Vesting of shares under management subscription scheme (Note 26(i))	—	—	3	28,972	28,975
As at December 31, 2018	138,194,000	123	—*	432,993	433,116
As at January 1, 2019	138,194,000	123	—*	432,993	433,116
Vesting of shares under management subscription scheme (Note 26(i))	—	—	—*	2,311	2,311
As at December 31, 2019	138,194,000	123	—	435,304	435,427

* The balance stated above was less than RMB500.

26 SHARE-BASED PAYMENTS

(i) Share Subscription Agreement

On March 31, 2016, the Company entered into a share subscription agreement (the 'Share Subscription Agreement') with certain members of the management (collectively, the 'Management Subscribers'), their respective investment holding companies, Midpoint Honour Limited (a shareholder of the Company, which was collectively owned by the investment holding companies of the Management Subscribers) ('Midpoint Honour'), Hony Capital 2008 Management Limited ('Hony Management'), a management company established by Hony Capital, and Vanguard Glory, the immediate parent company of the Company.

The Share Subscription Agreement was subsequently amended on December 4, 2016 and January 23, 2017, respectively (the 'Amendment Agreements').

Pursuant to the Share Subscription Agreement, the Company allotted and issued 300 new ordinary shares to Midpoint Honour (the 'Subscription Shares'), representing 3% of the Company's then issued ordinary shares for RMB31,152,000, and such Subscription Shares were treated as treasury shares. On December 4, 2016, the Company repurchased 14 Subscription Shares at a price of HKD1,787,000 and subsequently cancelled these shares. Pursuant to the Amendment Agreements, the Subscription Shares with par value amounting to RMB2,000 were treated as treasury shares. On March 16, 2017, the remaining 286 Subscription Shares were divided into 2,860,000 shares of a par value of HKD0.001 each upon the capitalization issue.

Pursuant to the Share Subscription Agreement and the Amendment Agreements, Midpoint Honour is subject to lock-up restrictions and shall put back the Subscription Shares to the Company, when a Management Subscribers resigns with the Company's consent, with a consideration equal to the subscription consideration plus interests where available (the "Put Back Consideration"). As a result, it is accounted as a share option scheme in accordance with relevant accounting standards, under which the Management Subscribers were granted 300 share options and the Group receives services from the Management Subscribers. Options are conditional on the employees completing the first year and second year's services, which are the vesting period. The options are exercisable starting 12 months (the 'First Batch Share Options') or 24 months (the 'Second Batch Share Options') from the Listing date. The exercise price of the granted options is equal to the Put Back Consideration. The granted share options were considered as equity-settled share-based payment to the subscriber.

On March 15, 2018, pursuant to the Share Subscription Agreement and the Amendment Agreements, the First Batch Share Options of unlocked treasury shares were vested to the respective Management Subscribers. In 2018, one of the Management Subscriptions resigned and the Company agreed not to exercise its right to repurchase the relevant shares attributable to him that were subject to lock-up restrictions.

On March 15, 2019, pursuant to the Share Subscription Agreement and the Amendment Agreements, the Second Batch Share Option of unlocked treasury were vested to the respective Management Subscribers. In 2019, one of the remaining Management Subscribers resigned and the Company agreed not to exercise its right to repurchase the relevant shares attributable to him that were subject to lock-up restrictions.

The share-based compensation expense related to the Share Subscription Agreement of RMB311,000 were recognized as 'cost of revenue' for the year ended December 31, 2019 (2018: RMB2,549,000).

26 SHARE-BASED PAYMENTS – *continued*

(ii) Pre-IPO Share Appreciation Rights Scheme

On November 28, 2016, the board of directors approved a share appreciation rights scheme prior to the initial public offering (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").

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.

