



弘和仁愛
HOSPITAL CORPORATION

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

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 3869

2019 Interim Report

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Mr. Shan Guoxin (單國心) (*Chief Executive Officer*)

Mr. Lu Wenzuo (陸文佐)

Non-executive Directors

Mr. Zhao John Huan (趙令歡) (*Chairman*)

Mr. Li Peng (李蓬)

Ms. Liu Lu (劉路)

Ms. Wang Nan (王楠)

Independent Non-executive Directors

Ms. Chen Xiaohong (陳曉紅)

Mr. Shi Luwen (史錄文)

Mr. Zhou Xiangliang (周向亮)

AUDIT COMMITTEE

Mr. Zhou Xiangliang (周向亮) (*Chairman*)

Mr. Shi Luwen (史錄文)

Mr. Li Peng (李蓬)

REMUNERATION COMMITTEE

Ms. Chen Xiaohong (陳曉紅) (*Chairman*)

Mr. Shan Guoxin (單國心)

Mr. Zhou Xiangliang (周向亮)

NOMINATION COMMITTEE

Mr. Zhao John Huan (趙令歡) (*Chairman*)

Mr. Shi Luwen (史錄文)

Ms. Chen Xiaohong (陳曉紅)

COMPANY SECRETARY

Ms. Kwong Yin Ping Yvonne (鄺燕萍)

AUTHORISED REPRESENTATIVES

Mr. Shan Guoxin (單國心)

Ms. Kwong Yin Ping Yvonne (鄺燕萍)

LISTING INFORMATION AND STOCK CODE

The Stock Exchange of Hong Kong Limited
(the “Stock Exchange”)

Stock Code: 3869

HEAD OFFICE IN THE PEOPLE’S REPUBLIC OF CHINA

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2701, One Exchange Square
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Hong Kong

REGISTERED OFFICE

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

COMPANY'S WEBSITE

www.hcclhealthcare.com

AUDITOR

PricewaterhouseCoopers

HONG KONG LEGAL ADVISOR

Cleary Gottlieb Steen & Hamilton (Hong Kong)

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

FINANCIAL HIGHLIGHTS

	Six months ended June 30,	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Revenue	208,531	174,459
– Hospital management services	108,181	87,408
– General hospital services	98,301	86,680
– Wholesale of pharmaceutical products	2,049	371
Adjusted gross profit ⁽¹⁾	102,616	80,386
Adjusted net profit ⁽²⁾⁽³⁾	52,767	49,115
Adjusted gross profit margin	49.2%	46.1%
Adjusted net profit margin ⁽³⁾	25.3%	28.2%
Adjusted items		
Expenses of share-based awards and other one-off employee benefit expenses ⁽²⁾⁽ⁱ⁾	2,923	31,540
Amortization of identifiable intangible assets identified in acquisitions ⁽²⁾⁽ⁱⁱⁱ⁾	15,250	–
Gains/(losses) on fair value change resulting from value change of convertible bonds and foreign exchange gains/(losses) ⁽²⁾⁽ⁱⁱ⁾	62,029	(44,641)
Investing and financing related expenses ^{(2)(iv)}	1,698	9,110

	Six months ended June 30,	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Revenue	208,531	174,459
Gross profit ⁽¹⁾	84,443	53,846
Net profit/(loss) ⁽²⁾	94,925	(36,176)
Basic earnings/(losses) per share in RMB	0.594	(0.280)

Notes:

- (1) For the six months ended June 30, 2019 (the “**Reporting Period**”), the gross profit of the Group for the Reporting Period amounted to RMB84.4 million. The adjusted gross profit is calculated as gross profit for the Reporting Period, excluding the impact from expenses of share-based awards and other one-off employee benefit expenses and amortization of identifiable intangible assets identified in acquisitions.
- (2) The Group recorded a net profit of RMB94.9 million for the Reporting Period. The adjusted net profit (the “**Adjusted Net Profit**”) is calculated as profit for the 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 other one-off employee benefit expenses of RMB2.9 million; (ii) the gains on the foreign exchange and relevant fair value changes of RMB41.0 million arising from conversion of Hong Kong dollar denominated convertible bonds issued by the Company into RMB, and foreign exchange gains of RMB21.0 million mainly arising from cash and cash equivalents; (iii) amortization of identifiable intangible assets identified in acquisitions of RMB15.3 million; and (iv) professional service fees of RMB1.7 million resulting from investing and financing activities (collectively, the “**Adjustments of Expenses**”). For calculation of the Adjusted Net Profit, relevant tax impacts of the adjusted items were not considered.
- (3) For the six months ended June 30, 2018 (the “**Corresponding Period of Previous Year**”), the adjusted items for the Corresponding Period of Previous Year did not consider the impact of the amortization of identifiable intangible assets identified in acquisitions of RMB 6.1 million on the Adjusted Net Profit. If this item is considered, the Adjusted Net Profit and adjusted net profit margin for the Corresponding Period of Previous Year are as follows, to which the Group did not make prior period adjustments in respect of the figures disclosed in the Corresponding Period of Previous Year:

	Six months ended June 30,	
	2019	2018
	RMB' 000	RMB' 000
	(Unaudited)	(Unaudited)
Adjusted Net Profit	52,767	55,230
Adjusted net profit margin	25.3%	31.7%

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

In June 2019, ten national ministries and commissions jointly issued the Opinion on Promoting the Sustainable, Healthy and Standardized Development of Private Medical Institutions 《關於促進社會辦醫持續健康規範發展的意見》 in which requirements and provisions on various aspects, such as market entry, approval, mobility of talents and access to medical insurance, were explicitly stated, representing the highest level, most comprehensive and most authoritative policy-based support and standard in recent years for investment of private capital into the medical services sector, which created excellent policy assurance and normative guidelines for the effective implementation of the Group's development strategies. In July, the state government released the Healthy China Action Plan (2019 – 2030) 《健康中國行動(2019-2030)》 which provided huge market space for medical service enterprises, including the Group. Meanwhile, the pilot zones for “4+7” mass procurement of drugs being successively introduced at nationwide and regional levels have been expanded during the year, implementation of the hierarchical diagnosis and treatment (分級診療) has been continued, basic level diagnosis and classified treatment have been strengthened and developed, and payment by medical insurance represented by pilot cities formally established at national level for DRGS payment has entered into an era of refinement. All of these policies brought enormous historic development opportunities to private operations in the medical services sector.

Guided by the development strategy of “successful acquisition, well management, scale expansion (收到、管好、上量)”, the Group was dedicated to develop into a top-class value-creating medical group in the PRC under the “Three Conforming” (三符合) conditions of “conforming to the development patterns in the medical industry, the models of modern corporate governance and the construction standards for hospitals affiliated to universities”, and the Group's business recorded positive development during the Reporting Period.

The Group continued optimizing the merger and acquisition system and conserving efforts for expansion through mergers and acquisitions

The Group will continue to summarize the advanced experience at corporate and industry levels seriously, and adopt integrated measures, including strengthening the capabilities of an investment team, evaluating preliminary stages of mergers and acquisitions systematically, improving and enhancing the investment standards and criteria for the Group's projects, optimizing the merger and acquisition pipelines, and enhancing the investment standards and regulating framework, and to comprehensively rearrange resources that are reserved from existing projects, actively develop channels for pursuing projects, enhance the precision and timeliness of project evaluation, fully utilize the investment resources of Legend Holdings Corporation (as a long-term strategic investor of the Group) and Hony Capital, reinforce the efficient process for project screening and decision-making at corporate operational level, and ensure the achievement of breakthrough in investing in, merging with and acquiring more medical institutions of precious value.

During the first half of 2019, under the guidance of our overall strategy, the Group actively optimized the personnel structure of our investment team, studied and determined the regional investment strategies of the Group. Relying on the Group's investment principles and strategies in emphasizing operational capabilities, we established a standardized process for investment and determined the criteria of "three external focuses, three internal focuses and one core" for investment projects. Under the guidance of the aforesaid investment principles and framework, we actively pursued investments, mergers and acquisitions, including conducting systematic in-depth studies in and communicating with a number of potential acquisition targets previously identified, considering factors such as changes in the current medical investment market in China, acquisition consideration and overall development and strategies of the Group from an integrated perspective, tracking potential acquisition targets and extending the time for in-depth research and studies. While conducting in-depth research and studies on the potential acquisition targets, the Group had conducted research studies on the proposed disposal of hospitals by two large-scale domestic medical groups and completed site inspections, initial screening and project verification on 33 other target hospitals located in Beijing, Shanghai, Zhejiang, Jiangsu, Guangdong, Fujian, Hunan, Hubei, Henan, Hebei, Shandong, etc. A reserve for investment projects has been established and the work at later stages of such projects will be actively pursued in the second half of 2019, which aim to achieve mergers, acquisitions and investment projects with regional coverage and special features favourable to the sustainable development of the Group, and establish a solid foundation to realize the strategic objectives of "successful acquisition, well management, scale expansion (收到、管好、上量)".

