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

2023
Interim Report

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Shuai（陳帥）
(Chairman and Acting Chief Executive Officer)
Mr. Pu Chengchuan（蒲成川）
Ms. Pan Jianli（潘建麗）

Non-executive Directors

Ms. Liu Lu（劉路）
Ms. Wang Nan（王楠）

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Dang Jinxue（党金雪）*(Chairman)*
Mr. Pu Chengchuan（蒲成川）
Mr. Zhou Xiangliang（周向亮）

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Ho Wing Yan（何詠欣）*(ACG, HKACG (PE))*

AUTHORISED REPRESENTATIVES

Mr. Chen Shuai（陳帥）
Ms. Ho Wing Yan（何詠欣）*(ACG, HKACG (PE))*

LISTING INFORMATION AND STOCK CODE

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

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

Hospital Corporation of China Limited (the "**Company**", together with its subsidiaries, the "**Group**", "**we**", "**our**" and "**us**")
4th Floor, Air China Century Plaza
No.40, Xiaoyun Road, Chaoyang District, Beijing
The People's Republic of China ("**PRC**")

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

REGISTERED OFFICE

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

COMPANY'S WEBSITE

www.hcclhealthcare.com

AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

FINANCIAL HIGHLIGHTS

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	**717,831**	540,918
– Hospital management services	**36,852**	43,097
– General hospital services	**674,192**	492,965
– Sale of pharmaceutical products	**6,787**	4,856
Adjusted gross profit (1)	**131,568**	82,323
Adjusted net profit (2)	**60,893**	43,393
Adjusted gross profit margin	**18.3%**	15.2%
Adjusted net profit margin	**8.5%**	8.0%
Adjusted items		
Expenses of share-based awards and defined benefit obligation expenses (2)(i)	**270**	1,674
Net fair value losses and extension gains on convertible bonds and foreign exchange losses (2)(ii)	**(128,438)**	32,834
Depreciation and amortisation of identifiable assets identified in acquisitions (2)(iii)	**11,145**	10,260
Total amount of impairment losses on intangible assets and the reversal of deferred income tax liabilities caused by the impairment on intangible assets	**–**	435,918
Revenue	**717,831**	540,918
Gross profit (1)	**120,153**	72,155
Net profit/(loss) (2)	**177,916**	(437,293)
Basic earnings/(losses) per share (in RMB)	**0.91**	(3.09)

Notes:

(1) The gross profit of the Group for the Reporting Period amounted to approximately RMB120.2 million. Adjusted gross profit is calculated as the gross profit for the Reporting Period, excluding the impact from the expenses of share-based awards and depreciation and amortisation of identifiable assets identified in acquisitions.

(2) The Group recorded a net profit of approximately RMB177.9 million during the Reporting Period. The adjusted net profit (the "**Adjusted Net Profit**") is calculated as the profit for the Reporting Period excluding the impact from certain items which are considered as non-operating by the management, including (i) the relevant expenses of share-based awards and defined benefit obligation expenses of approximately RMB0.3 million; (ii) the fair value losses and other changes on convertible bonds of approximately RMB91.8 million, gains on the extension of convertible bonds of RMB222.9 million, and foreign exchange losses of approximately RMB2.7 million mainly arising from cash and cash equivalents and other foreign currency assets and liabilities; (iii) depreciation and amortisation of identifiable assets identified in acquisitions of approximately RMB11.1 million. For the calculation of the Adjusted Net Profit, tax impacts of the adjusted items were not considered.

BUSINESS REVIEW AND PROSPECTS

Policy review

In the first half of 2023, the government thoroughly implemented the decision and deployment of the Healthy China Strategy, and promoted the comprehensive establishment of a high-quality and efficient medical and health service system with Chinese characteristics. The General Office of the State Council issued the Opinions on Further Improving the Medical and Health Service System (《關於進一步完善醫療衛生服務體系的意見》), proposing that, by 2035, an integrated medical and health service system that is compatible with the basic realization of the socialist modernization, has a complete system, a clear division of labor, complementary functions, continuous coordination, efficient operation, and resilience.

Following the milestones set forth in the Opinions on Further Improving the Medical and Health Service System, and focusing on the issues of medical quality and safety, which are considered to be fundamental and crucial for promoting the construction of a Healthy China, the National Health Commission and the National Administration of Traditional Chinese Medicine issued the Comprehensive Action Plan for Enhancing the Quality of Healthcare (2023-2025) (《全面提升醫療質量行動計劃(2023-2025年)》), which puts forward 28 specific measures and 5 special actions in the dimensions of basic quality and safety management, management of key aspects and behaviors, and the construction of the quality and safety management system, and determines to commence the three-year Comprehensive Action Plan for Enhancing the Quality of Healthcare across the PRC.

Meanwhile, the National Health Commission has taken the lead in the inter-ministerial joint mechanism for the rectification of unethical practices in the field of medicine purchasing and sales and in medical services, to take forward the full-chain and full-coverage of the rectification in the medical field, and together with the member units, jointly issued the Notice of Adjustment of the Membership and Division of Responsibilities for the Inter-Ministerial Joint Mechanism for The Rectification of Unethical Practices in The Field of Medicine Purchasing and Sales and in Medical Services (《關於調整糾正醫藥購銷領域和醫療服務中不正之風部際聯席工作機制成員單位及職責分工的通知》). The Notice mainly refers to five parts: 1) improving and perfecting the work system for rectifying unethical practices in the new era; 2) rectifying unethical practices in the key areas of the industry; 3) strengthening the supervision and management of the medical security funds; 4) thoroughly controlling the disruptions in the healthcare field; and 5) practically facilitating the processes to achieve practical results.

The General Office of the State Council also issued the Implementation Opinions on Strengthening the Regular Supervision over the Use of the Medical Security Funds (《關於加強醫療保障基金使用常態化監管的實施意見》), which promotes the normalization of unannounced inspections, campaigns and daily supervision, the combination of on-site and off-site supervision through the use of modern information technology, the promotion of the normalization of intelligent supervision and control, the continuous improvement of the social supervision system, the accessibility of the channels for reporting and complaining, and the comprehensive promotion of the implementation of the reporting incentive system.

The successive introduction of the aforesaid national policies and specific measures demonstrates that China's healthcare reform process will be carried out on a long-term and continuous basis, aiming to promote the transformation of the healthcare development model to one that focuses more on connotative development, the service model to one that focuses more on systemic continuity, and the management approach to one that focuses more on scientific governance, in order to build a high-quality and highly efficient medical and health service system with Chinese characteristics.

Strengthening medical quality control and promoting management refinement

In the first half of 2023, under the guidance of the overall strategy, the Group continued to follow the established "**Three-step**" strategy to ensure the stable operation of the hospitals owned, managed or founded by the Group (the "**Group Hospital(s)**"), to comply with the national policies and industry regulatory guidelines, to strengthen the scientific management and to enhance the quality of medical and healthcare services.

The Group has led the Group Hospitals to identify gaps and shortcomings against the local accreditation standards for hospitals, promote construction and improvement through assessments, and establish and improve the comprehensive quality and safety management and emergency management systems. With the formulation of development strategies and annual plans, the Group has established various key tasks for hospital development, regularly inspected the implementation of the plans, and supervised the implementation of various tasks on-site. In the future, the Group will further improve the quality and safety management of the healthcare system, strengthen the primary responsibility for quality and safety in healthcare, implement various specific tasks, enhance staff education, foster a quality and safety culture, and raise the level of quality and safety in healthcare.

In respect of information technology construction, the Group has continued to increase its investment in the construction of information technology infrastructure for Group Hospitals, the building of regional information technology platforms, the optimization of the implementation and application of the clinical information system, and the strengthening of the information security management system of hospitals, which serves as an important support for the enhancement of healthcare quality control and refined management.

Strengthening of the anti-corruption system and standardization of supply chain development

The Group has implemented an annual anti-corruption system construction, identified and formulated risk lists through on-site visits and research, streamlined and improved control processes, and enabled access to channels for reporting and complaining about unethical practices in the field of medicine purchasing and sales and medical services.

At the same time, the Group's supply chain companies, adhering to the principle of "Quality First, Regulated Operation", have further promoted the standardized management of the supply chain of the Group Hospitals, improved the procurement management system and process of medicines and medical devices, and strengthened the standardization of the business contracts, so as to enhance the quality control and turnaround efficiency of the supply of medicines and medical consumables to the Group Hospitals.

The year 2023 is the first year after the lifting of the COVID-19 pandemic measures, and the Group and the Group Hospitals stood the test of time during the pandemic. Confronted with the intensified reform of China's medical and health service system, we will closely follow the requirements and guidelines of the policy for non-public medical institutions, focusing on key issues such as the quality of medical care, the use of medical security funds, the construction of anti-corruption systems, and the fulfillment of social responsibilities. We will also continue to leverage the advantages of the Group's group-based operation and management to ensure the healthy and sustainable development of the Group and to create long-term value for our shareholders.

FINANCIAL REVIEW

Results of Operations

During the Reporting Period, our revenue was approximately RMB717.8 million, representing an increase of approximately 32.7% when compared with approximately RMB540.9 million of the Corresponding Period of Previous Year, which was mainly attributable to the increase in the revenue of general hospital services arising from Shanghai Yangsi Hospital*（上海楊思醫院）(“**Yangsi Hospital**”) to individual patients.