The fair value of the notional shares granted to the Pre-IPO SARs Grantee as at December 31, 2019, as determined using the Black-Scholes model by a professional valuation firm, was RMB2,448,000. The significant inputs in the valuation model were listed as below:

	As at December 31, 2019			
	First Batch Share Options	Second Batch Share Options	Third Batch Share Options	Fourth Batch Share Options
Volatility	27.20%	27.20%	27.20%	27.20%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected option life (month)	20.50	32.50	44.50	56.50
Annual risk-free interest rate	1.66%	1.66%	1.66%	1.66%
Carrying amount of liability	813,000	813,000	460,000	362,000

Pursuant to the lock-up restrictions provided in the Pre-IPO SARs Scheme, from March 15, 2018, the first batch, which is 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 of 75% 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 25% of the total notional shares that were free to be vested.

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

Share-based compensation expenses related to the Pre-IPO SARs Scheme of RMB2,862,000 were derecognized as 'cost of revenue' for the year ended December 31, 2019 (2018: RMB1,055,000 were recognized as 'cost of revenue').

26 SHARE-BASED PAYMENTS – *continued*

(iii) Service Contract with Mr. Lu Wenzuo

Pursuant to a service contract between New Pride and Mr. Lu Wenzuo (the 'Service Contract'), New Pride conditionally granted the following awards to Mr. Lu Wenzuo if he could work for Weikang Investment and provide hospital management services to Yangsi Hospital as the hospital administrator until December 31, 2017:

(a) Certain share awards (the 'Share Awards') to acquire 1% equity interest in each of Weikang Investment and Honghe Ruixin from New Pride and Honghe Zhiyuan or receive a cash payment equivalent to the value of 1% equity interest in each of Weikang Investment and Honghe Ruixin for each of the three years ending December 31, 2017 and the Share Awards will be settled by New Pride at the end of Mr. Lu's tenure at one time; and

(b) Share appreciation rights (the 'Mr. Lu's SARs') to receive a cash payment based on the appreciation of 1% of the notional equity interest in Weikang Investment and Honghe Ruixin. The Mr. Lu's SARs will be settled by New Pride at the end of Mr. Lu's tenure;

On May 30, 2018, pursuant to an exercise notification from Mr. Lu Wenzuo to New Pride, Mr. Lu Wenzuo confirmed that he chose to settle the Share Awards in shares rather than in cash. Pursuant to the Service Contract, the fair value of the debt component of the Share Awards amounting to RMB40,500,000 was recognised as capital reserve upon the date of the exercise notification.

On January 25, 2019, Mr. Lu Wenzuo submitted an application to New Pride for the exercise of Mr. Lu's SARs amounting to RMB13,623,000. As at December 31, 2019, the amount of Mr. Lu's SARs had not been settled.

Share-based compensation expenses related to the Mr. Lu's SARs of RMB277,000 were derecognized as 'cost of revenue' for the year ended December 31, 2019 (2018: RMB7,200,000 were recognized as 'cost of revenue').

26 SHARE-BASED PAYMENTS – *continued*

(iv) 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') respectively. Pursuant to the Share Incentive Scheme, Vanguard Glory granted 6,412,201 share awards to the Share Incentive Grantees entitling them to subscribe shares held by Vanguard Glory at the exercise price of HKD14.35 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 year ended December 31, 2019 was 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.

Share-based compensation expenses related to the Share Incentive Scheme of RMB5,182,000 were recognized as 'cost of revenue' for the year ended December 31, 2019 (2018: RMB11,855,000).

27 RESERVES

	Capital reserve RMB'000	Other reserve RMB'000	Total RMB'000
At January 1, 2018	1,046,641	23,987	1,070,628
Transfer of reserves (a)	—	8,026	8,026
Other financial liability at amortised cost	(223,100)	—	(223,100)
Share-based payments – share awards (Note 26(iii))	40,500	—	40,500
Share-based payments – share subscription agreement (Note 26(i))	2,549	—	2,549
Share-based payments – share option scheme (Note 26(iv))	11,855	—	11,855
At December 31, 2018	878,445	32,013	910,458
At January 1, 2019	**878,445**	**32,013**	**910,458**
Transfer of reserves (a)	—	**8,280**	**8,280**
Share-based payments – share subscription agreement (Note 26(i))	**311**	—	**311**
Share-based payments – share option scheme (Note 26(iv))	**5,182**	—	**5,182**
At December 31, 2019	**883,938**	**40,293**	**924,231**

(a) Statutory surplus reserve

In accordance with the PRC regulations and the articles of association of the companies now comprising the Group, before distributing the net profit of each year, companies registered in the PRC are required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional.

