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

2022
INTERIM REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Shuai（陳帥）
(Chairman and Acting Chief Executive Officer)
Mr. Lu Wenzuo（陸文佐）
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 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,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	**540,918**	207,248
– Hospital management services	**43,097**	112,233
– General hospital services	**492,965**	93,543
– Sale of pharmaceutical products	**4,856**	1,472
Adjusted gross profit (1)	**82,323**	112,907
Adjusted net profit (2)	**43,393**	69,941
Adjusted gross profit margin	**15.2%**	54.5%
Adjusted net profit margin	**8.0%**	33.7%
Adjusted items		
Expenses of share-based awards and defined benefit obligation expenses (2)(i)	**1,674**	693
Losses on fair value change resulting from value change of convertible bonds and foreign exchange losses (2)(ii)	**32,834**	25,160
Amortisation of identifiable intangible assets identified in acquisitions	**10,260**	13,373
Finance expense on financial liability at amortised cost	**–**	1,100
Total amount of impairment losses on intangible assets and the reversal of deferred income tax liabilities caused by the impairment on intangible assets (2)(iv)(3)	**435,918**	440,039

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	**540,918**	207,248
Gross profit (1)	**72,155**	99,247
Net loss (2)(3)	**(437,293)**	(410,424)
Basic loss per share (in RMB)	**(3.09)**	(2.47)

Notes:

(1) The gross profit of the Group for the Reporting Period amounted to approximately RMB72.2 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 amortisation of identifiable intangible assets identified in acquisitions.

(2) The Group recorded a net loss of approximately RMB437.3 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 RMB1.7 million; (ii) the fair value losses and other changes on convertible bonds of approximately RMB26.7 million and foreign exchange losses of approximately RMB6.1 million mainly arising from cash and cash equivalents and other foreign currency assets and liabilities; (iii) amortisation of identifiable intangible assets identified in acquisitions of approximately RMB10.3 million; (iv) impairment losses on intangible assets of approximately RMB460.3 million, and the reversal of deferred income tax liabilities caused by the impairment on consolidated intangible assets of approximately RMB24.4 million. For the calculation of the Adjusted Net Profit, tax impacts of the adjusted items were not considered.

(3) The loss for the Reporting Period is primarily attributable to the impact of the COVID-19 outbreak and the continued stringent prevention and control policy implemented since the first half of 2022 in view of the highly infectious nature of the Omicron variant, which resulted in (i) reduced demand for medical treatment and services; and (ii) impairment losses on certain goodwill and other intangible assets. Impairment losses are one-off non-cash items recorded during the Reporting Period, which have no direct impact on the cash flow of the Group.

BUSINESS REVIEW AND PROSPECTS

Policy review

In the first half of 2022, medical reform policies have been rolled out successively. Policies such as Notice on the Issuance of 2022 Major Tasks for Intensifying Medical and Health System Reform (《關於印發深化醫藥衛生體制改革2022年重點工作任務的通知》) released by the General Office of the State Council, the Key Points of Healthy China Action 2022 (《健康中國行動2022年工作要點》) issued by the Office of Healthy China Action Promotion Committee, the 14th Five-Year Health Standardisation Work Plan (《"十四五"衛生健康標準化工作規劃》) issued by the National Health Commission, and the local supporting policies at the provincial and municipal levels were introduced. The frequent introduction of medical reform policies has demonstrated the Chinese government's determination to further promote the development of a more regulated market in the medical industry in China as well as a more refined and pragmatic approach to management, which entailed strategies and directions as well as tactics and guidelines. These include:

(1) speeding up fostering a new and orderly pattern of medical service and treatment and deeply promoting the establishment of compact medical and health alliances in counties and the systematic and structural reform so as to improve the quality of primary health care service; continuing to promote hierarchical diagnosis and treatment and enhance the order of medical treatment, organizing and formulating technical plans for hierarchical disease diagnosis and treatment and standards for admission and discharge, and guiding orderly medical treatment so as to promote reasonable medical treatment within regions or medical unities;

(2) further promoting the experience of medical reform from Sanming City, carrying out centralized volume-based procurement of pharmaceuticals and consumables, expanding the scope of procurement, and strengthening price monitoring of medical consumables so as to advance price reform of medical services; promoting the reform of medical insurance payment methods, carrying out the diversified and combined medical insurance payment methods centered on the payment by type of disease and the reform of Disease Diagnosis Related Groups ("DRG") and Diagnosis-Intervention Packet ("DIP"), and further promoting the construction of a comprehensive regulatory system for the medical care and health industry so as to urge and guide local governments to regulate charges and services of medical institutions, strengthen price supervision in the pharmaceutical field, and promote the construction of drug use monitoring information networks and the application of drug codes;

(3) promoting the development of a multi-level medical security system so as to explore information sharing between medical insurance information platforms and commercial health insurance information platforms in accordance with regulations; strengthening the ability of drug supply and guarantee, promoting the connection of drug use between higher and lower levels of medical institutions, and promoting the implementation of unique identification of medical devices by classification;

(4) leading the high-quality development of health services by standardization so as to build a strong health system, promote the health of key personnel, support the innovative development of health services, and ensure the safe development of health services; optimizing the system of health standards, improving the standard cycle management, and focusing on the increase of highly qualified standard supply, promoting local standardization, and vigorously promoting the implementation of standards.

The introduction and implementation of the above medical reform policies provide opportunities for the Group to explore various business models. The Group will proactively overcome challenges and difficulties and seize the development opportunities to keep enhancing its brand influence and continue to promote and implement the "Three-step" strategic development plan with a focus on "strengthening the management and control system, enhancing the quality of assets and exploring innovative business models".

Proactively promoting the implementation of medical supply chain projects and paying close attention to emerging businesses in the medical sector

In the first half of 2022, under the guidance of overall strategy, the Group fully leveraged the comprehensive strengths of the operation team to strengthen management and control system, enhance the quality of asset and explore innovative business models in accordance with the existing "Three-step" strategy in addition to maintaining the stable operation of hospitals owned, managed or founded by the Group ("**Group Hospital(s)**"). The Group also communicated with and gained understanding of private hospitals in the key districts to be focused on by the Group, and conducted multiple site visits to such hospitals. While maintaining its focus on the Internet medical industry, the Group explored the implementation of Internet diagnosis and treatment models, and incubation of projects that integrates online and offline medical services.

Honghe Pharmaceutical (Zhejiang) Co., Ltd.*（弘和醫藥（浙江）有限公司）("**Honghe Pharmaceutical**", a supply chain subsidiary of the Company) obtained its business license, certification for Good Supply Practice ("**GSP**") and business license for Class III devices, marking the official launch of the Group's strategic plans for supply chain. Adhering to the approach of "quality-oriented and regulated operation", Honghe Pharmaceutical adopts strict, standardized and regulated management, and has deepened its pharmaceutical supply chain business and carried out business operations in the Group Hospitals, which has provided solid support for the Group's strategic execution.

The Group will continue to coordinate various parties' resources to identify new potential projects and promote the development of emerging businesses such as "pharmacy at one's own expense"（自費藥房）and "Internet hospital"（互聯網醫院）. Meanwhile, the Group will enhance synergy between traditional and Internet healthcare and gradually realize the Group's diversified revenue model in order to lay a solid foundation for achieving its "Three-step" strategic goal.

* *For identification purpose only*

Continuing to strengthen operations to create value on an ongoing basis

The Group adopted comprehensive measures for the Group Hospitals such as streamlining strategic positioning, reinforcing cultural development, providing management tools, nurturing cadres, implementing management system, assisting in attracting mid- to high-end talents, which facilitated the continued healthy development of each Group Hospital. The Group continued to promote a two-level coordinated development model for itself and the Group Hospitals, provide support and value-added services to Group Hospitals in various key aspects and continuously improve the operation of the Group and the Group Hospitals, including the improvement of, among others, significant event reporting, financial budgets and final accounts and capitalization of expenditures, preliminary assessment on key investment projects, etc.; the Medical Care Management Department adopts a normalized co-management model for key hospitals and key projects, and combines the characteristics of hospitals to improve the hospital's legal practising, medical quality and safety, functional management and operation management standards, and comprehensive service capabilities. Refined project management will be promoted in an all-round way, including but not limited to strengthen the assessment of the hospital administrators' target responsibility system, promote the sharing of resources between the Group and the Group Hospitals, and enhance the synergy effect; we also continue to make great efforts in the informatization construction of the Group and the Group Hospitals by consolidating the Hospital Information System (HIS), and including the Hospital Resource Planning System (HRP) and Intelligent Medical Insurance Management System at the same time; and continued to work on the standardized management of the Group to strengthen connection with shareholders and resources in the capital market.