Our revenue from the hospital management services segment included our revenue from the provision of comprehensive hospital management services to Cixi Honghe Hospital*（慈溪弘和醫院）(“**Cixi Hospital**”) and Zhejiang Jinhua Guangfu Oncological Hospital (“**Jinhua Hospital**”). During the Reporting Period, the revenue from this segment was approximately RMB36.9 million, representing a decrease of approximately 14.5% when compared with approximately RMB43.1 million of the Corresponding Period of Previous Year, due to the decrease in management service fees received from Jinhua Hospital by approximately RMB5.0 million.

During the Reporting Period, our revenue from the general hospital services segment increased by approximately 36.8% to approximately RMB674.2 million from approximately RMB493.0 million in the Corresponding Period of Previous Year, which was mainly attributable to the increase in the revenue of general hospital services arising from Yangsi Hospital to individual patients.

Our adjusted gross profit was approximately RMB131.6 million for the Reporting Period, excluding the impacts of expenses of share-based awards and depreciation and amortisation of identifiable assets identified in acquisitions, representing an increase of approximately 59.8% when compared with approximately RMB82.3 million for the Corresponding Period of Previous Year. This was mainly attributable to the increase in the revenue of general hospital services arising from Yangsi Hospital to individual patients.

We recorded adjusted administrative expenses of approximately RMB49.2 million for the Reporting Period, representing an increase of approximately 46.9% when compared with approximately RMB33.5 million for the Corresponding Period of Previous Year, which was primarily due to an increase in employee benefit of the related hospital expenses when compared with the Corresponding Period of Previous Year.

We recorded adjusted operating profit of approximately RMB83.6 million for the Reporting Period, representing an increase of approximately RMB29.9 million from approximately RMB53.7 million for the Corresponding Period of Previous Year. This is mainly attributable to the increase in the revenue of general hospital services arising from Yangsi Hospital to individual patients.

For the Reporting Period, we have recorded an Adjusted Net Profit of approximately RMB60.9 million, representing an increase of approximately 40.3% when compared to the Adjusted Net Profit of approximately RMB43.4 million of the Corresponding Period of Previous Year. Without taking into account the impact of the adjusted items, such an increase was mainly due to the increase in the revenue of general hospital services arising from Yangsi Hospital to individual patients.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2023, our total equity was approximately RMB624.0 million (as at December 31, 2022: approximately RMB443.4 million). As at June 30, 2023, we had current assets of approximately RMB861.8 million (as at December 31, 2022: approximately RMB843.0 million) and current liabilities of approximately RMB723.8 million (as at December 31, 2022: approximately RMB1,785.7 million). As at June 30, 2023, our current ratio was approximately 1.19, as compared with approximately 0.47 as at December 31, 2022.

Our current assets increased by approximately RMB18.8 million from approximately RMB843.0 million as at December 31, 2022 to approximately RMB861.8 million as at June 30, 2023, primarily due to an increase in cash and cash equivalents. Our current liabilities decreased by approximately RMB1,062.0 million from approximately RMB1,785.7 million as at December 31, 2022 to approximately RMB723.8 million as at June 30, 2023, primarily due to the decrease in convertible bonds due within a year.

Our primary uses of cash in the Reporting Period were for working capital, term deposits and payment for financial assets at fair value through profit or loss. We financed our liquidity requirements mainly with cash flows generated from our operating activities. As at June 30, 2023, we had bank borrowings of approximately RMB46.6 million (as at December 31, 2022: approximately RMB69.4 million), and we had cash and cash equivalents of approximately RMB592.9 million (as at December 31, 2022: approximately RMB497.1 million).

As at June 30, 2023 and 31 December 2022, the Group's borrowings were repayable as follows:

	Bank borrowings	
	As at June 30, 2023 RMB'000	As at December 31, 2022 RMB'000
Within 1 year	**46,600**	69,429

As at June 30, 2023, the net gearing ratio, calculated based on the borrowing balance divided by the total assets, of the Company is approximately 1.9%. The Directors believed that, after taking into account the financial resources available to us, we had sufficient working capital to meet our needs. Save as disclosed herein, as at June 30, 2023, the Group did not have any other material contingent liabilities or guarantees.

On September 27, 2022, the Company entered into a guarantee agreement (the "**Guarantee Agreement**") in favour of Nanyang Commercial Bank (China) Limited Beijing Branch*（南洋商業銀行（中國）有限公司北京分行） (the "**Bank**"), pursuant to which the Company agreed to provide a corporate guarantee for Zhejiang Jinhua Guangfu Oncological Hospital*（浙江金華廣福腫瘤醫院, which is managed by Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd*（浙江弘和致遠醫療科技有限公司）("**Zhiyuan Medical**")) ("**Jinhua Guangfu Hospital**") in connection with the repayment obligations up to a maximum outstanding principal amount of RMB50 million (the "**Corporate Guarantee**"). The Corporate Guarantee is provided as a security to enable Jinhua Guangfu Hospital to obtain funds from the Bank for the purpose of maintaining its day-to-day business operations, supporting its development, and further improving its competitiveness in the healthcare sector. The Group is able to exercise its influence over the operational and managerial decisions of Jinhua Guangfu Hospital to keep track of the funds account of Jinhua Guangfu Hospital, closely monitor the operational stability and cash flow of Jinhua Guangfu Hospital, and supervise, manage and ensure the fulfillment of the repayment obligations. The Group has made the decision not to charge any fee from providing the Corporate Guarantee to Jinhua Guangfu Hospital in consideration of the contractual relationship between the Group and Jinhua Guangfu Hospital as well as the overall interests of the Group. As at the date of this interim report, the Corporate Guarantee remains effective.

According to Rule 14.22 of the Listing Rules, the Stock Exchange will aggregate a series of transactions and treat them as if there were one transaction if they are all completed within a 12-month period or are otherwise related.

On July 24, 2019, the Company entered into a loan agreement (the "**Existing 2019 Loan Agreement**") with Jinhua Guangfu Hospital, pursuant to which the Company has conditionally agreed to grant the loan in a principal amount of RMB80 million to Jinhua Guangfu Hospital at 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, for a term of 36 months from the date of the relevant drawdown (the "**Existing 2019 Loan**"). As at the date of this interim report, the Existing 2019 Loan has been drawn down in full by Jinhua Hospital and the outstanding principal amount of the Existing 2019 Loan was RMB80 million.

On November 20, 2020, Tibet Honghe Zhiyuan Business Management Co., Ltd.*（西藏弘和志遠企業管理有限公司）("**Tibet Honghe Zhiyuan**"), a wholly-owned subsidiary of the Company, entered into a loan agreement (the "**Existing 2020 Loan Agreement**") with Jinhua Guangfu Hospital, pursuant to which Tibet Honghe Zhiyuan has conditionally agreed to grant the loan to Jinhua Guangfu Hospital (the "**Existing 2020 Loan**") for an availability period of three years from the date of signing of the Existing 2020 Loan Agreement and a term of one year from the date of the relevant drawdown of each installment of the loan. The maximum principal amount is RMB100 million at an interest rate of 4.79% 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 the date of this interim report, the outstanding principal amount of the Existing 2020 Loan was RMB20 million.

Since the Existing 2019 Loan and Existing 2020 Loan (collectively, the "**Existing Loans**") and the transactions contemplated under the Guarantee Agreement constitute financial assistance provided by the Company to Jinhua Guangfu Hospital, the Existing Loans and the transactions contemplated under the Guarantee Agreement are required to be aggregated pursuant to Rule 14.22 of the Listing Rules.

As the highest applicable percentage ratio in respect of the transactions contemplated under the Guarantee Agreement, when aggregated with the Existing Loans, is more than 5% but less than 25%, the transactions contemplated under the Guarantee Agreement constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Please refer to the announcements of the Company dated July 24, 2019, November 20, 2020, September 27, 2022 and November 11, 2022 for further details.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group did not undertake any material acquisitions and disposals of subsidiaries, associates and joint ventures from January 1, 2023 until June 30, 2023.

CONNECTED TRANSACTION ON EXTENSION OF MATURITY DATE OF CONVERTIBLE BONDS

On June 6, 2023, in accordance with the terms and conditions of the convertible bonds with principal amount of HK$468 million issued by the Company to Vanguard Glory Limited ("**Vanguard Glory**") on March 5, 2018 ("**Vanguard Glory Convertible Bonds**"), the Company and Vanguard Glory entered into the Vanguard Glory Deed of Amendment to alter certain terms of the Vanguard Glory Convertible Bonds（"**Vanguard Glory Alteration of Terms**"), subject to and effective from fulfilment of the Vanguard Glory Conditions Precedent. Pursuant to the Vanguard Glory Alteration of Terms, the maturity date of the Vanguard Glory Convertible Bonds shall be extended from December 29, 2023 to September 30, 2025.

And in accordance with the terms and conditions of the convertible bonds with an aggregate principal amount of HK$773,879,717 issued by the Company to Hony Capital Fund VIII (Cayman), L.P. ("**Hony Fund VIII**") on 7 August 2018 ("**Hony Convertible Bonds**"), the Company and Hony Fund VIII entered into the Hony Fund Deed of Amendment to alter certain terms of the Hony Convertible Bonds ("**Hony Fund Alteration of Terms**"), subject to and effective from fulfilment of the Hony Fund Conditions Precedent. Pursuant to the Hony Fund Alteration of Terms, the maturity date of the Hony Convertible Bonds shall be extended from August 7, 2023 to September 30, 2025.

Vanguard Glory subscribed for convertible bonds in the aggregate principal amount of HK$468 million with an initial conversion price of HK$18.00 per conversion share. Hony Fund VIII held the convertible bonds with aggregate principal amount of HK$773,879,717 issued by the Company at the initial conversion price of HK$20.00 per conversion share.