28 RETAINED EARNINGS/(ACCUMULATED LOSSES)

	RMB'000
At January 1, 2018	39,344
Loss for the year	(50,490)
Transfer of reserve	(8,026)
At December 31, 2018	(19,172)
At January 1, 2019	**(19,172)**
Profit for the year	**150,900**
Transfer of reserve	**(8,280)**
At December 31, 2019	**123,448**

29 TRADE PAYABLES

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

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Within 90 days	**11,458**	10,474
91 to 180 days	**971**	4,807
181 days to 1 year	**372**	713
Over 1 year	**524**	891
	13,325	16,885

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

30 BORROWINGS

	As at December 31, 2019			As at December 31, 2018		
	Current RMB'000	Non-current RMB'000	Total RMB'000	Current RMB'000	Non-current RMB'000	Total RMB'000
Bank borrowing						
Secured but unguaranteed (a)	74,744	99,658	174,402	49,692	173,923	223,615
Secured and guaranteed	—	—	—	30,000	—	30,000
Unsecured but guaranteed	—	—	—	10,000	—	10,000
Unsecured and unguaranteed (b)	40,000	—	40,000	—	—	—
Total borrowings	114,744	99,658	214,402	89,692	173,923	263,615

(a) On December 11, 2017, the Company entered into a long-term loan agreement with China Merchants Bank Shanghai Zhangyang Branch, the proceed of which amounting to RMB285,180,000 was used for settlement of the consideration paid for acquisition of 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 DJ Pharmaceutical Technology and DJ Medicines.

(b) Jiande Hospital entered into four one-year loan agreements with Agricultural Bank of China Jiande Branch on February 15, March 20, October 10 and December 11, 2019, respectively. The remaining amount of these loans was RMB40,000,000, which consist of the loans amounting to RMB10,200,000, RMB10,000,000, RMB9,900,000 and RMB9,900,000 bear fixed interest rates of 4.79%, 4.79%, 4.57% and 4.44% respectively.

As at December 31, 2019, the Group's borrowings were repayable as follows:

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

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

31 ACCRUALS, OTHER PAYABLES AND PROVISIONS

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
Accrued employee benefits	36,841	21,987
Share-based payments	16,071	20,538
Duty and tax payables other than corporate income tax	10,870	9,158
Other payables to suppliers for purchase of plant and equipment	6,148	6,950
Accrued professional service fee	5,556	3,551
Other payables of medical allowance	1,392	2,312
Payments due to Zhejiang Guangsha Holdings Group Ltd.	—	59,173
Payables to Management Subscribers	—	2,281
Others	2,344	13,352
	79,222	139,302
Less: non-current portion	(362)	(1,466)
Current portion	78,860	137,836

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

32 DEFERRED INCOME TAX

	As at December 31,	
	2019	2018
	RMB'000	RMB'000
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	1,413	933
	1,413	933
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	(322,085)	(329,042)
– Deferred income tax liabilities to be settled within 12 months	(28,002)	(21,470)
	(350,087)	(350,512)
Deferred income tax liabilities – net	(348,674)	(349,579)

32 DEFERRED INCOME TAX – *continued*

Deferred income tax assets

	Provisions RMB'000	Changes in fair value RMB'000	Unrealized profit RMB'000	Donation RMB'000	Total RMB'000
Balance at January 1, 2018	—	—	—	—	—
Business combination	472	—	—	—	472
Credited to profit or loss	222	173	66	—	461
Balance at December 31, 2018	694	173	66	—	933
Balance at January 1, 2019	694	173	66	—	933
Credited to profit or loss	(89)	150	(66)	485	480
Balance at December 31, 2019	605	323	—	485	1,413