The Group has continued to improve the comprehensive quality of the talents and attached great importance to the quality enhancement of each talent so as to lay a solid and sound foundation for the sustainable and steady development for the Group Hospitals in the future. Based on the successive organization of the advanced training courses for the Group and hospital management cadres, and management salons for hospital administrators, the training course for functional cadres was held to further improve the standard management ability of functional sections. The systematic training had also been provided for personnel who intended to take the Licensing Examination for Medical Practitioners, which had significantly improved the passing rate of the Licensing Examination for Medical Practitioners in the Group Hospitals. The Group organized a survey for the medical insurance management staff focused on the new dynamics of medical insurance policies, creating conditions for further standardization of medical practices, optimization of service processes, precise implementation of policies and realization of value-based medical care, so as to achieve a win-win situation for hospitals, patients and medical insurance.

The Group will continue to promote and implement the "Three-step" development strategy in the second half of 2022, aiming to gradually transform the Group from a medical group principally engaged in merger, acquisition and operation of hospitals into a large medical service technology group. The principal measures to be adopted include:

Strengthening the management and control system. The Group's objectives were to further establish standards and rules, refine its management and control system, improve the corporate culture, set up a scientific training system and optimize the incentive and binding mechanism for hospital administrators of all Group Hospitals;

Enhancing the quality of assets. On the basis of the continuous upgrading the medical service quality of all Group Hospitals, the Group further optimized the supply chain management system, enhanced the process management of procurement of pharmaceutical products, devices and medical consumables and other business by taking the Procurement Management Committee of the Group as the top decision-maker of the Group in the purchase, in order to ensure that all purchases are made in an open, fair and impartial manner, and to provide quality and efficient supply chain services for hospitals. Meanwhile, based on the applications of IT technology, the Group built a process management system with the information system of collectivized management and control as the underlying infrastructure to comprehensively improve the quality of medical services; and

Exploring new business models. The Group will explore in further enriching its business mix by expanding upstream and downstream services in the industry chain, such as ancillary services of the supply chain and medical waste treatment. With a focus on integrated medical services, it will also explore new business models such as Contract Research Organization ("**CRO**"), biotechnology, intelligent healthcare and big data in healthcare. Meanwhile, it will seek strategic cooperation with major online medical platforms for the joint development of the offline medical industry.

FINANCIAL REVIEW

Results of Operations

During the Reporting Period, our revenue was approximately RMB540.9 million, representing an increase of approximately 161.0% when compared with approximately RMB207.2 million of the Corresponding Period of Previous Year, which was mainly attributable to the increase in the revenue of general hospital services arising from the consolidation of the accounts of Shanghai Yangsi Hospital*（上海楊思醫院）(“**Yangsi Hospital**”) since 6 December 2021 and an increase in the amount of revenue from the provision of general hospital services by Jiande Hospital of Traditional Chinese Medicine Co., Ltd.*（建德中醫院有限公司）(“**Jiande Hospital**”) to individual patients.

Our revenue from the hospital management services segment included our revenue from the provision of hospital management services to 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 RMB43.1 million, representing a decrease of approximately 61.6% when compared with approximately RMB112.2 million of the Corresponding Period of Previous Year. The decrease in revenue was mainly due to the decrease of RMB87.2 million in management service fees received from Yangsi Hospital as a result of the consolidation of the accounts of Yangsi Hospital from 6 December 2021.

During the Reporting Period, our revenue from the general hospital services segment increased by approximately 427.0% to approximately RMB493.0 million from approximately RMB93.5 million in the Corresponding Period of Previous Year. Revenue from this segment for the Reporting Period increased mainly due to the increase in the revenue of general hospital services arising from the consolidation of the accounts of Yangsi Hospital since 6 December 2021.

Our adjusted gross profit was approximately RMB82.3 million for the Reporting Period, excluding the impacts of expenses of share-based awards and amortisation of identifiable intangible assets identified in acquisitions, representing a decrease of approximately 27.1% when compared with approximately RMB112.9 million for the Corresponding Period of Previous Year. This was mainly attributable to the decrease in demand for medical treatments and services due to the COVID-19, which resulted in a decline in related revenues.

* *For identification purpose only*

We recorded adjusted administrative expenses of approximately RMB33.5 million for the Reporting Period, excluding the impacts of defined benefit obligation expenses, representing an increase of approximately 62.2% when compared with approximately RMB20.6 million for the Corresponding Period of Previous Year, which was primarily due to an increase in related employee benefit expenses for the Reporting Period when compared with the Corresponding Period of Previous Year arising from the consolidation of the accounts of Yangsi Hospital since 6 December 2021.

We recorded adjusted operating profit of approximately RMB53.7 million for the Reporting Period, representing a decrease of approximately RMB37.5 million from approximately RMB91.1 million for the Corresponding Period of Previous Year. This is mainly attributable to the decrease in demand for medical treatments and services due to the COVID-19, which resulted in a decline in related revenues.

We recorded adjusted financial expense (net) of approximately RMB0.2 million for the Reporting Period, excluding the impact of foreign exchange gains mainly relating to cash and cash equivalents, and financial expenses on other financial liability at amortised cost, representing a decrease of approximately RMB0.9 million when compared with the financial expense (net) of approximately RMB1.1 million for the Corresponding Period of Previous Year. The decrease in financial expense (net) was primarily due to the decrease in interest expense on related bank borrowings.

For the Reporting Period, we have recorded an Adjusted Net Profit of approximately RMB43.4 million, representing a decrease of approximately 38.0% when compared to the Adjusted Net Profit of approximately RMB69.9 million of the Corresponding Period of Previous Year. Without taking into account the impact of the adjusted items, such decrease was mainly due to the decrease in demand for medical treatments and services affected by the COVID-19 outbreak, which resulted in a decline in related revenues.

Impairment losses on intangible assets

As of June 30, 2022, we recorded impairment losses on contractual rights to provide management services and goodwill of approximately RMB97.5 million and RMB362.8 million (2021: approximately RMB410.7 million and RMB132.0 million), which was mainly attributable to impairment losses on relevant intangible assets and goodwill.

As affected by the COVID-19 outbreak and the stringent prevention and control policy implemented since the first half of 2022 in view of the highly infectious nature of the Omicron variant, which resulted in the reduced demand for medical treatment and services, the management of the Group estimated that such factors would have an adverse effect on the Group's financial results, and the Group had conducted interim reviews on intangible assets and goodwill in 2022 to assess the expected recoverable amount of the above-mentioned intangible assets and goodwill. Such assessment requires the use of estimates and professional judgements, and the Group involved an external valuer to perform assessment on the expected recoverable amount of intangible assets and goodwill based on fair value less costs of disposal and value in use calculation. As the above intangible assets and goodwill had no stand-alone selling price and active market, the valuers adopted the cash flow estimates covering an eight-year period based on reasonable and supportable assumptions set up by the management of the Group, and assessed the expected recoverable amounts through income approach, which was the same assessment method used in the previous period. During the interim assessments in 2022, changes in the inputs and key assumptions were attributable to the change in cash flow estimates caused by the change in financial performance of the relevant cash generating-units (CGUs).

Pursuant to the assessment results, the Group recorded impairment losses on intangible assets and goodwill, details of which are set out in Note 12 to the financial statements. In response to the effect of relevant policies, we will perform business structural adjustment to ensure the result performance of the Group in the future.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2022, our total equity was approximately RMB565.1 million (as at December 31, 2021: approximately RMB1,135.8 million). As at June 30, 2022, we had current assets of approximately RMB1,040.3 million (as at December 31, 2021: approximately RMB1,175.6 million) and current liabilities of approximately RMB693.8 million (as at December 31, 2021: approximately RMB526.0 million). As at June 30, 2022, our current ratio was approximately 1.50, as compared with approximately 2.23 as at December 31, 2021.