Vanguard Glory, being the direct Shareholder of 97,000,000 Shares (representing approximately 70.19% of the issued share capital of the Company), is a substantial shareholder of the Company. Accordingly, Vanguard Glory is a connected person of the Company pursuant to Chapter 14A of the Listing Rules.

The Company is held as to 70.19% by Vanguard Glory, a subsidiary of Hony Fund V, and Hony Fund V is managed by Hony Capital Fund V GP Limited. Hony Fund VIII is managed by Hony Capital Fund VIII GP (Cayman) Limited. Both Hony Capital Fund V GP Limited and Hony Capital Fund VIII GP (Cayman) Limited are general partner companies of Hony Capital. Accordingly, Hony Fund VIII is a connected person of the Company pursuant to Chapter 14A of the Listing Rules.

The Vanguard Glory Alteration of Terms and the Hony Fund Alteration of Terms constitute connected transactions of the Company which are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Resolutions have been approved in the extraordinary general meeting dated July 31, 2023 regarding the Vanguard Glory Deed of Amendment, the Vanguard Glory Alteration of Terms contemplated thereunder, the Hony Fund Deed of Amendment, the Hony Fund Alteration of Terms contemplated thereunder and, the grant of the specific mandate to allot and issue such number of shares of the Company as may be required to be allotted and issued upon exercise of the conversion rights attaching to the Vanguard Glory Convertible Bonds and Hony Fund Convertible Bonds.

For details of the Vanguard Glory Convertible Bonds and the Hony Convertible Bonds, please refer to the announcement published by the Company on June 7, 2023 and the circular published by the Company on July 6, 2023.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As of June 30, 2023, 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.

As at June 30, 2023, the Group was exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to USD and HKD.

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

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 June 30, 2023 and December 31, 2022, Impeccable Success Limited ("**Impeccable Success**") has pledged its paid-up equity interests in Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd. ("**Zhejiang Honghe Zhiyuan**") to Industrial and Commercial Bank of China Jinhua Economic Development Zone Branch to secure certain loans granted to Jinhua Hospital with a maximum amount of RMB412.5 million.

As at June 30, 2023 and December 31, 2022, Zhejiang Honghe Zhiyuan has provided a joint liability to Industrial and Commercial Bank of China Jinhua Economic Development Zone Branch in respect of the same loans granted to Jinhua Hospital with a maximum amount of RMB550 million. As at June 30, 2023, the principal amount of the loan balance of Jinhua Hospital was RMB163.0 million.

As at June 30, 2023, the Company has provided a corporate guarantee in respect of the repayment obligation of the outstanding principal amount of up to RMB50.0 million between Jinhua Hospital and Nanyang Commercial Bank (China) Limited, Beijing Branch. As at June 30, 2023, the principal amount of the loan balance of Jinhua Hospital was RMB40.0 million.

Save as disclosed above, as at June 30, 2023 and December 31, 2022, the Group has pledged its assets as security for bank borrowings, details of which are set out in Note 18 to the interim financial information.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2023.

HUMAN RESOURCES

As at June 30, 2023, we had a total of 1,437 employees (as at June 30, 2022: 1,393). We provide wages, employee-related insurance and employee benefits to our employees. Remuneration packages for our employees mainly consist of base salary, welfare and bonus. For the six months ended June 30, 2023, the total employee benefits expenses (including Directors' remuneration) were approximately RMB205.2 million (for the six months ended June 30, 2022: approximately RMB166.9 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. As required by PRC laws and regulations, our employees participate in several government-run benefit programs, including but not limited to retirement benefit programs, housing provident fund, medical insurance and other employee social insurance programs. The Company has adopted certain share-based payment schemes for the purpose of, among others, providing incentive and rewards to eligible persons with outstanding performance and contributions to the Group.

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.

EVENTS AFTER THE REPORTING PERIOD

Reference is made to the announcement of the Company dated July 31, 2023. On October 15, 2021, the Company served a redemption notice to Leap Wave Limited ("**Leap Wave**") to request for early redemption on the convertible bonds with principal amount of HK$800 million issued by the Company to Leap Wave ("**LW Convertible Bonds**"), pursuant to which, the Company shall pay the early redemption amount, being HK$784 million, to Leap Wave. On July 31, 2023, the Company has paid HK$695 million to Leap Wave, and HK$89 million remain unpaid. For details, please refer to the announcement of the Company dated August 12, 2021, October 8, 2021, October 15, 2021 and July 31, 2023 and the circular of the Company dated September 16, 2021.

Save as disclosed herein, there is no other material event happened after the Reporting Period.

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

As at June 30, 2023, the interests or short positions of our Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) to be entered into the register required to be kept by the Company pursuant to Section 352 of the SFO, or (iii) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") were as follows:

Long positions in the Shares and underlying Shares of the Company

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

Notes:

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

(2) As at June 30, 2023, the total number of issued shares of the Company was 138,194,000.

Save as disclosed above, as of June 30, 2023, so far as is known to the Directors, none of the Directors or the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified pursuant to Divisions 7 and 8 of Part XV of the SFO or to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at June 30, 2023, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the shares or the underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued Shares of the Company:

Long positions in the Shares and underlying Shares of the Company

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

(1) Vanguard Glory is a wholly-owned subsidiary of Hony Fund V, L.P. and holds (a) 97,000,000 shares of the Company and (b) convertible bonds issued by the Company, which can be converted into 26,000,000 shares of the Company and represent approximately 18.81% of the issued share capital of the Company as of June 30, 2023. For further details, please refer to the section headed "Convertible Bonds" in this report.

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

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

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

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

(6) As at June 30, 2023, the total number of issued shares of the Company was 138,194,000.

CONVERTIBLE BONDS

Vanguard Glory Convertible Bonds

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

On December 17, 2020, in accordance with the terms and conditions of the Vanguard Glory Convertible Bonds, the Company and Vanguard Glory entered into a deed of amendment to alter certain terms of the Vanguard Glory Convertible Bonds, subject to and effective from fulfilment of the conditions precedent (the "**Alteration of Terms**").

Pursuant to the Alteration of Terms, (i) the maturity date of the Vanguard Glory Convertible Bonds shall be extended from March 5, 2021 to December 29, 2023; and (ii) in the event that the shares of the Company cease to be listed or admitted to trading on the Stock Exchange, each bondholder shall have the right, at such bondholder's option, to require the Company to redeem, in whole or in part (i.e. rather than in whole only), such bondholder's Vanguard Glory Convertible Bonds.

The Alteration of Terms was approved by the Shareholders other than Vanguard Glory at the extraordinary general meeting of the Company held on February 22, 2021 and was approved by the Stock Exchange subsequently.

On June 6, 2023, the Company and Vanguard Glory entered into the Vanguard Glory Deed of Amendment to alter certain terms of the Vanguard Glory Convertible Bonds ("**Vanguard Glory Alteration of Terms**"). Pursuant to the Vanguard Glory Alteration of Terms, the maturity date of the Vanguard Glory Convertible Bonds shall be extended from December 29, 2023 to September 30, 2025, subject to and effective from fulfillment of the conditions precedent.

All votes on all the proposed resolutions as set out in the notice of extraordinary general meeting dated July 7, 2023 were taken by poll at the extraordinary general meeting dated July 31, 2023 and was approved by the Stock Exchange subsequently.

Please refer to the announcements of the Company dated December 17, 2020, February 22, 2021 and June 6, 2023 and the circular of the Company dated January 29, 2021 and July 7, 2023 for further details.

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 Glory Convertible Bonds were determined, was HK$15.00 per share.

The net proceeds from the Vanguard Glory Convertible Bonds, after deducting all related costs and expenses, was approximately HK$467 million. The net proceeds of approximately HK$405 million were used to acquire Cixi Hongai Medical Management Co., Ltd. ("**Cixi Hongai**") in March 2018. As at June 30, 2023, 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 "**Circular**"). 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. During the Reporting Period, the total amount of the net proceeds from the Vanguard Glory Convertible Bonds have been used according to the use of proceeds as referred to in the Circular. As at June 30, 2023, the analysis of use of the net proceeds is as follows:

	Intended use of net proceeds		**Revised use of unutilized net proceeds**		**Utilized amount up to December 31, 2022**	**Utilized amount subsequent to December 31, 2022 and up to June 30, 2023**	**Unutilized amount as at June 30, 2023**	**Expected time period**
	HK$ million	Percentage of the total amount	HK$ million	Percentage of the total amount	HK$ million	HK$ million	HK$ million	
Acquisition of Cixi Hongai	211	45%	405	87%	405	–	–	–
Acquisitions of other hospitals or hospital management businesses	256	55%	62	13%	–	–	62	The balance is expected to be fully utilized by 2023
	467	100%	467	100%	405	–	62	

As at June 30, 2023, none of the Vanguard Glory Convertible Bonds has been converted into shares of the Company. Details of the Vanguard Glory Convertible Bonds were disclosed in the announcement and circular of the Company dated January 25, 2018, June 6, 2023 and February 13, 2018 and July 7, 2023, respectively.

Dilution Impact on Earnings per Share

As calculated based on profit attributable to owners of the Company of approximately RMB126.2 million for the six months ended June 30, 2023, basic earnings per share amounted to RMB0.91 and diluted losses per share of the Company amounted to RMB0.02.