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
Balance at January 1, 2018	(27,078)	(8,555)	—	—	(35,633)
Business combination	(312,784)	—	—	(485)	(313,269)
Credited/(charged) to profit or loss	4,342	(4,851)	(1,126)	25	(1,610)
Balance at December 31, 2018	(335,520)	(13,406)	(1,126)	(460)	(350,512)
Balance at January 1, 2019	(335,520)	(13,406)	(1,126)	(460)	(350,512)
Credited/(charged) to profit or loss	6,923	(7,649)	1,126	25	425
Balance at December 31, 2019	(328,597)	(21,055)	—	(435)	(350,087)

Deferred income tax asset is recognised for provision for impairment of trade receivables, changes in fair value of financial assets at FVPL, unrealized profit resulted from changes in fair value of FVPL, internal transaction and donation to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

The Group did not recognise deferred income tax assets of RMB6,996,000 in 2019 (2018:RMB3,141,000) in respect of tax losses amounting to RMB32,396,000 (2018:RMB17,896,000) which can be carried forward against future taxable income.

32 DEFERRED INCOME TAX – *continued*

Deferred income tax liabilities – *continued*

The significant tax losses without recognising deferred income tax as at December 31, 2019 are mainly accumulated by Honghe Zhiyuan, DJ Pharmaceutical Technology and Zhejiang Honghe Zhiyuan based on management's forecast for their future taxable income.

The recognized deferred tax liabilities by the Group was RMB21,055,000 (2018: RMB13,517,000) as at the year ended December 31, 2019, in respect of the PRC dividend withholding tax on temporary differences relating to the undistributed profits of the PRC entities attributable to the Company amounting to RMB210,550,000 (2018:RMB135,169,000), as it was considered probable that these profits would be distributed in the foreseeable future.

33 CONVERTIBLE BONDS

The movement of the convertible bonds are as follows:

	Convertible bonds issued at			
	March 5, 2018	August 7, 2018	February 27, 2019	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2018				
Issuance of convertible bonds during the period	378,706	630,000	—	1,008,706
Difference between fair value and principal amount at initial recognition	2,318	(7,633)	—	(5,315)
Fair value change	50,893	14,251	—	65,144
Aggregate difference yet to be recognised in (losses)/gains at December 31, 2018	(1,676)	6,997	—	5,321
As at December 31, 2018	430,241	643,615	—	1,073,856
As at January 1, 2019	**430,241**	**643,615**	—	**1,073,856**
Issuance of convertible bonds during the period	—	—	**682,160**	**682,160**
Difference between fair value and principal amount at initial recognition	**2,318**	**(7,633)**	**120**	**(5,195)**
Fair value change	**(38,840)**	**(65,049)**	**42,035**	**(61,854)**
Aggregate difference recognised in (losses)/gains in previous year	**(642)**	**636**	—	**(6)**
Aggregate difference yet to be recognised in (losses)/gains at December 31, 2019	**(903)**	**5,470**	**(98)**	**4,469**
As at December 31, 2019	**392,174**	**577,039**	**724,217**	**1,693,430**

33 CONVERTIBLE BONDS – *continued*

(i) Convertible bonds issued on March 5, 2018

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

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

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

	As at December 31	
	2019	2018
Volatility	**30%**	30%
Time to expiration (years)	**1.18**	2.18
Risk free rate of interest	**1.87%**	1.83%
Dividend yield	**0.00%**	0.00%

(ii) Convertible bonds issued on August 7, 2018

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

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

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

	As at December 31	
	2019	2018
Volatility	**30%**	30%
Time to expiration (years)	**3.60**	4.60
Risk free rate of interest	**1.58%**	1.77%
Dividend yield	**0.00%**	0.00%

33 CONVERTIBLE BONDS – *continued*

(iii) Convertible bonds issued on February 27, 2019

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

The convertible bonds are designated as financial liabilities at fair value through profit or loss. The fair value of the convertible bonds on February 27, 2019 was HKD800,140,300, which is determined by an independent qualified valuer and approximated its principal amount.

