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Hospital Corporation of China Limited

弘和仁愛醫療集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3869)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2023

The board (the “**Board**”) of directors (the “**Directors**”) of Hospital Corporation of China Limited (the “**Company**”) is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”, “**we**” or “**our**”) for the six months ended June 30, 2023 (the “**Reporting Period**”), together with the comparative figures for the six months ended June 30, 2022 (the “**Corresponding Period of Previous Year**”).

FINANCIAL HIGHLIGHTS

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	717,831	540,918
– Hospital management services	36,852	43,097
– General hospital services	674,192	492,965
– Sale of pharmaceutical products	6,787	4,856
Adjusted gross profit ⁽¹⁾	131,568	82,323
Adjusted net profit ⁽²⁾	60,893	43,393
Adjusted gross profit margin	18.3%	15.2%
Adjusted net profit margin	8.5%	8.0%
Adjusted items		
Expenses of share-based awards and defined benefit obligation expenses ⁽²⁾⁽ⁱ⁾	270	1,674
Net fair value losses and extension gains on convertible bonds and foreign exchange losses ⁽²⁾⁽ⁱⁱ⁾	(128,438)	32,834

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation and amortisation of identifiable assets identified in acquisitions ⁽²⁾⁽ⁱⁱⁱ⁾	11,145	10,260
Total amount of impairment losses on intangible assets and the reversal of deferred income tax liabilities caused by the impairment on intangible assets	–	435,918
Revenue	717,831	540,918
Gross profit ⁽¹⁾	120,153	72,155
Net profit/(loss) ⁽²⁾	177,916	(437,293)
Basic earnings/(losses) per share (in RMB)	0.91	(3.09)

Notes:

- (1) The gross profit of the Group for the Reporting Period amounted to approximately RMB120.2 million. Adjusted gross profit is calculated as the gross profit for the Reporting Period, excluding the impact from the expenses of share-based awards and depreciation and amortisation of identifiable assets identified in acquisitions.
- (2) The Group recorded a net profit of approximately RMB177.9 million during the Reporting Period. The adjusted net profit (the “**Adjusted Net Profit**”) is calculated as the profit for the Reporting Period excluding the impact from certain items which are considered as non-operating by the management, including (i) the relevant expenses of share-based awards and defined benefit obligation expenses of approximately RMB0.3 million; (ii) the fair value losses and other changes on convertible bonds of approximately RMB91.8 million, gains on the extension of convertible bonds of RMB222.9 million, and foreign exchange losses of approximately RMB2.7 million mainly arising from cash and cash equivalents and other foreign currency assets and liabilities; (iii) depreciation and amortisation of identifiable assets identified in acquisitions of approximately RMB11.1 million. For the calculation of the Adjusted Net Profit, tax impacts of the adjusted items were not considered.

FINANCIAL INFORMATION

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2023 – Unaudited

(Expressed in Renminbi (“**RMB**”))

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2023 – Unaudited

(Expressed in RMB)

	<i>Notes</i>	30 June, 2023 RMB'000	31 December, 2022 RMB'000
ASSETS			
Non-current assets			
Property and equipment		196,671	218,933
Right-of-use assets		44,260	44,877
Intangible assets	7	1,155,027	1,162,237
Deferred income tax assets		9,339	9,312
Other receivables, deposits and prepayments		820	466
Amounts due from related parties		176,726	156,726
		<u>1,582,843</u>	<u>1,592,551</u>
Total non-current assets			
Current assets			
Inventories		45,766	57,068
Trade receivables	8	54,210	71,543
Other receivables, deposits and prepayments		28,907	15,340
Amounts due from related parties		63,943	71,457
Financial assets at fair value through profit or loss		70,865	129,848
Term deposits		723	696
Restricted bank deposit		4,494	–
Cash and cash equivalents		592,940	497,061
		<u>861,848</u>	<u>843,013</u>
Total current assets			
		<u>2,444,691</u>	<u>2,435,564</u>
Total assets			
EQUITY			
Equity attributable to owners of the Company			
Share capital		123	123
Share premium		435,304	435,304
Other reserves		870,779	870,779
Treasury shares		(4,680)	–
Accumulated losses		(924,278)	(1,050,496)
		<u>377,248</u>	<u>255,710</u>
Non-controlling interests			
		<u>246,774</u>	<u>187,718</u>
Total equity			
		<u>624,022</u>	<u>443,428</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*As at June 30, 2023 – Unaudited**(Expressed in RMB)*