Based on the implied internal rate of returns of the Vanguard Glory Convertible Bonds, the Company's share prices at the future dates at which it would be equally financially advantageous for the holders of the Vanguard Glory Convertible Bonds to convert were as follows:

Date	December 29, 2023
	(HK$ per Share)
Share price	18.0

Hony Convertible Bonds

On May 29, 2018, the Company and Hony Fund VIII entered into a share purchase agreement (the "**Share Purchase Agreement**") in relation to the sale and purchase of the entire equity interest in Oriental Ally Holdings Limited ("**Oriental Ally**"), a company incorporated in the British Virgin Islands with limited liability and owned by Hony Fund VIII, at a consideration of RMB630,000,000 (equivalent to approximately HK$773,879,717).

Oriental Ally is an investment holding company, which directly owns 100% of the equity interest in Impeccable Success, 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 recognised 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.

On June 6, 2023, the Company and Hony Fund VIII entered into the Hony Fund Deed of Amendment to alter certain terms of the Hony Convertible Bonds. Pursuant to the Hony Fund Alteration of Terms, the maturity date of the Hony Convertible Bonds shall be extended from August 7, 2023 to September 30, 2025.

All votes on all the proposed resolutions as set out in the notice of extraordinary general meeting dated July 7, 2023 were taken by poll at the extraordinary general meeting dated July 31, 2023 and was approved by the Stock Exchange subsequently.

Save as revised by the Hony Fund Alteration of Terms, all of the terms and conditions of the Hony Fund VIII Convertible Bonds remain unchanged and in full force.

As at June 30, 2023, 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, June 7, 2023 and June 24, 2018 and July 6, 2023, respectively.

Dilution Impact on Earnings per Share

As calculated based on earnings attributable to owners of the Company of approximately RMB126.2 million for the six months ended June 30, 2023, basic earnings per share amounted to RMB0.91 and diluted losses per share of the Company amounted to RMB0.02.

Based on the implied internal rate of returns of the Hony Convertible Bonds, the Company's share prices at the future dates at which it would be equally financially advantageous for the holders of the Hony Convertible Bonds to convert were as follows:

Date	**September 30, 2025** (HK$ per Share)
Share price	20.0

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.

On August 12, 2021, in accordance with the terms and conditions of the LW Convertible Bonds, the Company and Leap Wave entered into a deed of amendment for the Alteration of Terms of LW Convertible Bonds in relation to early redemption (the "**Early Redemption**"), subject to and effective from the fulfilment of certain conditions precedent.

The Alteration of Terms of LW Convertible Bonds was approved by the Shareholders at the extraordinary general meeting of the Company held on October 8, 2021 and was approved by the Stock Exchange subsequently.

The terms of LW Convertible Bonds has been amended as follows:

(i) The existing arrangements with respect to early redemption shall be replaced in entirety with the following:

With prior written consent of the Company and the Bondholder, the outstanding Convertible Bonds may be redeemed in whole by the Company prior to the Maturity Date at the mutually agreed Early Redemption Amount calculated in accordance with the following formula:

Early Redemption Amount = Principal amount of the outstanding Convertible Bonds as of the redemption date x 98%.

(ii) The following payment arrangements with respect to early redemption shall be added:

With prior written consent of the Company and the Bondholder, in the event of an early redemption, the Company may pay the Early Redemption Amount to the Bondholder in instalments. The detailed instalment schedules shall be agreed between the Company and the Bondholder and set out in the redemption notice to be served by the Company to the Bondholder. No interest shall accrue on any unpaid Early Redemption Amount during the instalment period, unless where the Company fails to pay the agreed instalments on the corresponding payment dates, default interest (i.e. 5% per annum) shall accrue on the overdue amount in accordance with the existing terms of the Convertible Bonds.

On October 15, 2021, the Company has served a redemption notice to Leap Wave to request for early redemption on all outstanding LW Convertible Bonds in the principal amount of HK$800,000,000, pursuant to which, the Company will pay the early redemption amount, being HKD784,000,000, to Leap Wave in accordance with the following payment schedule:

Payment dates	**Instalment amount** (HKD in millions)
October 20, 2021	550
July 31, 2022	120
July 31, 2023	114
Total Early Redemption Amount:	784

The Company has paid HKD695 million to the Subscriber, and HKD89 million remain unpaid as at the date of the Report.

Following the early redemption of the LW Convertible Bonds, there will be no principal amount of the LW Convertible Bonds outstanding and no LW Convertible Bonds have been or will be converted into Shares. Upon the payment of the early redemption amount in full, the LW Convertible Bonds will be cancelled in whole and the Company will be discharged from all of the obligations under and in respect of the LW Convertible Bonds.

Dilution Effect of the Conversion of the Vanguard Glory Convertible Bonds, the Hony Convertible Bonds and the LW Convertible Bonds

Set out below is the dilution effect on equity interest of the substantial Shareholders upon the full conversion of the outstanding Vanguard Glory Convertible Bonds and the outstanding Hony Convertible Bonds.

Substantial Shareholders	As at June 30, 2023		Immediately upon full conversion of the Vanguard Glory Convertible Bonds and the Hony Convertible Bonds	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Vanguard Glory	97,000,000	70.19	123,000,000	60.62
Hony Fund VIII	0	0.00	38,693,985	19.07
Anhui Zhong'an LP	9,098,800	6.58	9,098,800	4.48

Note: the shareholding structure is shown for illustration purpose only and may not be exhaustive. Pursuant to the conversion restrictions under the terms and conditions of the above convertible bonds, their respective conversion rights may only be exercised to the extent that, immediately after such conversion, the Company will continue to be able to satisfy the public float requirements under the Listing Rules.

SHARE-BASED PAYMENT SCHEMES

(a) Pre-IPO Share Appreciation Rights Scheme

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

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

From March 15, 2021, the last batch, represent 25% of the total number of notional shares, were free to be vest.

The share-based compensation expense related to the Pre-IPO SARs Scheme of RMB270,000 were recognised as "cost" for the six months ended June 30, 2023 (six months ended June 30, 2022: RMB222,000 were derecognised as "cost").

(b) Share Incentive Scheme

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

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

In 2019, two of the Share Incentive Grantees resigned and as agreed by the Company, 50% of the share awards granted by Vanguard Glory to one of the grantees would be released from the lock-up restrictions and free to be vested after his resignation, while the remaining 50% locked-up notional shares granted to him lapsed. The share-based compensation expenses in relation to the share awards granted to the resigned Share Incentive Grantee for the 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.

In 2020, the remaining 50% of the shared awards granted by Vanguard Glory has been released from the lock-up restrictions and free to be vested.

Share-based compensation expenses related to the Share Incentive Scheme were nil for the six months ended June 30, 2023 (six months ended June 30, 2022: RMB128,000 were recognised as "cost").

(c) Post-IPO Share Appreciation Rights Scheme

We adopted a post-IPO share appreciation rights scheme (the "**Post-IPO SARs Scheme**") on December 13, 2016 to enable the Company to grant 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.

(d) Share Award Scheme

The Company has adopted a share award scheme of the Company (the "**Share Award Scheme**") for a term of 10 years from January 18, 2021.

The following classes of participants (the "**SAS Eligible Participants**") are eligible for participation in the Share Award Scheme: (a) directors (including executive directors and non-executive directors) of the Company or any of its subsidiaries; (b) employees (including full-time and part-time), officers, agents or consultants of the Company or any of its subsidiaries; and (c) core management members of any hospital owned, managed and/or founded by the Group.

The Board or any committee delegated with the power and authority by the Board to administer the Share Award Scheme (the "**SAS Administration Body**") may, from time to time, at its absolute discretion select any SAS Eligible Participant (the "**SAS Selected Participant**") to be entitled to receive a grant of award of Shares (the "**Share Award**"), either Shares subject to vesting criteria or restrictions or Shares granted directly to the SAS Selected Participants which the SAS Administration Body determines to be vested immediately upon acceptance without any vesting conditions, under the Share Award Scheme. The Board or the respective committee may also grant Share Awards to such SAS Selected Participant which are to be satisfied by new Shares to be subscribed by the trustee of the trust set up under the Share Award Scheme (the "**SAS Trustee**") either under its available general mandate on the relevant date of grant or under a specific mandate approved or to be approved or to approved by the shareholders of the Company at such subscription as the SAS Administration Body may direct; and/or existing Shares purchased by the SAS Trustee.

The eligibility of any of the SAS Eligible Participant to a Share Award and/or the number of Shares to be granted shall be determined by the SAS Administration Body, taking into consideration matters such as the contribution of the relevant SAS Eligible Participant to the profits of the Group and the general financial condition of the Group. After the SAS Administration Body has determined the number of Shares to be granted and/or the SAS Selected Participants, it shall notify the SAS Trustee and (if the SAS Selected Participants are identified) issue the grant letter to the SAS Selected Participants.

The purposes of the Share Award Scheme are (i) to encourage or facilitate the holding of Shares by the SAS Eligible Participants; (ii) to encourage and retain the SAS Eligible Participants to work with the Group; and (iii) to provide additional incentive for the SAS Eligible Participants to achieve performance goals, with a view to achieving the objectives of increasing the value of the Company and aligning the interests of the SAS Eligible Participants with the Shareholders through ownership of Shares.

The Share Award Scheme offers a different form of incentive as compared to the Post-IPO SARs Scheme of the Company, since SAS Eligible Participants will be entitled to receive Shares upon vesting of the Share Awards under the Share Award Scheme, while the Post-IPO SARs Eligible Participants will only be entitled to receive cash payments determined based on the appreciation of the notional Shares over a specified period under the Post-IPO SARs Scheme. Given the difference in nature of the reward under the Share Award Scheme and the Post-IPO SARs Scheme, the Company believes that the Share Award Scheme will impose less pressure on the Group's cash flow position and enable the Company to prevent substantive cash outflow while allowing additional incentives to the Participants to contribute to the Group in the foreseeable future.