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

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

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

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

	As at December 31 2019	As at February 27 2019
Volatility	30%	27%
Time to expiration (years)	4.16	5.00
Risk free rate of interest	1.53%	1.64%
Dividend yield	0.00%	0.00%

34 DIVIDENDS

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

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

35 CASH GENERATED FROM OPERATIONS

(i) Cash flow information

	As at December 31,	
	2019 RMB'000	2018 RMB'000
Profit before income tax	**195,566**	17,883
Adjustments for:		
–Foreign exchange (gains)/loss	**(31,493)**	3,530
–Interest paid – net	**4,176**	14,585
–Finance cost/(income) related to other financial liability at amortised cost	**8,800**	(1,300)
–Provision for impairment of trade receivables	**1,581**	390
–Professional fee for financing	**3,333**	—
–Depreciation and amortisation	**43,826**	30,349
–Share-based compensation expenses	**5,525**	16,010
–Fair value (gains)/losses on convertible bonds (Note 8)	**(62,586)**	65,150
–Fair value losses on call option (Note 8)	**600**	500
–Fair value gains on financial assets at fair value through profit or loss (Note 8)	**—**	(4,961)
–Gains on disposal of financial assets at fair value through profit or loss (Note 8)	**(5,626)**	(584)
–Loss on disposal of property, plant and equipment	**325**	—
Change in operating assets and liabilities, net of effects from purchase of controlled entity and sale of engineering division:		
–Decrease in inventories	**3,643**	1,332
–Decrease/(increase) in trade receivables	**1,909**	(6,204)
–Decrease in other receivables, deposits and prepayments	**316**	450
–Increase in amounts due from related parties	**(86,504)**	(16,882)
–Increase in amounts due to related parties	**4,561**	3,645
–(Decrease)/increase in trade payables	**(3,560)**	361
–Increase in accruals, other payables and provision	**11,062**	28,311
Cash generated from operations	**95,454**	152,565

35 CASH GENERATED FROM OPERATIONS – *continued*

(ii) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Cash and cash equivalents	836,624	195,521
Term deposits	134,370	—
Financial assets at fair value through profit or loss		
– monetary funds with floating rates	36,229	248,567
Bank borrowings	(214,402)	(263,615)
Lease liabilities	(3,062)	—
Amounts due to related parties (non-trade)	(15,007)	(35,929)
Convertible bonds	(1,693,430)	(1,073,856)
Net debt	(918,678)	(929,312)
Cash and cash equivalents	836,624	195,521
Term deposits	134,370	—
Financial assets at fair value through profit or loss		
– monetary funds with floating rates	36,229	248,567
Gross debt-interest free	(984,220)	(1,109,785)
Gross debt-fixed interest rates	(767,279)	—
Gross debt-variable interest rates	(174,402)	(263,615)
Net debt	(918,678)	(929,312)

35 CASH GENERATED FROM OPERATIONS – *continued*

(ii) Net debt reconciliation – *continued*

	Cash RMB'000	Term deposits RMB'000	Monetary funds with floating rates RMB'000	Bank borrowings RMB'000	Lease liabilities RMB'000	Amount due to related parties (non-trade) RMB'000	Convertible bonds RMB'000	Total RMB'000
Net debt as at January 1, 2018	260,787	—	17,396	(238,464)	—	(3,186)	—	36,533
Cash flows	(103,110)	—	225,626	(296,752)	—	33,397	(378,706)	(519,545)
Business combination	32,725	—	—	—	—	(66,140)	—	(33,415)
Foreign exchange adjustment	5,119	—	—	31,555	—	—	31,298	67,972
Other changes	—	—	5,545	240,046	—	—	(726,448)	(480,857)
Net debt as at December 31, 2018	195,521	—	248,567	(263,615)	—	(35,929)	(1,073,856)	(929,312)
Recognised on adoption of IFRS 16	—	—	—	—	(875)	—	—	(875)
	195,521	—	248,567	(263,615)	(875)	(35,929)	(1,073,856)	(930,187)
Net debt as at January 1, 2019	195,521	—	248,567	(263,615)	(875)	(35,929)	(1,073,856)	(930,187)
Cash flows	604,560	134,370	(217,964)	51,195	1,405	21,725	(682,160)	(86,869)
Acquisition –leases	—	—	—	—	(3,592)	—	—	(3,592)
Foreign exchange adjustment	36,543	—	—	(5,050)	—	—	(55,919)	(24,426)
Fair value change excluding foreign exchange adjustment	—	—	—	—	—	—	117,773	117,773
Other changes	—	—	5,626	3,068	—	(803)	732	8,623
Net debt as at December 31, 2019	836,624	134,370	36,229	(214,402)	(3,062)	(15,007)	(1,693,430)	(918,678)