Our current assets decreased by approximately RMB135.3 million from approximately RMB1,175.6 million as at December 31, 2021 to approximately RMB1,040.3 million as at June 30, 2022, primarily due to a decrease in cash and cash equivalents and financial assets at fair value through profit or loss. Our current liabilities increased by approximately RMB167.8 million from approximately RMB526.0 million as at December 31, 2021 to approximately RMB693.8 million as at June 30, 2022, primarily due to the increase in balances of accruals, other payables and provisions.

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, 2022, we had bank borrowings of approximately RMB90.0 million (as at December 31, 2021: approximately RMB71.0 million), and we had cash and cash equivalents of approximately RMB409.7 million (as at December 31, 2021: approximately RMB440.4 million).

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

	Bank borrowings	
	As at June 30, 2022 RMB'000	As at December 31, 2021 RMB'000
Within 1 year	**89,956**	71,018

As at June 30, 2022, the net gearing ratio, calculated based on the borrowing balance divided by the total equity, of the Company is approximately 15.9%. The Directors believed that, after taking into account the financial resources available to us, which include internally generated funds and the net proceeds from the Listing, we had sufficient working capital to meet our needs. As at June 30, 2022, the Group did not have any other material contingent liabilities or guarantees.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

(1) Discloseable and connected transactions in relation to the acquisition of the entire equity interests of Hangzhou Jingyouzhi; and (2) Continuing connected transactions in relation to the entry of the New VIE contracts

On February 16, 2022, the Group acquired the entire equity interests of Hangzhou Jingyouzhi Enterprise Management Company Limited*（杭州靜有智企業管理有限公司）(“**Hangzhou Jingyouzhi**”) (holding 30% of the equity interests in Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd.*（建德大家中醫藥科技有限公司）(“**DJ Pharmaceutical Technology**”) and Zhejiang Dajia Medicines Co., Ltd.*（浙江大佳醫藥有限公司）(“**DJ Medicines**”) and controlling 30% of the equity interests in Jiande Hospital) (the “**Acquisition**”), at a consideration of RMB120 million in accordance with the terms and conditions under an equity transfer agreement (the “**Onshore Equity Transfer Agreement**”). The Group, through Hangzhou Jingyouzhi, indirectly holds 30% equity interests in DJ Medicines and DJ Pharmaceutical Technology, and indirectly controls 30% of the equity interests in Jiande Hospital through a series of structured contracts. This Acquisition contributed to revenue for the sale of pharmaceutical products and general hospital services businesses that the Group engaged in.

Hangzhou Jingyouzhi, Hangzhou Jinhoupu Management Company Limited*（杭州金厚樸企業管理有限公司）(“**Hangzhou Jinhoupu**” or the “**OPCO**”) and Mr. Hong Jiangxin and Mr. Hong Yang (together with Mr. Hong Jiangxin, the “**Vendors**”) have entered into a series of structured contracts (the “**Existing VIE Contracts**”) on February 7, 2022. On April 2, 2022, (i) a series of agreements (the “**Termination Agreements**”) have been entered into by Hangzhou Jingyouzhi, Hangzhou Jinhoupu, and the Vendors to terminate the Existing VIE Contracts; (ii) a series of contracts (the “**New VIE Contracts**”) have been duly executed to establish the new variable interest entity (“**VIE**”) structure; and (iii) the equity transfer in the OPCO from the Vendors to Mr. Qin Chuan and Mr. Liu Hui (the “**PRC Equity Owners**”) pursuant to an equity transfer agreement (“**Associated Equity Transfer Agreement**”) has been completed. The New VIE

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Contracts, comprise the following: (i) the exclusive operation service agreement entered into among Jiande Heyue Enterprise Management Co., Ltd.*(建德和悦企業管理有限公司)("**Jiande Heyue**"), the OPCO and the PRC Equity Owners; (ii) the exclusive option agreements entered into among Jiande Heyue, the PRC Equity Owners, the OPCO and Jiande Hospital; (iii) the entrustment agreements entered into among Jiande Heyue, the PRC Equity Owners, the OPCO and Jiande Hospital in favor of Jiande Heyue (and its successors or liquidators) or a natural person designated by Jiande Heyue and the annexure of the powers of attorney executed by the PRC Equity Owners and the OPCO appended thereto; and (iv) the equity pledge agreements entered into among Jiande Heyue, the PRC Equity Owners, the OPCO and Jiande Hospital.

On April 3, 2022, The Company has applied for a waiver (the "**Waiver**") pursuant to Rule 14A.102 of the Listing Rules from (i) fixing the term of the New VIE Contracts for a period of not exceeding three years under Rule 14A.52 of the Listing Rules; and (ii) setting a maximum annual cap for the service fees payable by the OPCO to Jiande Heyue under Rule 14A.53 of the Listing Rules. The Stock Exchange has granted the Waiver, subject to conditions.

Please refer to the announcements published by the Company on October 27, 2017, November 1, 2017, February 16, 2022, April 3, 2022 and the circular published by the Company on December 15, 2017 for details.

Save as disclosed herein, the Group did not undertake any material acquisitions and disposals of subsidiaries, associates and joint ventures from January 1, 2022 until June 30, 2022.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As of June 30, 2022, 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, 2022, 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, 2022 and December 31, 2021, Impeccable Success Limited ("**Impeccable Success**") has pledged its paid-up equity interests in 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, 2022 and December 31, 2021, 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.

Save as disclosed herein, as at June 30, 2022 and December 31, 2021, 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, 2022.

HUMAN RESOURCES

As at June 30, 2022, we had a total of 1,393 employees (as at June 30, 2021: 493), the increase of employee was mainly due to Yangsi Hospital was consolidated with effect from December 6, 2021, the employees of Yangsi Hospital were included in the statistical scope. 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, 2022, the total employee benefits expenses (including Directors' remuneration) were approximately RMB166.9 million (for the six months ended June 30, 2021: approximately RMB56.3 million).

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

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, 2022, 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, 2022, the total number of issued shares of the Company was 138,194,000.

Save as disclosed above, as of June 30, 2022, 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, 2022, 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, 2021. 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, 2022, the total number of issued shares of the Company was 138,194,000.

USE OF NET PROCEEDS FROM LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange on March 16, 2017 (the "**Listing Date**"). The net proceeds received by the Company from the global offering and the exercise of the over-allotment option after deducting underwriting commissions and all related expenses was approximately HK$465.6 million. The net proceeds received from the global offering has been and will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the prospectus of the Company dated February 28, 2017 (the "**Prospectus**"). All of the unutilized amount has been placed with licensed banks in Hong Kong, and will be utilized in the manner as described in the Prospectus and in accordance with the Company's needs from time to time. An analysis of the utilization of the net proceeds from the Listing Date up to June 30, 2022 is set out below:

	Percentage of the total amount	Net proceeds HK$ million	Utilized amount up to December 31, 2021 HK$ million	Utilized amount subsequent to December 31, 2021 and up to June 30, 2022 HK$ million	Unutilized amount as at June 30, 2022 HK$ million	Expected time period
Strategic acquisition of hospitals in China	50%	232.80	232.80	–	–	–
Further investment in the hospitals we own or manage from time to time (except for not-for-profit hospitals)						
– Purchase of medical and other equipment	11%	51.22	51.22	–	–	–
– Upgrading and improvement of medical facilities	7%	32.59	32.59	–	–	–
Employee training programs at the hospitals we own or manage from time to time, efforts to recruit talents and academic research activities						
– Human resources expenses	6%	27.94	27.94	–	–	–
– Employing medical professionals and experts in business management	5%	23.28	23.28	–	–	–
– Conducting academic research activities and developing employee training programs with a focus on management training and professional training	4%	18.62	16.43	1.09	1.1	The balance is expected to be fully utilized by the end of 2024
Upgrading and improving our information technology system	7%	32.59	32.59	–	–	–
Provide funding for our working capital, rental and property related expenses and other general corporate purposes	10%	46.56	46.56	–	–	–
	100%	465.60	463.41	1.09	1.1	

CONVERTIBLE BONDS

Vanguard Convertible Bonds

In view of the Group's substantial need to fund our future acquisitions, the Company and Vanguard Glory Limited ("**Vanguard Glory**"), a shareholder holding 70.19% of the Company's issued share capital, entered into a subscription agreement on January 25, 2018, pursuant to which, on March 5, 2018, the Company issued and Vanguard Glory subscribed for convertible bonds in the principal amount of HK$468 million ("**Vanguard Convertible Bonds**") with an initial conversion price of HK$18.00 per conversion share. The Vanguard Convertible Bonds will mature three years upon their issuance or may be converted into 26,000,000 ordinary shares of the Company (assuming the conversion rights are exercised in full and subject to adjustment). Upon maturity, the Company will redeem all outstanding Vanguard Convertible Bonds at its principal amount.