The remaining life of the Share Award Scheme is 8 years. No payment is required on acceptance of the Share Awards and for the Share Awarded. As at the date of this interim report, the total number of shares available for issue under the Share Award Scheme was 13,819,400, representing 10% of the issued shares of the Company.

Since the adoption of the Share Award Scheme on January 18, 2021 and up to the date of this interim report, no Share Award has been granted, vested, lapsed or cancelled pursuant to the Share Award Scheme.

As of January 1, 2023 and June 30, 2023, the number of shares available for grant under the scheme mandate of the Share Award Scheme was 13,819,400 (representing approximately 10% of the issued shares of the Company as at the date of this interim report). There is no service provider sublimit being defined under the Share Award Scheme.

The aggregated maximum number of Shares that the SAS Trustee may purchase must not exceed 10% of the Company's share capital in issue from time to time, i.e. 13,819,400 Shares (representing approximately 10% of the issued shares of the Company as at the date of this interim report).

As the date of this interim report, the SAS Trustee has purchased 592,000 Shares pursuant to the Share Award Scheme, representing approximately 0.43% of the issued shares of the Company as at the date of this interim report. The remaining number of Shares which may be purchased by the SAS Trustee is 13,227,400, representing approximately 9.57% of the issued shares of the Company as at the date of this interim report.

Where any grant of Share Awards to a SAS Eligible Participant would result in the shares issued and to be issued in respect of all share awards granted to such person (excluding any share awards lapsed in accordance with the terms of the scheme) in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the shares of the Company in issue, such grant must be separately approved by shareholders of the Company in general meeting with such SAS Eligible Participant and his/her close associates (or associates if the participant is a connected person) abstaining from voting. The Company must send a circular to the shareholders.

The vesting period for Share Awards shall not be less than 12 months.

Further details of the Share Award Scheme were set out in the announcement of the Company dated January 18, 2021.

PUBLIC FLOAT

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

CHANGES TO DIRECTORS' INFORMATION

The Directors confirm that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. Except for as disclosed below, the Board considers that, during the Reporting Period, the Company has complied with the applicable code provisions set out in the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

COMPLIANCE WITH MODEL CODE

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

AUDIT COMMITTEE

The unaudited results and the interim financial information of the Group for the Reporting Period have been reviewed by the Audit Committee. The Audit Committee consists of three independent non-executive Directors, namely Mr. ZHOU Xiangliang (Chairman) and Mr. SHI Luwen, and Mr. DANG Jinxue. The Audit Committee is of the opinion that such financial information complies with applicable accounting standards, the Listing Rules and all other applicable legal requirements.

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

Save for the 592,000 Shares purchased by the SAS Trustee pursuant to the Share Award Scheme, during the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

FINANCIAL INFORMATION

The Group's interim results for the six months ended June 30, 2023 have not been audited but have been reviewed by the Group's external auditor, KPMG, and by the Audit Committee.

Review report to the board of directors of Hospital Corporation of China Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 30 to 62 which comprises the consolidated statement of financial position of Hospital Corporation of China Limited (the "Company") and its subsidiaries (together, the "Group") as of 30 June 2023 and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34, Interim financial reporting issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial information and report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information as at 30 June 2023 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 August 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2023 – unaudited
(Expressed in Renminbi ("RMB"))

		Six months ended 30 June	
		2023	2022
	Note	**RMB'000**	RMB'000
Revenue	5	**717,831**	540,918
Cost		**(597,678)**	(468,763)
Gross profit		**120,153**	72,155
Administrative expenses		**(49,200)**	(35,267)
Selling expenses		**(631)**	(282)
Net impairment losses on financial assets		**–**	(662)
Impairment losses on intangible assets		**–**	(460,283)
Other income		**8**	3,833
Other gains/(losses), net	6	**129,904**	(35,062)
Operating profit/(loss)		**200,234**	(455,568)
Finance income	7	**4,360**	8,094
Finance costs	7	**(3,622)**	(4,089)
Profit/(loss) before income tax		**200,972**	(451,563)
Income tax	8	**(23,056)**	14,270
Profit/(loss) for the period		**177,916**	(437,293)
Other comprehensive income			
Item that will not be subsequently reclassified to profit or loss			
– Remeasurement of defined benefit obligations		**7,358**	(2,527)
Total comprehensive income for the period		**185,274**	(439,820)
Attributable to:			
Owners of the Company		**126,218**	(427,562)
Non-controlling interests		**59,056**	(12,258)
Total comprehensive income for the period		**185,274**	(439,820)
Earnings/(Losses) per share from profit/(loss) attributable to owners of the Company			
– Basic earnings/(losses) per share (in RMB)	9	**0.91**	(3.09)
– Diluted earnings/(losses) per share (in RMB)	9	**(0.02)**	(3.09)

The notes on pages 35 to 62 form part of this interim financial information.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2023 – unaudited
(Expressed in RMB)

	Note	30 June 2023 RMB'000	31 December 2022 RMB'000
ASSETS			
Non-current assets			
Property and equipment	10	**196,671**	218,933
Right-of-use assets	11	**44,260**	44,877
Intangible assets	12	**1,155,027**	1,162,237
Deferred income tax assets	20	**9,339**	9,312
Other receivables, deposits and prepayments		**820**	466
Amounts due from related parties		**176,726**	156,726
Total non-current assets		**1,582,843**	1,592,551
Current assets			
Inventories		**45,766**	57,068
Trade receivables	13	**54,210**	71,543
Other receivables, deposits and prepayments		**28,907**	15,340
Amounts due from related parties	14	**63,943**	71,457
Financial assets at fair value through profit or loss	4.a(i)	**70,865**	129,848
Term deposits		**723**	696
Restricted bank deposit		**4,494**	–
Cash and cash equivalents	15	**592,940**	497,061
Total current assets		**861,848**	843,013
Total assets		**2,444,691**	2,435,564
EQUITY			
Equity attributable to owners of the Company			
Share capital		**123**	123
Share premium		**435,304**	435,304
Other reserves		**870,779**	870,779
Treasury shares		**(4,680)**	–
Accumulated losses		**(924,278)**	(1,050,496)
		377,248	255,710
Non-controlling interests		**246,774**	187,718
Total equity		**624,022**	443,428

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2023 – unaudited
(Expressed in RMB)

	Note	30 June 2023 RMB'000	31 December 2022 RMB'000
LIABILITIES			
Non-current liabilities			
Convertible bonds	19	**895,259**	–
Lease liabilities	11	**6,592**	6,240
Employment benefit obligations		**45,568**	49,111
Deferred income tax liabilities	20	**149,473**	151,056
Total non-current liabilities		**1,096,892**	206,407
Current liabilities			
Trade payables	16	**131,956**	136,855
Convertible bonds	19	**–**	1,026,407
Accruals, other payables and provisions	17	**520,222**	520,757
Amounts due to related parties	14	**7,661**	10,757
Contract liabilities		**1,794**	2,148
Current income tax liabilities		**13,988**	17,849
Borrowings	18	**46,600**	69,429
Lease liabilities	11	**1,556**	1,527
Total current liabilities		**723,777**	1,785,729
Total liabilities		**1,820,669**	1,992,136
Total equity and liabilities		**2,444,691**	2,435,564

The notes on pages 35 to 62 form part of this interim financial information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2023 – unaudited
(Expressed in RMB)

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Treasury shares RMB'000	Accumulated losses RMB'000	Sub-total RMB'000	Attributable to non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2023	**123**	**435,304**	**870,779**	**–**	**(1,050,496)**	**255,710**	**187,718**	**443,428**
Comprehensive income								
– Profit for the period	–	–	–	–	126,218	126,218	51,698	177,916
– Remeasurement of defined benefit obligations	–	–	–	–	–	–	7,358	7,358
Repurchase of treasury shares (Note)	–	–	–	(4,680)	–	(4,680)	–	(4,680)
Balance at 30 June 2023	**123**	**435,304**	**870,779**	**(4,680)**	**(924,278)**	**377,248**	**246,774**	**624,022**
Balance at 1 January 2022	123	435,304	929,345	–	(566,799)	797,973	337,854	1,135,827
Comprehensive income								
– Loss for the period	–	–	–	–	(427,562)	(427,562)	(9,731)	(437,293)
– Remeasurement of defined benefit obligations	–	–	–	–	–	–	(2,527)	(2,527)
Share-based payments								
– share option scheme	–	–	128	–	–	128	–	128
Acquisition of non-controlling interests of subsidiaries	–	–	(61,445)	–	–	(61,445)	(57,555)	(119,000)
Dividends to non-controlling interests	–	–	–	–	–	–	(12,000)	(12,000)
Balance at 30 June 2022	123	435,304	868,028	–	(994,361)	309,094	256,041	565,135

Note: As of 30 June 2023, the Company has purchased 592,000 shares through a trust deed with a total amount of RMB4,680,000, which were treated as treasury shares. The shares are to be granted under a share award scheme.