36 CONTINGENCIES

As of December 31, 2019, there was no material outstanding lawsuit of the Group and no significant lawsuit provision has been made based on directors' assessment.

37 COMMITMENTS

(i) Non-cancellable operating leases

The Group leases a warehouse, a retail store, various equipment, offices, apartments and lands.

From January 1, 2019, the group has recognised right-of-use assets for these leases, except for short-term and low-value leases, as described in Note 2.2 and Note 15.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Within one year	**71**	705
Later than one year but not later than five years	**—**	907
	71	1,612

38 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 in the 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.

38 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

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
Vanguard Glory Limited	Parent company
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
Grand Roc Holdings Limited	Related party which is owned by the then CEO during 2018
Midpoint Honour Limited	Related party which is owned by the Management Subscribers
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
Dajia Group 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 years ended December 31, 2019 and 2018. 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.

38 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(i) Significant transactions with related parties

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Management Service fee		
–Yangsi Hospital	147,206	160,747
–Cixi Hospital	21,092	13,382
–Jinhua Hospital	41,757	25,003
	210,055	199,132
Purchase of pharmaceuticals, medical consumables and medical equipment		
–Zhejiang Zhongyouli Medicines Co., Ltd	30,151	—
–Dajia Medical Equipment Co., Ltd	5,991	12,263

(ii) Loans from related parties

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Beginning of the year	35,929	3,186
Loans advanced	6,452	202
Loan repayments received	(28,177)	(33,599)
Interest payable	88	—
Transfer of debt	715	—
Business combination	—	66,140
End of the year	15,007	35,929

38 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(iii) Loans to related parties

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Beginning of the year	**60,500**	3,536
Loans advanced	**80,000**	7,347
Loan repayments received	**(1,568)**	(3,096)
Interest receivable	**929**	128
Interest received	**(500)**	(128)
Transfer of debt	**(58,458)**	—
Business combination	**—**	52,713
End of the year	**80,903**	60,500

(iv) Key management compensation

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

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Wages, salaries and bonuses	**14,822**	19,310
Share-based compensation expenses	**3,129**	18,017
Others	**356**	543
	18,307	37,870

39 EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed elsewhere in this report, subsequent to December 31, 2019, the following subsequent events took place:

(i) Pursuant to a resolution of the shareholders' meeting of Cixi Honghe on February 18, 2020, a 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.

(ii) After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any significant impact on the financial statements as a result of the COVID-19 outbreak.

40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Notes	As at December 31, 2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Investments in subsidiaries		1,701,490	1,702,477
Total non-current assets		1,701,490	1,702,477
Current assets			
Amounts due from subsidiaries		908,233	873,091
Cash and cash equivalents		751,419	100,315
Total current assets		1,659,652	973,406
Total assets		3,361,142	2,675,883
Equity			
Equity attributable to owners of the Company			
Share capital		123	123
Share premium		435,304	432,993
Reserves	(a)	843,039	837,546
Accumulated losses	(a)	(23,827)	(126,852)
Total equity		1,254,639	1,143,810