On December 17, 2020, in accordance with the terms and conditions of the Vanguard Convertible Bonds, the Company and Vanguard Glory entered into a deed of amendment to alter certain terms of the Vanguard 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 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 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.

Please refer to the announcements of the Company dated December 17, 2020 and February 22, 2021 and the circular of the Company dated January 29, 2021 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 Convertible Bonds were determined, was HK$15.00 per share.

The net proceeds from the Vanguard Convertible Bonds, after deducting all related costs and expenses, was approximately HK$467 million. The net proceeds of approximately HK$405 million were used to acquire Cixi Hongai Medical Management Co., Ltd. ("**Cixi Hongai**") in March 2018. As at June 30, 2022, the remaining net proceeds of approximately HK$62 million were placed in the bank account of the Group opened with licensed banks in Hong Kong, and was expected to be utilized in accordance with the use of proceeds as referred to in the circular of the Company dated February 13, 2018. The unutilized amount of the net proceeds will be used for acquisitions of other hospitals or hospital management businesses by the Group. The Directors believe that it is fair and reasonable, and in the interests of the Company and its shareholders as a whole. As at June 30, 2022, 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, 2021	Utilized amount subsequent to December 31, 2021 and up to June 30, 2022	Unutilized amount as at June 30, 2022	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, 2022, none of the Vanguard Convertible Bonds has been converted into shares of the Company. Details of the Vanguard Convertible Bonds were disclosed in the announcement and circular of the Company dated January 25, 2018 and February 13, 2018, respectively.

Dilution Impact on Earnings per Share

As calculated based on loss attributable to owners of the Company of approximately RMB427.6 million for the six months ended June 30, 2022, basic and diluted losses per share of the Company amounted to RMB3.09 and RMB3.09, respectively.

Based on the implied internal rate of returns of the Vanguard 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 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 Capital Fund VIII (Cayman), L.P. ("**Hony Fund VIII**") entered into a share purchase agreement (the "**Share Purchase Agreement**") in relation to the sale and purchase of the entire equity interest in Oriental Ally Holdings Limited ("**Oriental Ally**"), a company incorporated in the British Virgin Islands with limited liability and owned by Hony Fund VIII, at a consideration of RMB630,000,000 (equivalent to approximately HK$773,879,717).

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

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

As at June 30, 2022, none of the Hony Convertible Bonds has been converted into shares of the Company. Details of the Hony Convertible Bonds have been disclosed in the announcement and circular of the Company dated May 29, 2018 and June 24, 2018, respectively.

Dilution Impact on Earnings per Share

As calculated based on loss attributable to owners of the Company of approximately RMB427.6 million for the six months ended June 30, 2022, basic and diluted losses per share of the Company amounted to RMB3.09 and RMB3.09, respectively.

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	**August 7, 2023** (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

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 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 Convertible Bonds and the outstanding Hony Convertible Bonds.

Substantial Shareholders	As at June 30, 2022		Immediately upon full conversion of the Vanguard 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

SHARE-BASED PAYMENT SCHEMES

(a) Share Subscription Agreement

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

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

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

* *For identification purpose only*

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

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

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

The share-based compensation expense related to the Share Subscription Agreement of RMB0.00 were recognised as "cost of revenue" for the six months ended June 30, 2022 (six months ended June 30, 2021: RMB0.00).

(b) Pre-IPO Share Appreciation Rights Scheme

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

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

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

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

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

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 RMB220,000 were derecognised as "cost of revenue" for the six months ended June 30, 2022 (six months ended June 30, 2021: RMB128,000 were derecognised as "cost of revenue").

(c) Service Contract with Mr. Lu Wenzuo

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

(i) Certain share awards (the "**Share Awards**") to acquire 1% of the equity interest in each of Weikang Investment and Tibet Dazi Honghe Ruixin Business Management Co., Ltd.*（西藏達孜弘和瑞信企業管理有限公司）("**Honghe Ruixin**") for each of the three years ending December 31, 2017 from New Pride and Tibet Honghe Zhiyuan Business Management Co., Ltd.*（西藏弘和志遠企業管理有限公司）("**Honghe Zhiyuan**"), or receive a cash payment equivalent to the value of 1% of the equity interest in each of Weikang Investment and Honghe Ruixin for each of the three years ending December 31, 2017; and

(ii) Share appreciation rights ("**Mr. Lu's SARs**") to receive a cash payment based on the appreciation of 1% of the notional equity interest in Weikang Investment and Honghe Ruixin.

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

On January 25, 2019, Mr. Lu Wenzuo submitted an application to New Pride for the exercise of Mr. Lu's SARs. As of June 30, 2022, the amount in respect of Mr. Lu's SARs had not been settled.

The share-based compensation expenses related to Mr. Lu's SARs of RMB0.00 were derecognised as "cost of revenue" for the six months ended June 30, 2022 (six months ended June 30, 2021: RMB0.00 were derecognised as "cost of revenue").

(d) Share Incentive Scheme

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

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

In 2019, two of the Share Incentive Grantees resigned and as agreed by the Company, 50% of the share awards granted by Vanguard Glory to one of the grantees would be released from the lock-up restrictions and free to be vested after his resignation, while the remaining 50% locked-up notional shares granted to him lapsed. The share-based compensation expenses in relation to the share awards granted to the resigned Share Incentive Grantee for the year ended December 31, 2019 were recognised as capital reserve upon his resignation. Further, pursuant to the Share Incentive Scheme, the share awards granted to another grantee who has resigned which were permitted to vest but had not been exercised will be terminated and the remaining locked-up notional shares granted to him shall lapse.

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 of RMB128,000 were recognised as "cost of revenue" for the six months ended June 30, 2022 (six months ended June 30, 2021: RMB414,000 were recognised as "cost of revenue").

(e) Post-IPO Share Appreciation Rights Scheme

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

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

(f) Share Award Scheme

The Company has adopted a share award scheme of the Company (the "**Share Award Scheme**") on 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**") 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.

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

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the 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

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, 2022 have not been audited but have been reviewed by the Group's external auditor, KPMG, and by the Audit Committee.

KPMG

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 33 to 68 which comprises the consolidated balance sheet of Hospital Corporation of China Limited (the "Company") and its subsidiaries (together, the "Group") as of June 30, 2022 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 June 30, 2022 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

August 30, 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2022 – unaudited
(Expressed in Renminbi ("RMB"))

	Note	Six months ended June 30, 2022 RMB'000	2021 RMB'000
Revenue	5	**540,918**	207,248
Cost of revenue		**(468,763)**	(108,001)
Gross profit		**72,155**	99,247
Administrative expenses		**(35,267)**	(21,057)
Selling expenses		**(282)**	(839)
Net impairment losses on financial assets		**(662)**	(4,483)
Impairment losses on intangible assets		**(460,283)**	(542,715)
Other income		**3,833**	1,197
Other losses, net	6	**(35,062)**	(15,185)
Operating loss		**(455,568)**	(483,835)
Finance income	7	**8,094**	3,696
Finance costs	7	**(4,089)**	(12,864)
Loss before income tax		**(451,563)**	(493,003)
Income tax	8	**14,270**	82,579
Loss for the period		**(437,293)**	(410,424)
Other comprehensive income			
Item that will not be subsequently reclassified to profit or loss			
– Remeasurement of defined benefit obligations		**(2,527)**	–
Total comprehensive income for the period		**(439,820)**	(410,424)
Attributable to:			
Owners of the Company		**(427,562)**	(341,104)
Non-controlling interests		**(12,258)**	(69,320)
Total comprehensive income for the period		**(439,820)**	(410,424)
Loss per share from loss attributable to owners of the Company			
– Basic and diluted loss per share (in RMB)	9	**(3.09)**	(2.47)

The notes on pages 38 to 68 form part of this interim financial information.