The notes on pages 35 to 62 form part of this interim financial information.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2023 – unaudited
(Expressed in RMB)

		Six months ended 30 June	
		2023	2022
	Note	**RMB'000**	RMB'000
Cash flows from operating activities			
Cash generated from operations		**67,569**	14,627
Interests received		**1,646**	1,094
Income tax paid		**(8,057)**	(3,147)
Net cash generated from operating activities		**61,158**	12,574
Cash flows from investing activities			
Payments for property and equipment		**(1,178)**	(5,328)
Payments for intangible assets		**(499)**	(207)
Payments for financial assets at fair value through profit or loss	4.a(iii)	**(9,172)**	(377,000)
Loans to related parties		**–**	(20,000)
Proceeds from disposal of financial assets at fair value through profit or loss	4.a(iii)	**70,135**	469,579
Interest received on fixed deposits		**5**	15
Loans interest received from a related party		**2,465**	1,020
Redemption of term deposits with initial terms of over three months		**–**	638
Net cash generated from investing activities		**61,756**	68,717
Cash flows from financing activities			
Proceeds from borrowings		**29,500**	31,900
Repayment of borrowings		**(52,329)**	(14,512)
Payment of loan interests		**(1,295)**	(1,558)
Principal elements of lease payments		**(839)**	(274)
Interest elements of lease payments		**(177)**	(79)
Loans from related parties		**–**	43
Dividend paid to non-controlling interests of subsidiaries		**–**	(12,000)
Payment for acquisition of non-controlling interests of subsidiaries		**–**	(120,000)
Purchase of own shares		**(2,948)**	–
Net cash used in financing activities		**(28,088)**	(116,480)
Net increase/(decrease) in cash and cash equivalents		**94,826**	(35,189)
Cash and cash equivalents at the beginning of the period		**497,061**	440,428
Effects of exchange rate changes on cash and cash equivalents		**1,053**	4,464
Cash and cash equivalents at the end of the period	15	**592,940**	409,703

The notes on pages 35 to 62 form part of this interim financial information.

1 GENERAL INFORMATION

Hospital Corporation of China Limited ("the Company") was incorporated in the Cayman Islands on 21 February 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 hospitals; (ii) provision of management and consultation services to certain not-for-profit hospitals and (iii) sale of pharmaceutical products in the People's Republic of China (the "PRC").

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

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

2 BASIS OF PREPARATION

This interim financial information for the six months ended 30 June 2023 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 30 August 2023.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of an interim financial information in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial information contains consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

2 BASIS OF PREPARATION – *continued*

The interim financial information is unaudited, but has been reviewed by KPMG in accordance International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the International Auditing and Assurance Standards Board. KPMG's independent review report to the Board of Directors is included on page 29.

The financial information relating to the financial year ended 31 December 2022 that is included in the interim financial information as comparative information does not constitute the Group's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2022 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 27 March 2023.

3 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to IFRSs issued by the IASB to this interim financial information for the current accounting period:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new and amended IFRSs are discussed below.

None of these new and amended IFRSs have had a material effect on how the Group's results and financial position for the current period have been prepared or presented in this interim financial information.

4 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

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

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2023 and 31 December 2022.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 30 June 2023				
Asset				
Financial assets at fair value through profit or loss ('FVPL')				
– Monetary funds	**–**	**70,865**	**–**	**70,865**
Total asset	**–**	**70,865**	**–**	**70,865**
Liability				
Financial liabilities at FVPL				
– Convertible bonds (Note 19)	**–**	**–**	**895,259**	**895,259**
Total financial liability	**–**	**–**	**895,259**	**895,259**
As at 31 December 2022				
Asset				
Financial assets at fair value through profit or loss ('FVPL')				
– Monetary funds	–	129,848	–	129,848
Total asset	–	129,848	–	129,848
Liability				
Financial liabilities at FVPL				
– Convertible bonds (Note 19)	–	–	1,026,407	1,026,407
Total financial liability	–	–	1,026,407	1,026,407

4 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS – *continued*

(a) Financial assets and liabilities measured at fair value – *continued*

(i) Fair value hierarchy – continued

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

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

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

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

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

(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 convertible bonds – option pricing models (e.g. binomial model).

4 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS – *continued*

(a) Financial assets and liabilities measured at fair value – *continued*

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

The following table presents the changes in level 2 instruments for the six months ended 30 June 2023.

	Monetary funds RMB'000
Opening balance as at 1 January 2023	129,848
Additions	9,172
Settlements	(70,135)
Gains recognised in other gains/(losses), net	1,980
Closing balance as at 30 June 2023	70,865

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

The following table presents the changes in level 3 instruments for the six months ended 30 June 2023.

	Convertible bonds (Note 19) RMB'000
Opening balance as at 1 January 2023	(1,026,407)
Gains recognised in other gains/(losses), net*	131,148
Closing balance as at 30 June 2023	(895,259)
*Includes unrealised gains recognised in profit or loss attributable to balances held at the end of the reporting period	131,148

4 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS – *continued*

(a) Financial assets and liabilities measured at fair value – *continued*

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

(a) Convertible bonds

Management has reviewed and assessed the valuation reports issued by an independent valuer and noticed the fair value of the convertible bonds as of 30 June 2023 was mainly impacted by the bond yield, which was determined by factors including market interest rates, the convertible bonds' risky rate, the convertible bonds' expiration dates and the volatility of the Company' stock price.

The detail of each convertible bond please refer to Note 19.

(b) Fair value of financial assets and liabilities measured at amortised cost

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

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

5 SEGMENT INFORMATION

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

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

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

(a) General hospital services

Revenue from this segment is generated in the PRC and derived from hospital services provided by Jiande Hospital of Traditional Chinese Medicine Co., Ltd.*（建德中醫院有限公司）("Jiande Hospital"), Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd.*（建德大家中醫藥科技有限公司）("DJ Pharmaceutical Technology"), Jiande Xinlin Pharmacy Co., Ltd.*（建德鑫林大藥房有限公司）("Xinlin Pharmacy") and Yangsi Hospital*（上海楊思醫院）("Yangsi Hospital") for the six months ended 30 June 2023.

For general hospital services, revenue primarily derives from highly diversified individual patients and no single patient contributed 1% or more of the Group's respective revenue for the six months ended 30 June 2023 and 2022, respectively.

(b) Hospital management services

Revenue from this segment is generated in the PRC and derived from providing comprehensive management services and receiving management service fee by the relevant not-for-profit hospitals in accordance with relevant hospital management agreements.

(c) Sale of pharmaceutical products

Revenue from this segment is generated in the PRC and is mainly derived from sale of pharmaceutical products by Zhejiang Dajia Medicines Co., Ltd.*（浙江大佳醫藥有限公司）("DJ Medicines") and Honghe (Jinhua) Pharmaceutical Co., Ltd.*（弘和（金華）藥業有限公司）("Jinhua Pharmacy").

* *For identification purpose only*

5 SEGMENT INFORMATION – *continued*

(d) Unallocated

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

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

	General hospital services RMB'000	Hospital management services RMB'000	Sale of pharmaceutical products RMB'000	Elimination RMB'000	Unallocated RMB'000	Total RMB'000
Six months ended 30 June 2023						
Segment revenue	676,192	82,945	6,787	(48,093)	–	717,831
Inter-segment revenue	(2,000)	(46,093)	–	48,093	–	–
Revenue from external customers	674,192	36,852	6,787	–	–	717,831
Timing of revenue recognition						
– At a point in time	298,022	27,229	6,787	–	–	332,038
– Over time	376,170	9,623	–	–	–	385,793
	674,192	36,852	6,787	–	–	717,831
EBITDA	69,883	44,709	533	(2,130)	–	112,995
Depreciation	(22,873)	(1,601)	(31)	–	(316)	(24,821)
Amortisation	(4,414)	(3,767)	–	–	–	(8,181)
Finance (costs)/income	(434)	159	(10)	–	1,023	738
Unallocated gain – net					120,241	120,241
Profit/(losses) before income tax	42,162	39,500	492	(2,130)	120,948	200,972
As at 30 June 2023						
Segment assets	843,737	687,000	6,436	(154,907)	316,557	1,698,823
Goodwill	58,495	687,373	–	–	–	745,868
Total assets	902,232	1,374,373	6,436	(154,907)	316,557	2,444,691
Total liabilities	523,893	140,824	3,285	(138,575)	1,291,242	1,820,669

5 SEGMENT INFORMATION – *continued*

(d) Unallocated – *continued*

	General hospital services RMB'000	Hospital management services RMB'000	Sale of pharmaceutical products RMB'000	Elimination RMB'000	Unallocated RMB'000	Total RMB'000
Six months ended 30 June 2022						
Segment revenue	495,029	82,823	4,856	(41,790)	–	540,918
Inter-segment revenue	(2,064)	(39,726)	–	41,790	–	–
Revenue from external customers	492,965	43,097	4,856	–	–	540,918
Timing of revenue recognition						
– At a point in time	232,722	27,390	4,856	–	–	264,968
– Over time	260,243	15,707	–	–	–	275,950
	492,965	43,097	4,856	–	–	540,918
EBITDA	29,719	(403,995)	168	(4,320)	–	(378,428)
Depreciation	(22,802)	(1,559)	(33)	–	(325)	(24,719)
Amortisation	(3,844)	(4,766)	–	–	(21)	(8,631)
Finance (costs)/income	(1,412)	(81)	(14)	–	5,512	4,005
Unallocated expense– net					(43,790)	(43,790)
Profit/(losses) before income tax	1,661	(410,401)	121	(4,320)	(38,624)	(451,563)
As at 30 June 2022						
Segment assets	805,349	707,964	14,857	(111,234)	338,278	1,755,214
Goodwill	58,495	687,373	–	–	–	745,868
Total assets	863,844	1,395,337	14,857	(111,234)	338,278	2,501,082
Total liabilities	475,212	100,857	2,794	(111,234)	1,468,318	1,935,947

6 OTHER GAINS/(LOSSES), NET

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Net fair value losses on convertible bonds	**(91,772)**	(26,685)
Net gains on the extension of convertible bonds	**222,920**	–
Net fair value gains on financial assets at FVPL	**1,980**	3,476
Others	**(3,224)**	(11,853)
	129,904	(35,062)

7 FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Finance income		
Interest income on loan to a related party	**2,325**	2,119
Interest income on bank deposits	**1,652**	1,807
Foreign exchange gains, net	**383**	4,168
	4,360	8,094
Finance costs		
Interest expense on bank borrowings	**(1,295)**	(1,656)
Finance expense on redemption of convertible bond	**(2,136)**	(2,136)
Others	**(191)**	(297)
	(3,622)	(4,089)

8 INCOME TAX

Subsidiaries established and operating in the PRC are subject to the PRC corporate income tax at the rates of 25% or 15% for the six months ended 30 June 2023 (six months ended 30 June 2022: 25% or 15%).