At present, the number of hospital beds in the hospitals owned, managed or founded by the Group remains the same as that as at the end of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued improving the operation system and enhancing the value of hospitals

The Group carried out integrated measures for the hospitals owned, managed and founded by the Group (the “Group Hospitals”) such as strategic positioning and streamlining, reinforcing cultural development, sending to the Group Hospitals ten key management tools, nurturing three categories of staffs and sending eight key systems to the Group Hospitals, and assisting and guiding the Group Hospitals in attracting middle and high end talents, which formed a foundation for the rapid and healthy development of each Group Hospital.

During the Reporting Period, the Group fully adjusted the model of development for Group Hospitals, strengthened the Group’s approach to management control in “integrating investment and operation”, provided support and value-added services to Group Hospitals in various critical segments, which enhanced the entire operation, management and control standards of the Group and the Group Hospitals, and enhanced the core hospital value of “improving level of medical skills, integrated service capabilities and patients’ treatment experience”. The basic business capability as represented by the volume of out-patient visits, in-patient visits and surgical operations were enhanced comprehensively by adopting integrated measures. The talent pools for various departments were strengthened by constantly nurturing and recruiting talents through multi-level, multi-channel, multi-tactic and multi-content measures. By increasing investments in basic medical facilities and special diagnostic technologies, the standard and level of basic medical projects and projects with special advantages were improved. Through systematic studies of the remuneration structure of employees of each of the Group Hospitals, making scientific adjustments according to the pace of development in the industry, motivation and creativity of the employees were enhanced. Through enhancing academic exchange and development of integrated businesses, the brand influence of the Group and the Group Hospitals were increased at multiple levels, which had effectively improved the overall operating efficiency and benefits of all Group Hospitals. It is expected that the overall operating efficiency and results of the Group Hospitals will continue to increase during the second half of 2019.

During the Reporting Period, the state government and various local governments have fully reinforced their control over the payment of medical insurance fees, in the context of a significant increase in competitive pressure in the medical industry, the volume of out-patient visits, in-patient visits and surgical operations of the Group Hospitals increased substantially during the first half of 2019, and achieved significant growth when compared with the Corresponding Period of Previous Year. During the first half of 2019, the Group Hospitals of the Group recorded approximately 1,311,487 out-patient visits, representing a 25% increase when compared with 1,047,000 out-patient visits for the Corresponding Period of Previous Year. The number of in-patient visits was approximately 45,499 during the Reporting Period, representing an increase of 153% when compared with 18,000 in-patient visits in the Corresponding Period of Previous Year. The number of surgical operations was approximately 8,641 during the Reporting Period, representing an increase of 233% when compared with 2,596 in the Corresponding Period of Previous Year. Since 2018 and especially since 2019, the Group has achieved remarkable results in improving the integrated operation and management of the Group Hospitals, which has laid a solid foundation for the healthy, stable and rapid growth of each Group Hospital in the future. It is expected that the volume of out-patient visits, in-patient visits and surgical operations of the Group Hospitals in 2019 will exceed that of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group will continue to increase management efforts to practically enhance our operating results, the key measures to be adopted include:

- (1) to continue strengthening the Group's scientific and efficient mechanism, model, standards and capabilities of the approach of "integrating investment and operation", to make a firm step forward in developing into a top-class value-creating medical group in the PRC under the "Three Conforming" (三符合) conditions and achieve substantive results;
- (2) to continue strengthening the building of merger and acquisition team for the Group's investment, continue expanding the reserves of available high-quality medical institutions that are acquisition targets, continue tracking closely key merger and acquisition projects, completing the relevant mergers and acquisitions with high standard, high quality, high efficiency and low costs, and striving to pursue high-quality merger and acquisition projects;
- (3) to establish a vertically consistent management system and enhance the operating and management efficiency by continuing to adjust the organizational structure of hospitals under the management of the Group;
- (4) to continue implementing practices by high-quality professional and technical experts at multiple sites in the Group Hospitals in accordance with national policies to achieve the sharing of core technology resources and the full utilization of the most valuable high-end human resources;
- (5) to continue reinforcing the building of key academic departments (profession or project), exploring development model and attaining milestone achievements;
- (6) to continue promoting the close integration of internet technology and medical diagnosis and treatment technology to achieve remote image diagnosis and pathological diagnosis resource sharing among the Group Hospitals, improve the efficiency of high-quality expert resources, and effectively reduce operating costs;
- (7) to increase the profit of and achieve new profit growth point in the Group Hospitals' business through continuing to develop advanced and specialized service projects, upgrade medical equipment on a timely basis, and promote out-patient service on holidays and specialized out-patient service;
- (8) to continue exploring diversified brand building strategies including academic exchange and market expansion strategies to further enhance the influence and branding of the hospitals;
- (9) to continue reducing operating costs effectively through improving the supply chain management capabilities across the Group Hospitals;