CONSOLIDATED BALANCE SHEET

As at June 30, 2022 – unaudited
(Expressed in RMB)

	Note	June 30, 2022 RMB'000	December 31, 2021 RMB'000
ASSETS			
Non-current assets			
Property and equipment	10	**232,643**	250,715
Right-of-use assets	11	**46,667**	48,458
Intangible assets	12	**1,169,073**	1,637,308
Deferred income tax assets	20	**9,060**	9,284
Other receivables, deposits and prepayments		**3,304**	2,374
Total non-current assets		**1,460,747**	1,948,139
Current assets			
Inventories		**46,664**	48,033
Trade receivables	13	**72,540**	114,794
Other receivables, deposits and prepayments		**17,341**	9,975
Amounts due from related parties	14	**244,285**	222,802
Financial assets at fair value through profit or loss	4.3(i)	**249,802**	338,905
Term deposits		**–**	638
Cash and cash equivalents	15	**409,703**	440,428
Total current assets		**1,040,335**	1,175,575
Total assets		**2,501,082**	3,123,714
EQUITY			
Equity attributable to owners of the Company			
Share capital		**123**	123
Share premium		**435,304**	435,304
Other reserves		**868,028**	929,345
Accumulated losses		**(994,361)**	(566,799)
		309,094	797,973
Non-controlling interests		**256,041**	337,854
Total equity		**565,135**	1,135,827

CONSOLIDATED BALANCE SHEET

As at June 30, 2022 – unaudited
(Expressed in RMB)

	Note	June 30, 2022 RMB'000	December 31, 2021 RMB'000
LIABILITIES			
Non-current liabilities			
Convertible bonds	19	**933,601**	906,916
Lease liabilities	11	**6,876**	7,607
Employment benefit obligations		**47,091**	42,798
Deferred income tax liabilities	20	**157,396**	178,741
Accruals, other payables and provisions	17	**97,160**	325,804
Total non-current liabilities		**1,242,124**	1,461,866
Current liabilities			
Trade payables	16	**100,764**	124,300
Accruals, other payables and provisions	17	**480,322**	287,419
Amounts due to related parties	14	**7,492**	13,246
Contract liabilities		**1,281**	1,494
Current income tax liabilities		**12,117**	27,030
Borrowings	18	**89,956**	71,018
Lease liabilities	11	**1,891**	1,514
Total current liabilities		**693,823**	526,021
Total liabilities		**1,935,947**	1,987,887
Total equity and liabilities		**2,501,082**	3,123,714

The notes on pages 38 to 68 form part of this interim financial information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2022 – unaudited
(Expressed in RMB)

		Attributable to owners of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Attributable to non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 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	21	–	–	(61,445)	–	(61,445)	(57,555)	(119,000)
Dividends to non-controlling interests		–	–	–	–	–	(12,000)	(12,000)
Balance at June 30, 2022		123	435,304	868,028	(994,361)	309,094	256,041	565,135
Balance at January 1, 2021		123	435,304	928,111	(283,382)	1,080,156	287,084	1,367,240
Comprehensive income								
– Loss for the period		–	–	–	(341,104)	(341,104)	(69,320)	(410,424)
Share-based payments								
– share option scheme		–	–	414	–	414	–	414
Balance at June 30, 2021		123	435,304	928,525	(624,486)	739,466	217,764	957,230

The notes on pages 38 to 68 form part of this interim financial information.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2022 – unaudited
(Expressed in RMB)

	Note	Six months ended June 30, 2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Cash generated from operations		**14,627**	112,401
Interests received		**1,094**	1,543
Income tax paid		**(3,147)**	(17,302)
Net cash generated from operating activities		**12,574**	96,642
Cash flows from investing activities			
Payments for property and equipment		**(5,328)**	(8,417)
Payments for intangible assets		**(207)**	(196)
Payments for financial assets at fair value through profit or loss	4.3(iii)	**(377,000)**	(196,500)
Placement of term deposits with initial terms of over three months		**–**	(4,853)
Loans to related parties		**(20,000)**	(8,620)
Loans repayment from related parties		**–**	21
Proceeds from disposal of financial assets at fair value through profit or loss	4.3(iii)	**469,579**	101,706
Interest received on fixed deposits		**15**	212
Loans interest received from a related party		**1,020**	2,063
Redemption of term deposits with initial terms of over three months		**638**	–
Net cash generated from/(used in) investing activities		**68,717**	(114,584)
Cash flows from financing activities			
Proceeds from borrowings		**31,900**	12,900
Repayment to related parties		**–**	(787)
Repayment of borrowings		**(14,512)**	(72,244)
Payment of loan interests		**(1,558)**	(3,930)
Principal elements of lease payments		**(274)**	(952)
Interest elements of lease payments		**(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)**	–
Net cash used in financing activities		**(116,480)**	(65,013)
Net decrease in cash and cash equivalents		**(35,189)**	(82,955)
Cash and cash equivalents at the beginning of the period		**440,428**	860,726
Effects of exchange rate changes on cash and cash equivalents		**4,464**	(8,075)
Cash and cash equivalents at the end of the period	15	**409,703**	769,696

The notes on pages 38 to 68 form part of this interim financial information.

1 GENERAL INFORMATION

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

The Company, together with its subsidiaries (collectively referred to as "the Group"), are principally engaged in (i) operation and management of 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 March 16, 2017.

2 BASIS OF PREPARATION

This interim financial information for the six months ended June 30, 2022 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 August 30, 2022.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 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 2021 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 32.

The financial information relating to the financial year ended 31 December 2021 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 2021 are available from the Company's registered office. The predecessor auditor of the Company, PricewaterhouseCoopers, has expressed an unqualified opinion on those financial statements in their report dated March 29, 2022.

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:

– Amendments to IAS 16, "Property, plant and equipment: Proceeds before intended use"

– Amendments to IAS 37, "Provisions, contingent liabilities and contingent assets, Onerous contracts — cost of fulfilling a contract"

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

None of these developments has had a material effect on how to 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 June 30, 2022 and December 31, 2021.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at June 30, 2022				
Asset				
Financial assets at fair value through profit or loss ("FVPL")				
– Monetary funds	**–**	**249,802**	**–**	**249,802**
Total asset	**–**	**249,802**	**–**	**249,802**
Liability				
Financial liabilities at FVPL				
– Convertible bonds (Note 19)	**–**	**–**	**933,601**	**933,601**
Total financial liability	**–**	**–**	**933,601**	**933,601**
As at December 31, 2021				
Asset				
Financial assets at fair value through profit or loss ("FVPL")				
– Monetary funds	–	338,905	–	338,905
Total asset	–	338,905	–	338,905
Liability				
Financial liabilities at FVPL				
– Convertible bonds (Note 19)	–	–	906,916	906,916
Total financial liability	–	–	906,916	906,916

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 maximize 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 June 30, 2022.

	Monetary funds RMB'000
Opening balance as at January 1, 2022	338,905
Additions	377,000
Settlements	(469,579)
Gains recognised in other losses-net	3,476
Closing balance as at June 30, 2022	249,802

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

The following table presents the changes in level 3 instruments for the six months ended June 30, 2022.

	Convertible bonds (Note 19) RMB'000
Opening balance as at January 1, 2022	(906,916)
Losses recognised in other losses-net*	(26,685)
Closing balance as at June 30, 2022	(933,601)
*Includes unrealised losses recognised in profit or loss attributable to balances held at the end of the reporting period	(26,685)

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 June 30, 2022 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
- Contract assets
- Other receivables, deposits and prepayments
- Amounts due from related parties
- Term deposits
- Cash and cash equivalents
- Trade payables
- Contract liabilities
- Accruals, other payables and provisions (excluding non-financial liabilities)
- Amounts due to related parties
- Borrowings
- Lease liabilities

5 SEGMENT INFORMATION

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

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

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

(a) General hospital services

Revenue from this segment is generated in the PRC and derived from hospital services provided by Jiande Hospital of Traditional Chinese Medicine Co., Ltd.*（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 Shanghai Yangsi Hospital *（上海楊思醫院）("Yangsi Hospital") for the six months ended June 30, 2022.