40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY – *continued*

Balance sheet of the Company – *continued*

	Notes	As at December 31, 2019 RMB'000	2018 RMB'000
Liabilities			
Non-current liabilities			
Borrowings		99,658	173,923
Convertible bonds		1,693,430	1,073,856
Accruals, other payables and provisions		362	1,466
Total non-current liabilities		1,793,450	1,249,245
Current liabilities			
Borrowings		74,744	49,692
Other financial liability at amortised cost		230,600	221,800
Accruals, other payables and provisions		6,192	9,844
Amounts due to related parties		1,517	1,492
Total current liabilities		313,053	282,828
Total liabilities		2,106,503	1,532,073
Total equity and liabilities		3,361,142	2,675,883

The balance sheet of the Company was approved by the Board of Directors on March 23, 2020 and was signed on its behalf:

Zhao John Huan **Shan Guoxin**

40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY – *continued*

(a)	Accumulated losses RMB'000	Other reserves RMB'000
At January 1, 2018	(83,723)	1,046,242
Loss for the year	(43,129)	—
Share based payment	—	14,404
Other financial liability at amortised cost	—	(223,100)
At December 31, 2018	(126,852)	837,546
At January 1, 2019	(126,852)	837,546
Profit for the year	103,025	—
Share based payment	—	5,493
At December 31, 2019	(23,827)	843,039

41 BENEFITS AND INTERESTS OF DIRECTORS

(i) Directors' and chief executive officers' emoluments

The remuneration of every director and the chief executive is set out below:

	Emoluments paid or receivables in respect of a person's services as a director, whether of the Company or its subsidiary undertaking						
	Fees	Salaries	Discretionary bonuses	Employer's contribution to pension scheme	Share-based payments	Estimated money value of other benefits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2019							
Executive directors							
Mr. Shan Guoxin(i)	—	2,250	2,250	32	—	63	4,595
Mr. Lu Wenzuo	—	344	3,558	—	(277)	—	3,625
Non-executive directors	—						
Mr. Zhao John Huan	—	—	—	—	—	—	—
Mr. Li Peng(ii)	—	—	—	—	—	—	—
Mr. Lin Sheng(iii)	—	—	—	—	—	—	—
Ms. Liu Lu	—	—	—	—	—	—	—
Ms. Wang Nan	—	—	—	—	—	—	—
Mr. Wei Kai(iv)	—	—	—	—	—	—	—
Independent non-executive directors							
Ms. Chen Xiaohong	150	—	—	—	—	—	150
Mr. Shi Luwen	150	—	—	—	—	—	150
Mr. Zhou Xiangliang	150	—	—	—	—	—	150
	450	2,594	5,808	32	(277)	63	8,670
Year ended December 31, 2018							
Executive directors							
Mr. Zhang Xiaopeng	—	6,250	—	22	9,561	28	15,861
Mr. Lu Wenzuo	—	306	3,590	—	7,200	—	11,096
Non-executive directors							
Mr. Zhao John Huan	—	—	—	—	—	—	—
Mr. Lin Sheng	—	—	—	—	—	—	—
Ms. Liu Lu	—	—	—	—	—	—	—
Ms. Wang Nan	—	—	—	—	—	—	—
Independent non-executive directors							
Ms. Chen Xiaohong	150	-	-	-	-	-	150
Mr. Shi Luwen	150	-	-	-	-	-	150
Mr. Zhou Xiangliang	150	-	-	-	-	-	150
Chief executive officer							
Mr. Shan Guoxin	-	937	1,133	17	-	31	2,118
	450	7,493	4,723	39	16,761	59	29,525

41 BENEFITS AND INTERESTS OF DIRECTORS – *continued*

(i) Directors' and chief executive officers' emoluments – *continued*

(i) Mr. Shan Guoxin, the chief executive officer of the Group, was appointed as an executive director as of March 12, 2019.

(ii) Mr. Li Peng was appointed as a non-executive director as of July 24, 2019.

(iii) Mr. Lin Sheng was resigned as a non-executive director as of March 12,2019.

(iv) Mr. Wei Kai was appointed as a non-executive director as of March 12,2019 and resigned as of July 24, 2019.