		30 June, 2023	31 December, 2022
	<i>Notes</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Convertible bonds	<i>11</i>	895,259	–
Lease liabilities		6,592	6,240
Employment benefit obligations		45,568	49,111
Deferred income tax liabilities		149,473	151,056
		<hr/>	<hr/>
Total non-current liabilities		1,096,892	206,407
		<hr/>	<hr/>
Current liabilities			
Trade payables	<i>9</i>	131,956	136,855
Convertible bonds	<i>11</i>	–	1,026,407
Accruals, other payables and provisions		520,222	520,757
Amounts due to related parties		7,661	10,757
Contract liabilities		1,794	2,148
Current income tax liabilities		13,988	17,849
Borrowings	<i>10</i>	46,600	69,429
Lease liabilities		1,556	1,527
		<hr/>	<hr/>
Total current liabilities		723,777	1,785,729
		<hr/>	<hr/>
Total liabilities		1,820,669	1,992,136
		<hr/>	<hr/>
Total equity and liabilities		2,444,691	2,435,564
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NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

1 GENERAL INFORMATION

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

The Company, together with its subsidiaries (collectively referred to as “**the Group**”), are principally engaged in (i) operation and management of hospitals; (ii) provision of management and consultation services to certain not-for-profit hospitals and (iii) sale of pharmaceutical products in the People’s Republic of China (the “**PRC**”).

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

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

2 BASIS OF PREPARATION

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

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

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

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

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

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.

3 SEGMENT INFORMATION

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

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

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

(a) General hospital services

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

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

(b) Hospital management services

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

(c) Sale of pharmaceutical products

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

* For identification purpose only

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

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

4 OTHER GAINS/(LOSSES), NET

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

5 INCOME TAX

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

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

(a) Cayman Islands Income Tax

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

(b) Hong Kong Profits Tax

Hong Kong profits tax rate was 16.5% for the period ended 30 June, 2023 (six months ended 30 June, 2022: 16.5%). No Hong Kong profit tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for the period ended 30 June, 2023 and 2022.

(c) PRC Corporate Income Tax (“CIT”)

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

(d) Withholding Tax

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

6 EARNINGS/(LOSSES) PER SHARE

(a) Basic earnings/(losses) per share

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

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

* For identification purpose only

(b) Diluted earnings/(losses) per share

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

	Six months ended 30 June, 2023 RMB'000
Total profit/(loss) attributable to owners of the Company	126,218
less:	
Net gains on the extension of convertible bonds	222,920
Net fair value losses on convertible bonds	(91,772)
	<hr/>
Total profit/(loss) used to determine diluted earnings/(losses) per share	(4,930)
	<hr/>
Weighted average number of ordinary shares in issue (in thousands)	138,194
Adjustment for calculation of diluted earnings per share	
– Convertible bonds (in thousands)	64,694
	<hr/>
Weighted average number of ordinary shares in issue and potential ordinary shares (in thousands)	202,888
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Diluted earnings/(losses) per share (in RMB)	(0.02)
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Due to the Group's negative financial results during the period ended 30 June, 2022, relative convertible bonds and shares held for share based payment scheme have anti-dilutive effect on the Group's losses per share. Thus, diluted losses per share is equivalent to the basic losses per share during the six months ended 30 June, 2022.

7 INTANGIBLE ASSETS

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

8 TRADE RECEIVABLES

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

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

	As at 30 June, 2023 <i>RMB'000</i>	As at 31 December, 2022 <i>RMB'000</i>
1 – 90 days	<u><u>54,210</u></u>	<u><u>71,543</u></u>

9 TRADE PAYABLES

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

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

10 BORROWINGS

	As at 30 June, 2023			As at 31 December, 2022		
	Current <i>RMB'000</i>	Non-current <i>RMB'000</i>	Total <i>RMB'000</i>	Current <i>RMB'000</i>	Non-current <i>RMB'000</i>	Total <i>RMB'000</i>
Bank borrowing						
– Secured but unguaranteed (a)	26,600	–	26,600	59,000	–	59,000
– Unsecured but guaranteed (b)	20,000	–	20,000	–	–	–
– Unsecured and unguaranteed	–	–	–	10,429	–	10,429
	<u>46,600</u>	<u>–</u>	<u>46,600</u>	<u>69,429</u>	<u>–</u>	<u>69,429</u>