For general hospital services, revenue primarily derives from highly diversified individual patients and no single patient contributed 1% or more of the Group's respective revenue for the six months ended June 30, 2022 and 2021, 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 its subsidiary 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 June 30, 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	63,933	(444,081)	1,810	(90)	–	(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	35,875	(450,487)	1,763	(90)	(38,624)	(451,563)
As at June 30, 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

5 SEGMENT INFORMATION – *continued*

(d) Unallocated – *continued*

	General hospital services RMB'000	Hospital management services RMB'000	Sale of pharmaceutical products RMB'000	Unallocated RMB'000	Total RMB'000
Six months ended June 30, 2021					
Segment revenue	93,543	112,233	1,472	–	207,248
Revenue from external customers	93,543	112,233	1,472	–	207,248
Timing of revenue recognition					
– At a point in time	51,515	–	1,472	–	52,987
– Over time	42,028	112,233	–	–	154,261
	93,543	112,233	1,472	–	207,248
EBITDA	14,303	(458,617)	21	–	(444,293)
Depreciation	(5,931)	(928)	(273)	(802)	(7,934)
Amortisation	(3,819)	(10,143)	(2)	(52)	(14,016)
Finance (costs)/income	(905)	35	(14)	(8,284)	(9,168)
Unallocated expense- net	–	–	–	(17,592)	(17,592)
Profit/(losses) before income tax	3,648	(469,653)	(268)	(26,730)	(493,003)
As at June 30, 2021					
Segment assets	399,116	951,276	4,486	829,797	2,184,675
Goodwill	58,495	950,915	9,266	–	1,018,676
Total assets	457,611	1,902,191	13,752	829,797	3,203,351
Total liabilities	147,454	178,433	3,277	1,916,957	2,246,121

6 OTHER LOSSES, NET

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
Fair value losses and other changes on convertible bonds	**(26,685)**	(18,155)
Net fair value gains on financial assets at FVPL	**3,476**	1,762
Others	**(11,853)**	1,208
	(35,062)	(15,185)

7 FINANCE INCOME AND COSTS

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
Finance income		
Interest income on loan to a related party	**2,119**	1,941
Interest income on bank deposits	**1,807**	1,755
Foreign exchange gains – net	**4,168**	–
	8,094	3,696
Finance costs		
Foreign exchange losses – net	**–**	(7,005)
Interest expense on bank borrowings	**(1,656)**	(4,584)
Finance expense on financial liability at amortised cost	**–**	(1,100)
Finance expense on redemption of convertible bond	**(2,136)**	–
Others	**(297)**	(175)
	(4,089)	(12,864)

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 June 30, 2022 (six months ended June 30, 2021: 25% or 15%).

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
Current income tax:		
– PRC corporate income tax	**(6,851)**	(18,057)
Deferred income tax (Note 20)	**21,121**	100,636
	14,270	82,579

(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 June 30, 2022 (six months ended June 30, 2021: 16.5%). No Hong Kong Profits Tax was provided for as there was no estimated assessable profit that was subject to Hong Kong Profits Tax for the period ended June 30, 2022 and 2021.

(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") and Tibet Dazi Honghe Ruixin Business Management Co., Ltd.*（西藏達孜弘和瑞信企業管理有限公司）("Honghe Ruixin") was 15% for the period ended June 30, 2022 (six months ended June 30, 2021: 15%). The income tax rate of other subsidiaries was 25% for the period ended June 30, 2022 (six months ended June 30, 2021: 25%).

(d) Withholding Tax

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

* *For identification purpose only*

9 LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended June 30, 2022 and 2021.

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
Total loss attributable to owners of the Company (RMB'000)	**(427,562)**	(341,104)
Weighted average number of ordinary shares in issue (in thousands)	**138,194**	138,194
Basic loss per share (in RMB)	**(3.09)**	(2.47)

(b) Diluted loss per share

The Group had potential dilutive shares during the six months ended June 30, 2022 and 2021 related to the convertible bonds. Mainly due to the Group's negative financial results during the six months ended June 30, 2022 and 2021, relative convertible bonds have anti-dilutive effect on the Group's loss per share. Thus, diluted loss per share is equivalent to the basic loss per share at June 30, 2022 and 2021.

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 June 30, 2022						
Net book value						
Opening amount						
as at January 1, 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 June 30, 2022	**114,496**	**16,206**	**92,008**	**9,539**	**394**	**232,643**
Six months ended June 30, 2021						
Net book value						
Opening amount						
as at January 1, 2021	108,330	2,358	27,457	4,685	2,295	145,125
Additions	–	273	2,619	481	2,258	5,631
Disposals	(922)	–	–	(17)	–	(939)
Transfer upon completion	2,707	–	–	28	(2,735)	–
Depreciation	(3,263)	(275)	(2,695)	(798)	–	(7,031)
Closing amount						
as at June 30, 2021	106,852	2,356	27,381	4,379	1,818	142,786

11 LEASES

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

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at June 30, 2022 RMB'000	As at December 31, 2021 RMB'000
Right-of-use assets		
Land use right	**36,184**	36,656
Properties	**10,483**	11,802
	46,667	48,458
Lease Liabilities		
Current	**1,891**	1,514
Non-current	**6,876**	7,607
	8,767	9,121

Additions to the right-of-use assets for the six months ended June 30, 2022 were nil (six months ended June 30, 2021: RMB 11,546,000).

(b) Amounts recognised in the statement of comprehensive income

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

	Six months ended June 30,	
	2022 RMB'000	2021 RMB'000
Depreciation charge of right-of-use assets – properties	**1,319**	903
Amortisation charge of right-of-use assets – land use right	**472**	472
Interest expense (included in finance cost)	**212**	148
Expense relating to short-term and low-value leases (included in cost of revenue and administrative expenses)	**1,974**	465

The total cash outflow for leases for the six months ended June 30, 2022 was RMB1,879,000 (six months ended June 30, 2021: RMB1,417,000).

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 June 30, 2022					
Net book value					
Opening amount as at January 1, 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 June 30, 2022	**745,868**	**262,446**	**156,668**	**4,091**	**1,169,073**
Six months ended June 30, 2021					
Net book value					
Opening amount as at January 1, 2021	1,150,684	890,411	166,379	1,083	2,208,557
Additions	–	–	–	196	196
Amortisation	–	(10,135)	(3,237)	(172)	(13,544)
Impairment charge	(132,008)	(410,707)	–	–	(542,715)
Closing amount as at June 30, 2021	1,018,676	469,569	163,142	1,107	1,652,494

(a) Goodwill impairment

Management reviews business performance of each cash-generating unit ("CGU"). The recoverable amount of each CGU is determined based on higher of fair value less cost of disposal (FVLCOD) calculations and value in use (VIU). These calculations use cash flow projections based on financial budgets approved by management covering an eight-year-forecast-period since July 1, 2022. The management considers that the eight-year-forecast-period financial budget that has been used in the goodwill impairment test is appropriate because the investment cycle in the healthcare industry is longer than other industries, and the useful lives of the licenses of related subsidiaries are longer than eight years. Cash flows beyond the eight-year period are extrapolated using the estimated long-term growth rate of 2.5% by reference to the long-term inflation rate of China as at June 30, 2022 and December 31, 2021.

(Expressed in RMB unless otherwise indicated)

12 INTANGIBLE ASSETS – *continued*

(a) Goodwill impairment – *continued*

Due to the impact of the implementation plan of the medical reform policies in relation to DIP published in Shanghai in the first half of 2022, and the Coronavirus Disease 2019 ("the COVID-19") outbreak resulting the continued stringent prevention and control policy implemented since the first half of 2022, the operation of hospital management services provided by Weikang Investment and Honghe Ruixin operating CGU ("the Weikang CGU") for the six months ended June 30, 2022 was below the management's forecast. Management engaged an independent valuer in determining the recoverable amount of the Weikang CGU as at June 30, 2022.

The impairment loss on goodwill of RMB362,822,000 during the six months ended June 30, 2022 solely relates to the Weikang CGU. As the CGU has been reduced to its recoverable amount of RMB1,007,100,000, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

The key assumptions used in the impairment calculation of the Weikang CGU include:

	As at June 30, 2022	As at December 31, 2021
Revenue (% compound growth rate)	**7.68%**	8.07%
Post-tax discount rate	**13.50%**	13.50%

As a result of the implementation plan of the medical reform policies in relation to DIP published in Shanghai in the first half of 2022, the management is of the view that the continuous impact of the change in the DIP policy is irreversible and that patients' average medical expenses will have to be adjusted gradually in the future. Meanwhile, the future income growth of the hospital will also be affected by the medical insurance coverage in China.

Also, as a result of the outbreak of the pandemic in Shanghai, Yangsi Hospital closed down its business for three months in the first half of 2022, and it is expected that its business for 2022 would decline by 40% compared to the corresponding period of last year according to management. Due to the impact of the COVID-19, the global economy has obviously fluctuated. Although the overall situation in Mainland China has now been brought under control, there are still resurgence of the outbreak in Shanghai. Besides, the COVID-19 related preventive measures are still in place and will impact on the operation of hospitals to a certain extent.