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Current income tax:		
– PRC corporate income tax	**(24,666)**	(6,851)
Deferred income tax (Note 20)	**1,610**	21,121
	(23,056)	14,270

(a) Cayman Islands Income Tax

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

(b) Hong Kong Profits Tax

Hong Kong profits tax rate was 16.5% for the period ended 30 June 2023 (six months ended 30 June 2022: 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 period ended 30 June 2023 and 2022.

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

The income tax rate of Tibet Honghe Zhiyuan Business Management Co., Ltd.*（西藏弘和志遠企業管理有限公司）("Honghe Zhiyuan"), Dazi Honghe Ruixin Medical Technology Co., Ltd.*（達孜弘和瑞信醫療科技有限公司）("Honghe Ruixin") and Tibet Hongai Business Management Co., Ltd.（西藏弘愛企業管理有限公司）("Tibet Hongai") were 15% for the period ended 30 June 2023 (six months ended 30 June 2022: 15%). The income tax rate of other subsidiaries (including Yangsi Hospital and Jiande Hospital) was 25% for the period ended 30 June 2023 (six months ended 30 June 2022: 25%). Honghe Ruixin changed its registered name from "Tibet Dazi Honghe Ruixin Business Management Co., Ltd." to "Dazi Honghe Ruixin Medical Technology Co., Ltd." on 10 March 2023.

* *For identification purpose only*

8 INCOME TAX – *continued*

(d) Withholding Tax

The withholding tax rate of New Pride Holdings Limited ("New Pride"), Bliss Success Holdings Limited ("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, respectively.

9 EARNINGS/(LOSSES) PER SHARE

(a) Basic earnings/(losses) per share

Basic earnings/(losses) per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2023 and 2022.

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Total profit/(loss) attributable to owners of the Company (RMB'000)	**126,218**	(427,562)
Weighted average number of ordinary shares in issue (in thousands)	**138,194**	138,194
Basic profit/(loss) per share (in RMB)	**0.91**	(3.09)

(b) 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 5 March 2018 and 7 August 2018 and adjusting the weighted average number of ordinary shares in issue considering conversion of the convertible bonds.

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

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

	Six months ended 30 June 2023 RMB'000
Total profit/(loss) attributable to owners of the Company	126,218
less:	
Net gains on the extension of convertible bonds	222,920
Net fair value losses on convertible bonds	(91,772)
Total profit/(loss) used to determine diluted earnings/(losses) per share	(4,930)
Weighted average number of ordinary shares in issue (in thousands)	138,194
Adjustment for calculation of diluted earnings per share – Convertible bonds (in thousands)	64,694
Weighted average number of ordinary shares in issue and potential ordinary shares (in thousands)	202,888
Diluted earnings/(losses) per share (in RMB)	(0.02)

Due to the Group's negative financial results during the period ended 30 June 2022, relative convertible bonds and shares held for share based payment scheme have anti-dilutive effect on the Group's losses per share. Thus, diluted losses per share is equivalent to the basic losses per share during the six months ended 30 June 2022.

10 PROPERTY AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Medical equipment RMB'000	Office equipment, furniture and motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
Six months ended 30 June 2023						
Net book value						
Opening amount as at 1 January 2023	**110,231**	**16,179**	**82,749**	**8,623**	**1,151**	**218,933**
Additions	**–**	**375**	**1,888**	**778**	**–**	**3,041**
Disposals	**–**	**–**	**(1,404)**	**(459)**	**–**	**(1,863)**
Transfer upon completion	**–**	**339**	**–**	**–**	**(339)**	**–**
Depreciation	**(4,499)**	**(2,343)**	**(13,072)**	**(3,526)**	**–**	**(23,440)**
Closing amount as at 30 June 2023	**105,732**	**14,550**	**70,161**	**5,416**	**812**	**196,671**
Six months ended 30 June 2022						
Net book value						
Opening amount as at 1 January 2022	118,239	15,571	104,592	11,563	750	250,715
Additions	–	3,063	1,477	788	–	5,328
Transfer upon completion	–	356	–	–	(356)	–
Depreciation	(3,743)	(2,784)	(14,061)	(2,812)	–	(23,400)
Closing amount as at 30 June 2022	114,496	16,206	92,008	9,539	394	232,643

11 LEASES

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

(a) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Right-of-use assets		
Land use right	**35,241**	35,713
Properties	**9,019**	9,164
	44,260	44,877
Lease Liabilities		
Current	**1,556**	1,527
Non-current	**6,592**	6,240
	8,148	7,767

Additions to the right-of-use assets for the six months ended 30 June 2023 were 1,235,000 (six months ended 30 June 2022: nil).

(b) Amounts recognised in the statement of comprehensive income

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

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Depreciation charge of right-of-use assets – properties	**1,381**	1,319
Amortisation charge of right-of-use assets – land use right	**472**	472
Interest expense (included in finance cost)	**191**	212
Expense relating to short-term and low-value leases (included in cost and administrative expenses)	**2,198**	1,974

The total cash outflow for leases for the six months ended 30 June 2023 was RMB1,016,000 (six months ended 30 June 2022: RMB1,879,000).

12 INTANGIBLE ASSETS

	Goodwill RMB'000	Contractual rights to provide management services RMB'000	Licenses RMB'000	Software RMB'000	Total RMB'000
Six months ended 30 June 2023					
Net book value					
Opening amount as at 1 January 2023	**745,868**	**258,743**	**153,431**	**4,195**	**1,162,237**
Additions	**–**	**–**	**–**	**499**	**499**
Amortisation	**–**	**(3,702)**	**(3,237)**	**(770)**	**(7,709)**
Closing amount as at 30 June 2023	**745,868**	**255,041**	**150,194**	**3,924**	**1,155,027**
Six months ended 30 June 2022					
Net book value					
Opening amount as at 1 January 2022	1,108,690	364,617	159,905	4,096	1,637,308
Additions	–	–	–	207	207
Amortisation	–	(4,710)	(3,237)	(212)	(8,159)
Impairment charge	(362,822)	(97,461)	–	–	(460,283)
Closing amount as at 30 June 2022	745,868	262,446	156,668	4,091	1,169,073

13 TRADE RECEIVABLES

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Trade receivables	**61,708**	79,179
Less: loss allowance	**(7,498)**	(7,636)
Trade receivables, net of loss allowance	**54,210**	71,543

As at 30 June 2023 and 31 December 2022, the ageing analysis of the trade receivables, based on invoice date and net of loss allowance, was as follows:

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
1 – 90 days	**54,210**	71,543

14 BALANCES WITH RELATED PARTIES

(a) Amounts due from related parties

As at 30 June 2023 and 31 December 2022, the balances with related parties are unsecured, receivable/payable on demand and are denominated in RMB.

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Amounts due from related parties		
– Trade in nature		
Zhejiang Jinhua Guangfu Oncological Hospital* ("Jinhua Hospital")(浙江金華廣福腫瘤醫院)	**163,112**	154,022
Cixi Union Hospital*("Cixi Hospital")(慈溪弘和醫院)	**9,414**	5,999
Yongkang Hospital*(永康醫院)	**822**	854
	173,348	160,875
– Others		
Jinhua Hospital	**100,000**	100,000
Vanguard Glory	**378**	365
Yongkang Hospital	**7**	7
	273,733	261,247
Less: provision for impairment of amounts due from related parties	**(33,064)**	(33,064)
Amounts due from related parties, net	**240,669**	228,183
Less: non-current portion	**(176,726)**	(156,726)
Current portion	**63,943**	71,457

* *For identification purpose only*

14 BALANCES WITH RELATED PARTIES – *continued*

(a) Amounts due from related parties – *continued*

As at 30 June 2023 and 31 December 2022, the ageing analysis based on trading date of the amounts due from related parties was as follows:

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Within 90 days	**14,507**	11,311
91 to 180 days	**4,206**	478
Over 180 days	**154,635**	149,086
	173,348	160,875

(b) Amounts due to related parties

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Amounts due to related parties		
– Trade in nature		
Jinhua Hospital	**–**	3,145
– Others		
Jinhua Hospital	**6,028**	6,028
Vanguard Glory	**1,563**	1,514
Cixi Hospital	**70**	70
Total	**7,661**	10,757

15 CASH AND CASH EQUIVALENTS

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Cash at banks	341,821	254,032
Cash on hand	299	1,496
Term deposits with initial terms within three months	29,220	28,933
Deposits held at call with financial institutions	221,600	212,600
Total	592,940	497,061

16 TRADE PAYABLES

An ageing analysis, based on invoice date, of trade payables as at the consolidated statement of financial position dates is as follows:

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Within 90 days	111,763	119,820
91 to 180 days	7,419	8,383
181 days to 1 year	8,386	3,775
Over 1 year	4,388	4,877
	131,956	136,855

17 ACCRUALS, OTHER PAYABLES AND PROVISIONS

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Accrued employee benefits	**112,581**	138,885
Payables for redemption of convertible bonds	**104,754**	99,346
Payables of undertaking letter	**239,788**	239,788
Share-based payments	**410**	140
Duty and tax payables other than corporate income tax	**9,897**	14,162
Other payables to suppliers for purchase of equipment	**8,970**	10,678
Accrued professional service fee	**4,739**	3,939
Others	**39,083**	13,819
Total	**520,222**	520,757

18 BORROWINGS

	As at 30 June 2023			As at 31 December 2022		
	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)	**26,600**	**–**	**26,600**	59,000	–	59,000
– Unsecured but guaranteed (b)	**20,000**	**–**	**20,000**	–	–	–
– Unsecured and unguaranteed	**–**	**–**	**–**	10,429	–	10,429
	46,600	**–**	**46,600**	69,429	–	69,429

Notes:

(a) Jiande Hospital entered into three one-year loan agreements with Agricultural Bank of China Jiande Branch on 15 December, 23 December 2022 and 28 June 2023 respectively. The outstanding amount of these loans was RMB26,600,000, which consist of the loans amounting to RMB8,900,000 and RMB8,200,000 beared the fixed interest rate of 4.10% and 3.85% respectively, RMB9,500,000 beared the fixed interest rate of 3.40%. These bank loans were secured by trade receivables held by Jiande Hospital.