- (a) Jiande Hospital entered into three one-year loan agreements with Agricultural Bank of China Jiande Branch on 15 December, 23 December, 2022 and 28 June, 2023 respectively. The outstanding amount of these loans was RMB26,600,000, which consist of the loans amounting to RMB8,900,000 and RMB8,200,000 beared the fixed interest rate of 4.10% and 3.85% respectively, RMB9,500,000 beared the fixed interest rate of 3.40%. These bank loans were secured by trade receivables held by Jiande Hospital.
- (b) On 4 May, 2023, Jiande Hospital entered into an one-year loan agreement with Bank of Communications Jiande Branch. The outstanding amount of this loan was RMB20,000,000, which beared a fixed interest rate of 3.40%. This bank loan is guaranteed by DJ Pharmaceutical Technology.

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

	Bank borrowings	
	As at 30 June, 2023 <i>RMB'000</i>	As at 31 December, 2022 <i>RMB'000</i>
Within 1 year	<u>46,600</u>	<u>69,429</u>

11 CONVERTIBLE BONDS

The movements of the convertible bonds are as follows:

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

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

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

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

12 DIVIDENDS

No dividend has been declared by the Company during the six months ended June 30, 2023 and June 30, 2022.

BUSINESS REVIEW AND PROSPECTS

Policy review

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

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

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

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

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

Strengthening medical quality control and promoting management refinement

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

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

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

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

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

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

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

FINANCIAL REVIEW

Results of Operations

During the Reporting Period, our revenue was approximately RMB717.8 million, representing an increase of approximately 32.7% when compared with approximately RMB540.9 million of the Corresponding Period of Previous Year, which was mainly attributable to the increase in the revenue of general hospital services arising from Yangsi Hospital to individual patients.

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

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

CONNECTED TRANSACTION ON EXTENSION OF MATURITY DATE OF CONVERTIBLE BONDS

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

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

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

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As of June 30, 2023, the Group did not have any significant investments or future plans for material investments or capital assets.

EXPOSURE TO FOREIGN EXCHANGE RISK

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

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

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

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

PLEDGE OF ASSETS

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

As at June 30, 2023 and December 31, 2022, Zhejiang Honghe Zhiyuan has provided a joint liability to Industrial and Commercial Bank of China Jinhua Economic Development Zone Branch in respect of the same loans granted to Jinhua Hospital with a maximum amount of RMB550 million. As at June 30, 2023, the principal amount of the loan balance of Jinhua Hospital was RMB 163.0 million.

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

Save as disclosed above, as at June 30, 2023 and December 31, 2022, the Group has pledged its assets as security for bank borrowings, details of which are set out in Note 10 to the interim financial information.

INTERIM DIVIDEND

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

HUMAN RESOURCES

As at June 30, 2023, we had a total of 1,437 employees (as at June 30, 2022: 1,393). We provide wages, employee-related insurance and employee benefits to our employees. Remuneration packages for our employees mainly consist of base salary, welfare and bonus. For the six months ended June 30, 2023, the total employee benefits expenses (including Directors' remuneration) were approximately RMB205.2 million (for the six months ended June 30, 2022: approximately RMB166.9 million).

We set performance targets for our employees based on their position and department, and regularly review their performance. The results of these reviews are used in their salary determinations, bonus awards and promotion appraisals. As required by PRC laws and regulations, our employees participate in several government-run benefit programs, including but not limited to retirement benefit programs, housing provident fund, medical insurance and other employee social insurance programs. The Company has adopted certain share-based payment schemes for the purpose of, among others, providing incentive and rewards to eligible persons with outstanding performance and contributions to the Group.

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

EVENTS AFTER THE REPORTING PERIOD

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

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

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.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

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

By order of the Board
Hospital Corporation of China Limited
Chen Shuai
Chairman and Acting Chief Executive Officer

Hong Kong, August 30, 2023

As at the date of this announcement, the Directors of the Company are Mr. CHEN Shuai, Mr. PU Chengchuan and Ms. PAN Jianli being the executive Directors; Ms. LIU Lu and Ms. WANG Nan being the non-executive Directors; Mr. DANG Jinxue, Mr. SHI Luwen and Mr. ZHOU Xiangliang being the independent non-executive Directors.

* *For identification purposes only*