The management is of the view that the above factors may continue to impact the hospitals' operations in the next few years. As a result, the forecast of revenue for the next few years has been adjusted.

(Expressed in RMB unless otherwise indicated)

12 INTANGIBLE ASSETS – *continued*

(a) Goodwill impairment – *continued*

The remaining goodwill mainly represents for Jiande Hospital operating CGU ("the Jiande CGU"), the recoverable amount was estimated to be RMB268,000,000 as at June 30, 2022 which exceeded the carrying amount of the Jiande CGU by RMB26,762,000, accordingly, no impairment of goodwill was recognised for the six months ended June 30, 2022 (six months ended June 30, 2021: nil).

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

Contractual rights to provide management services are the rights to provide management services to Zhejiang Jinhua Guangfu Oncological Hospital*（浙江金華廣福腫瘤醫院）("Jinhua Hospital") and Cixi Union hospital*（慈溪弘和醫院）("Cixi Hospital") with finite useful life. These contractual rights acquired in business combinations are recognised at fair value as at the acquisition date.

Due to the similar reason as mentioned in goodwill impairment, the operating results of certain hospitals were below management's forecasts. Management engaged an independent valuer in determining the recoverable amount of contractual rights to provide management services to Jinhua hospital and Cixi hospital as of June 30, 2022. Impairment loss of RMB97,461,000 was recognised for contractual rights to provide management services to Jinhua hospital, reducing its carrying amount to RMB207,001,000. No impairment was recognised for contractual rights to provide management services to Cixi Hospital (six months ended June 30, 2021: RMB233,455,000 and RMB177,252,000 were impaired for the contractual rights to provide management services to Jinhua hospital and Cixi hospital, respectively).

The key assumptions used in the impairment calculation of contractual rights to provide management services to Jinhua hospital include:

	As at June 30, 2022	As at December 31, 2021
Revenue (% compound growth rate)	**6.14%**	9.97%
Post-tax discount rate	**14.00%**	14.00%

Due to the implementation plan of the pervasive medical reform policies in relation to DRG published in Zhejiang Province in the first half of 2022, as well as the outbreak of the pandemic in Jinhua and the continuous resurgence of the epidemic situation in Jinhua and the surrounding areas in the first half of 2022 and the implementation of the stringent policies on sustained epidemic controls, the management expects that these factors will lead to a 5% drop in the income of the hospital in 2022 as compared to the previous year. And as the COVID-19 related preventive measures are still in place and will have impact on the operation of hospitals to a certain extent, the management is of the view that the impact will continue in the next few years, it has adjusted the projected growth rate of revenue in the next few years.

* *For identification purpose only*

12 INTANGIBLE ASSETS – *continued*

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

Cash flows beyond the eight-year period are extrapolated using the estimated long-term growth rate of 2.5% by reference to the long-term inflation rate of China as at June 30, 2022 and December 31, 2021.

13 TRADE RECEIVABLES

	As at June 30, 2022 RMB'000	As at December 31, 2021 RMB'000
Trade receivables	**79,762**	121,533
Less: provision for impairment of trade receivables	**(7,222)**	(6,739)
Trade receivables – net	**72,540**	114,794

As at June 30, 2022 and December 31, 2021, the ageing analysis based on invoice date of the trade receivables was as follows:

	As at June 30, 2022 RMB'000	As at December 31, 2021 RMB'000
1 – 90 days	**77,062**	114,536
91 – 180 days	**1,954**	4,033
181 days – 1 year	**487**	2,697
Over 1 year	**259**	267
	79,762	121,533

14 BALANCES WITH RELATED PARTIES

As at June 30, 2022 and December 31, 2021, the balances with related parties are unsecured, receivable/payable on demand and are denominated in RMB.

	As at June 30, 2022 RMB'000	As at December 31, 2021 RMB'000
Amounts due from related parties		
– Trade in nature		
Jinhua Hospital	163,338	158,524
Cixi Hospital	11,351	15,932
Yongkang Hospital	350	343
– Others		
Jinhua Hospital	101,226	80,000
Vanguard Glory Limited	352	335
Han Prestige Limited	6	6
Yongkang Hospital	8	9
Total	276,631	255,149
Less: provision for impairment of amounts due from related parties	(32,346)	(32,347)
Amounts due from related parties – net	244,285	222,802

As at June 30, 2022 and December 31, 2021, the ageing analysis based on trading date of the amounts due from related parties was as follows:

	As at June 30, 2022 RMB'000	As at December 31, 2021 RMB'000
Within 90 days	15,316	19,195
91 to 180 days	10,650	8,713
Over 180 days	149,073	146,891
	175,039	174,799

14 BALANCES WITH RELATED PARTIES – *continued*

	As at June 30, 2022 RMB'000	As at December 31, 2021 RMB'000
Amounts due to related parties		
– Trade in nature		
Dajia Medical Equipment Co., Ltd.	–	5,870
– Others		
Jinhua Hospital	6,013	5,971
Vanguard Glory Limited	1,459	1,386
Cixi Hospital	13	13
Midpoint Honour Ltd.	7	6
Total	7,492	13,246

As at June 30, 2022 and December 31, 2021, the ageing analysis based on trading date of the amounts due to related parties was as follows:

	As at June 30, 2022 RMB'000	As at December 31, 2021 RMB'000
Within 90 days	–	5,176
91 to 180 days	–	694
Over 180 days	–	–
	–	5,870

15 CASH AND CASH EQUIVALENTS

	As at June 30, 2022 RMB'000	As at December 31, 2021 RMB'000
Cash at banks	**265,410**	204,490
Cash on hand	**1,522**	659
Term deposits with initial terms within three months	**100,671**	100,000
Deposits held at call with financial institutions	**42,100**	135,279
Total	**409,703**	440,428

16 TRADE PAYABLES

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

	As at June 30, 2022 RMB'000	As at December 31, 2021 RMB'000
Within 90 days	**83,940**	112,350
91 to 180 days	**10,122**	6,203
181 days to 1 year	**4,129**	2,581
Over 1 year	**2,573**	3,166
	100,764	124,300

17 ACCRUALS, OTHER PAYABLES AND PROVISIONS

	As at June 30, 2022 RMB'000	As at December 31, 2021 RMB'000
Accrued employee benefits	**76,709**	97,236
Payables for redemption of convertible bonds	**195,490**	184,553
Payables of undertaking letter	**239,788**	239,788
Payables to third parties	**20,000**	20,000
Share-based payments	**14,293**	14,513
Duty and tax payables other than corporate income tax	**4,606**	27,469
Other payables to suppliers for purchase of equipment	**9,448**	9,991
Accrued professional service fee	**4,955**	5,637
Others	**12,193**	14,036
Total	**577,482**	613,223
Less: non-current portion		
Payables of undertaking letter	**–**	(239,788)
Payables for redemption of convertible bonds	**(96,621)**	(85,686)
Others	**(539)**	(330)
	(97,160)	(325,804)
Current portion	**480,322**	287,419

18 BORROWINGS

	As at June 30, 2022			As at December 31, 2021		
	Current	Non-current	Total	Current	Non-current	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowing						
Secured but unguaranteed(a)	30,956	–	30,956	31,018	–	31,018
Unsecured and unguaranteed(b)	59,000	–	59,000	40,000	–	40,000
	89,956	–	89,956	71,018	–	71,018

(a) On December 11, 2017, the Company entered into a long-term loan agreement with China Merchants Bank Shanghai Zhangyang Branch. The bank loan commencing from December 12, 2017 will mature until 2022 with a twice repayment a year and bear a floating interest rate with reference to Hong Kong Interbank Offer Rate plus 360 basis points per quarter. The bank loan was secured by the 100% equity interest of Jiande Hexu Enterprise Management Co., Ltd. and Jiande Heyue Enterprise Management Co., Ltd.*（建德和悅企業管理有限公司）("Jiande Heyue") and 70% equity interest of Jiande Hospital, DJ Pharmaceutical Technology and DJ Medicines.