(b) On 4 May 2023, Jiande Hospital entered into an one-year loan agreement with Bank of Communications Jiande Branch. The outstanding amount of this loan was RMB20,000,000, which beared a fixed interest rate of 3.40%. This bank loan is guaranteed by DJ Pharmaceutical Technology.

18 BORROWINGS – *continued*

As at 30 June 2023 and 31 December 2022, the Group's borrowings were repayable as follows:

	Bank borrowings	
	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Within 1 year	**46,600**	69,429

19 CONVERTIBLE BONDS

The Company issued certain convertible bonds in 2018 and 2019, which were accounted for financial liabilities at fair value through profit or loss.

The movements of the convertible bonds are as follows:

	Convertible Bonds RMB'000
As at 1 January 2023	1,026,407
Amortisation of discount with principal amount at initial recognition	(763)
Fair value change	(130,385)
As at 30 June 2023	895,259
As at 1 January 2022	906,916
Amortisation of discount with principal amount at initial recognition	(763)
Fair value change	27,448
As at 30 June 2022	933,601

On 6 June 2023, in accordance with the terms and conditions of the convertible bonds by reference to latest capital market development, the Group renegotiated with Hony Capital Fund VIII (Cayman), L.P. and Vanguard Glory, and entered into the deeds of amendment to alter certain terms of the convertible bonds (the "Deeds of Amendment"). Pursuant to the Deeds of Amendment, (i) the convertible bonds issued on 5 March 2018 shall be extended from 29 December 2023 to 30 September 2025; and (ii) the maturity date of the convertible bonds issued on 7 August 2018 shall be extended from 7 August 2023 to 30 September 2025. Save as revised by the Deeds of Amendment, all of the terms and conditions of the convertible bonds remain unchanged and in full force.

None of convertible bonds was converted into ordinary shares of the Company during the six months ended 30 June 2023.

19 CONVERTIBLE BONDS – *continued*

The significant inputs in the valuation model related to convertible bonds were listed as below:

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Volatility	**29%**	12%
Time to expiration (years)	**2.25**	0.60 ~ 0.99
Risk free rate of interest	**4.03%**	4.11% ~ 4.35%
Dividend yield	**0.00%**	0.00%

20 DEFERRED INCOME TAX

	As at 30 June 2023 RMB'000	As at 31 December 2022 RMB'000
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**8,196**	8,087
– Deferred income tax assets to be recovered within 12 months	**1,143**	1,225
	9,339	9,312
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**(103,585)**	(105,168)
– Deferred income tax liabilities to be settled within 12 months	**(45,888)**	(45,888)
	(149,473)	(151,056)
Deferred income tax liabilities, net	**(140,134)**	(141,744)

20 DEFERRED INCOME TAX – *continued*

Deferred income tax assets

	Provisions RMB'000	Changes in fair value RMB'000	Lease liabilities RMB'000	Total RMB'000
Balance at 1 January 2023	**9,264**	**48**	**–**	**9,312**
Credited/(charged) to profit or loss	**(82)**	**–**	**109**	**27**
Balance at 30 June 2023	**9,182**	**48**	**109**	**9,339**
Balance at 1 January 2022	9,236	48	–	9,284
Credited/(charged) to profit or loss	(224)	–	–	(224)
Balance at 30 June 2022	9,012	48	–	9,060

Deferred income tax liabilities

	Fair value adjustments on buildings and intangible assets and subsequent depreciation, Amortisation and impairment RMB'000	Withholding tax RMB'000	Interest capitalisation and subsequent depreciation RMB'000	Depreciation charge of right-of-use assets RMB'000	Total RMB'000
Balance at 1 January 2023	(111,752)	(38,941)	(363)	–	(151,056)
Credited/(Charged) to profit or loss	1,913	–	12	(342)	1,583
Balance at 30 June 2023	(109,839)	(38,941)	(351)	(342)	(149,473)

20 DEFERRED INCOME TAX – *continued*

Deferred income tax liabilities – *continued*

	Fair value adjustments on buildings and intangible assets and subsequent depreciation, Amortisation and impairment RMB'000	Withholding tax RMB'000	Interest capitalisation and subsequent depreciation RMB'000	Depreciation charge of right-of-use assets RMB'000	Total RMB'000
Balance at 1 January 2022	(139,413)	(38,941)	(387)	–	(178,741)
Credited/(Charged) to profit or loss	26,211	(4,878)	12	–	21,345
Balance at 30 June 2022	(113,202)	(43,819)	(375)	–	(157,396)

At 30 June 2023, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB122,730,000. Deferred tax liabilities of RMB12,273,000 have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

21 CAPITAL COMMITMENTS

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

	Six months ended 30 June 2023 RMB'000	Year ended 31 December 2022 RMB'000
Property and equipment	**580**	580
Intangible assets	**2,080**	3,212
	2,660	3,792

22 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. Other parties are also considered to be related parties if they are subject to common control, common significant influence or joint control. Members of key management and their close family members of the Group are also considered as related parties.

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

Name	**Relationship with the Group**
Vanguard Glory Limited	Parent company
Yongkang Hospital	Founded by a subsidiary of the Group
Cixi Hospital	Founded by a subsidiary of the Group
Jinhua Hospital	Founded by a subsidiary of the Group
Dajia Medical Equipment Co., Ltd.* (浙江大佳醫療器械有限公司) (Note)	Controlled by a non-controlling shareholder of a subsidiary of the Group
Zhejiang Zhongyouli Medicines Co., Ltd.* (浙江中友力醫藥有限公司) (Note)	Controlled by a close family member of a non-controlling shareholder of a subsidiary of the Group

The following significant transactions were carried out between the Group and its related parties for the periods ended 30 June 2023 and 2022. 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.

Note:

Upon the completion of the acquisition of non-controlling interests on 2 April 2022, Dajia Medical Equipment Co, Ltd. and Zhejiang Zhongyouli Medicines Co, Ltd. were no longer be the related parties of the Group.

* *For identification purpose only*

22 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(a) Significant transactions with related parties

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Management Service fee		
– Jinhua Hospital	**–**	4,656
– Cixi Hospital	**8,733**	10,534
	8,733	15,190
Sales of pharmaceuticals, medical consumables and medical equipment		
– Cixi Hospital	**645**	1,822
– Jinhua Hospital	**23,706**	22,731
– Yongkang Hospital	**284**	3,202
	24,635	27,755
Purchase of medical equipment and pharmaceuticals		
– Zhejiang Zhongyouli Medicines Co., Ltd.	**–**	6,631
– Dajia Medical Equipment Co., Ltd	**–**	3,946
	–	10,577

(b) Loans from related parties

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Beginning of the period	**7,612**	7,376
Loans advanced	**–**	43
Other	**49**	73
End of the period	**7,661**	7,492

22 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(c) Loans to related parties

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Beginning of the period	**100,373**	80,350
Loans advanced	**–**	20,000
Interest charged	**2,465**	2,246
Interest received	**(2,465)**	(1,020)
Other	**12**	16
End of the period	**100,385**	101,592

(d) Key management compensation

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Wages, salaries and bonuses	**4,217**	4,689
Welfare and other expenses	**230**	204
Total	**4,447**	4,893

(e) Provide guarantee for related party

As at 30 June 2023, Impeccable Success has pledged its paid-up equity interests in Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd.*(浙江弘和致遠醫療科技有限公司)("Zhejiang Honghe Zhiyuan") to Industrial and Commercial Bank of China Jinhua Economic Development Zone Branch to secure certain loans granted to Jinhua Hospital to the maximum amount of RMB412.5 million. Zhejiang Honghe Zhiyuan has provided a joint liability guarantee to Industrial and Commercial Bank of China Jinhua Economic Development Zone Branch regarding the same loans granted to Jinhua Hospital to the maximum amount of RMB550 million. As at 30 June 2023, the principal amount of loan balance of Jinhua Hospital was RMB163 million.

As at 30 June 2023, the Company has provided a joint liability guarantee to Nanyang Commercial Bank to secure certain loans granted to Jinhua Hospital to the maximum amount of RMB50 million. As at 30 June 2023, the principal amount of loan balance of Jinhua Hospital was RMB40 million.

* *For identification purpose only*