(b) Jiande Hospital entered into seven one-year loan agreements with Agricultural Bank of China Jiande Branch in November and December 2021, and March, April and June 2022. The amount of these loans was RMB59,000,000, which consist of the loans amounting to RMB9,900,000, RMB9,000,000, RMB8,200,000, RMB9,900,000 and RMB3,000,000 bearing the same fixed interest rate of 4.300%, and the loans amounting to RMB9,500,000 and RMB9,500,000 bearing the same fixed interest rate of 4.100%.

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

	Bank borrowings	
	As at June 30, 2022 RMB'000	As at December 31, 2021 RMB'000
Within 1 year	89,956	71,018

* *For identification purpose only*

19 CONVERTIBLE BONDS

The movements of the convertible bonds are as follows:

	Convertible Bonds
	RMB'000
As at January 1, 2022	906,916
Amortisation of discount with principal amount at initial recognition	(763)
Fair value change	27,448
As at June 30, 2022	933,601
As at January 1, 2021	1,558,245
Amortisation of discount with principal amount at initial recognition	(751)
Fair value change	18,906
As at June 30, 2021	1,576,400

None of convertible bonds was converted into ordinary shares of the Company during the six months ended June 30, 2022.

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

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

	As at June 30, 2022	As at December 31, 2021
	RMB'000	RMB'000
Volatility	**35.00%**	35.00%
Time to expiration (years)	**1.10~1.49**	1.60~1.99
Risk free rate of interest	**2.25%~2.41%**	0.47%~0.62%
Dividend yield	**0.00%**	0.00%

20 DEFERRED INCOME TAX

	As at June 30, 2022 RMB'000	As at December 31, 2021 RMB'000
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**8,087**	8,087
– Deferred income tax assets to be recovered within 12 months	**973**	1,197
	9,060	9,284
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**(113,578)**	(132,853)
– Deferred income tax liabilities to be settled within 12 months	**(43,818)**	(45,888)
	(157,396)	(178,741)
Deferred income tax liabilities – net	**(148,336)**	(169,457)

Deferred income tax assets

	Provisions RMB'000	Changes in fair value RMB'000	Donation RMB'000	Total RMB'000
Balance at January 1, 2022	**9,236**	**48**	**–**	**9,284**
Credited/(charged) to profit or loss	**(224)**	**–**	**–**	**(224)**
Balance at June 30, 2022	**9,012**	**48**	**–**	**9,060**
Balance at January 1, 2021	3,418	48	369	3,835
Credited/(charged) to profit or loss	361	(48)	(212)	101
Balance at June 30, 2021	3,779	–	157	3,936

20 DEFERRED INCOME TAX – *continued*

Deferred income tax liabilities

	Buildings and Intangible assets RMB'000	Withholding tax RMB'000	Interest capitalization RMB'000	Total RMB'000
Balance at January 1, 2022	**(139,413)**	**(38,941)**	**(387)**	**(178,741)**
Credited/(charged) to profit or loss	**26,211**	**(4,878)**	**12**	**21,345**
Balance at June 30, 2022	**(113,202)**	**(43,819)**	**(375)**	**(157,396)**

	Buildings and Intangible assets RMB'000	Withholding tax RMB'000	Interest capitalization RMB'000	Total RMB'000
Balance at January 1, 2021	(271,837)	(30,053)	(411)	(302,301)
Credited/(charged) to profit or loss	105,933	(5,410)	12	100,535
Balance at June 30, 2021	(165,904)	(35,463)	(399)	(201,766)

21 ACQUISITION OF NON-CONTROLLING INTERESTS

On February 16, 2022, the Company through its wholly-owned subsidiary, Jiande Heyue, entered into an equity transfer agreement to acquire all the equity interests of Hangzhou Jingyouzhi Enterprise Management Company Limited*（杭州靜有智企業管理有限公司）("Hangzhou Jingyouzhi") in order to acquire 30% of the equity interests in DJ Medicines and DJ Pharmaceutical Technology and to obtain 30% of the equity interests in Jiande Hospital through contractual arrangements. On April 2,2022, upon the execution of a series of contractual arrangements, the equity transfer agreement has been completed. After the completion of the transaction, the Company controls and consolidates 100% financial statements of DJ Medicines, DJ Pharmaceutical Technology and Jiande Hospital.

The differences between the carrying amounts of interests acquired and the fair value of consideration paid were recorded in other reserves.

	RMB'000
Carrying amount of non-controlling interests acquired	57,555
Net assets of Hangzhou Jingyouzhi acquired	1,000
Consideration paid to non-controlling interests	(120,000)
A decrease in equity attributable to owners of the Company	(61,445)

22 CAPITAL COMMITMENTS

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

	Six months ended June 30, 2022 RMB'000	Year ended December 31, 2022 RMB'000
Property and equipment	**5,999**	7,160
Intangible assets	**714**	1,554
	6,713	8,714

* *For identification purpose only*

23 SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. As a result, Cixi Hospital, Jinhua Hospital and Yongkang Hospital are considered to be related as the Group has participated in the internal governance body of them. Other parties are also considered to be related 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	Certain employees or directors of the Group are Cixi Hospital's internal governance body members
Jinhua Hospital	Certain employees or directors of the Group are Jinhua Hospital's internal governance body members
Midpoint Honour Limited	Related party which is owned by the Management Subscribers
Han Prestige Limited	Related party of parent company
Dajia Medical Equipment Co., Ltd. (Note)	Related party which controlled by a non-controlling shareholder of a subsidiary of the Group
Zhejiang Zhongyouli Medicines Co., Ltd.(Note)	Related party which is 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 June 30, 2022 and 2021. 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 as disclosed in Note 21, Dajia Medical Equipment Co, Ltd. and Zhejiang Zhongyouli Medicines Co, Ltd. were no longer be the related parties of the Group as at June 30,2022.

23 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(a) Significant transactions with related parties

	Six months ended June 30, 2022 RMB'000	Six months ended June 30, 2021 RMB'000
Management Service fee		
– Yangsi Hospital	**–**	86,656
– Jinhua Hospital	**4,656**	17,431
– Cixi Hospital	**10,534**	7,093
	15,190	111,180
Sales of pharmaceuticals, medical consumables and medical equipment		
– Cixi Hospital	**1,822**	–
– Jinhua Hospital	**22,731**	–
– Yongkang Hospital	**3,202**	–
	27,755	–
Purchase of medical equipment and pharmaceuticals		
– Zhejiang Zhongyouli Medicines Co., Ltd.	**6,631**	7,473
– Dajia Medical Equipment Co., Ltd	**3,946**	3,080
	10,577	10,553

(b) Loans from related parties

	Six months ended June 30, 2022 RMB'000	Six months ended June 30, 2021 RMB'000
Beginning of the period	**7,376**	14,382
Loans advanced	**43**	15
Loan repaid	**–**	(802)
Other	**73**	–
End of the period	**7,492**	13,595

23 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(c) Loans to related parties

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
Beginning of the period	**80,350**	80,762
Loans advanced	**20,000**	8,620
Loan repayments received	**–**	(21)
Interest charged	**2,246**	2,063
Interest received	**(1,020)**	(2,063)
Other	**16**	–
End of the period	**101,592**	89,361

(d) Key management compensation

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

	Six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
Wages, salaries and bonuses	**4,689**	5,057
Welfare and other expenses	**204**	469
Total	**4,893**	5,526

(e) Provide guarantee for related party

As at June 30, 2022 and December 31, 2021, 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 with a maximum amount of RMB412.5 million.

As at June 30, 2022 and December 31, 2021, 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.

24 EVENTS OCCURRING AFTER THE REPORTING PERIOD

There were no material subsequent events occurred during the period from June 30, 2022 to the approval date of these interim financial information by the Board of Directors of the Company on August 30, 2022.

* *For identification purpose only*

25 IMPACTS OF COVID-19 PANDEMIC

The COVID-19 pandemic since early 2020 continues to bring uncertainties to the Group's operating environment and may impact the Group's operations and financial position.

The Group has been closely monitoring the impact from the COVID-19 pandemic on the Group's businesses and has commenced to put in place various contingency measures. These contingency measures include but not limited to strengthening the management, prevention and control of nosocomial infections of the hospitals, improving fund management to ensure a certain balance of funds of the hospitals, and negotiating with suppliers on extension of payment terms, etc.. The Group will keep the contingency measures under review as the situation evolves.

26 DIVIDENDS

No dividend has been declared by the Company during the six months ended June 30, 2022 and June 30, 2021.