MANAGEMENT DISCUSSION AND ANALYSIS

- (10) to continue strengthening the information-based construction within the Group and the Group Hospitals, integrating industry resources, and implementing strategic cooperation with high-quality information-based medical enterprises;
- (11) to continue promoting the application of management tools comprehensively, including the initiation and implementation of high-quality “academic assessments” and “annual business plans” completed by the Group and various Group Hospitals, in order to make sufficient and necessary preparation for high-quality breakthrough by the Group in 2020;
- (12) to lay a good foundation for the development of the Group’s financing by continuously strengthening the effective connection with the capital markets and increasing the brand awareness and influence of the Group in the capital markets; and
- (13) to continue regulating and managing the listed companies, strengthening the communication with regulators such as The Stock Exchange of Hong Kong Limited, and promoting integrated corporate governance to the next level.

FINANCIAL REVIEW

Results of Operations

During the Reporting Period, our revenue was RMB208.5 million, representing an increase of approximately 19.5% when compared with RMB174.5 million of the Corresponding Period of Previous Year, which was mainly attributable to an increase in management service fees derived from Cixi Union Hospital* (慈溪協和醫院) (“**Cixi Hospital**”) and Zhejiang Jinhua Guangfu Oncological Hospital* (浙江金華廣福腫瘤醫院) (“**Jinhua Hospital**”) 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.

During the Reporting Period, our revenue from general hospital services increased to RMB98.3 million from RMB86.7 million in the Corresponding Period of Previous Year. Revenue for the Reporting Period increased mainly due to an increase in the amount of revenue from the provision of general hospital services by Jiande Hospital to individual patients.

Our revenue from the hospital management services segment included our revenue from the provision of hospital management services to Shanghai Yangsi Hospital* (上海楊思醫院) (“**Yangsi Hospital**”), Cixi Hospital and Jinhua Hospital. During the Reporting Period, the revenue from this segment was RMB108.2 million, representing an increase of 23.8% when compared with RMB87.4 million of the Corresponding Period of Previous Year. The increase in revenue was mainly attributable to the 158% increase in the management service fees derived by us from Cixi Hospital amounting to RMB9.8 million when compared with RMB3.8 million in the Corresponding Period of Previous Year, and RMB19.7 million of management service revenue from Jinhua Hospital in the Reporting Period upon acquisition of Oriental Ally Holdings Limited (“**Oriental Ally**”) in July 2018.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Our Adjusted Gross Profit was RMB102.6 million for the Reporting Period, excluding the impacts of expenses of share-based awards and other one-off employee benefit expenses as well as amortization of identifiable intangible assets identified in acquisitions, representing an increase of approximately 27.6% when compared with RMB80.4 million for the Corresponding Period of Previous Year, which was mainly attributable to an increase in management service fees derived from Cixi Hospital and Jinhua Hospital.

We have recorded an increase of approximately RMB112.3 million in operating profit from an operating loss of RMB18.5 million for the Corresponding Period of Previous Year to an operating profit of RMB93.8 million for the Reporting Period. This is mainly due to the increase in management service revenue derived from Jinhua Hospital and Cixi Hospital, and the increase in net fair value gains on the convertible bonds of the Group.

We recorded adjusted administrative expenses of RMB32.0 million for the Reporting Period, excluding the impact of professional service fees resulting from investing and financing activities and other one-off employee benefit expenses, representing an increase of 72.0% when compared with RMB18.6 million for the Corresponding Period of Previous Year, primarily due to an increase in employee benefit expenses for the Reporting Period when compared with the Corresponding Period of Previous Year.

We recorded adjusted finance expense (net) of RMB1.9 million for the Reporting Period, excluding the impact of foreign exchange gains mainly relating to cash and cash equivalents, representing a decrease of RMB5.4 million when compared with RMB7.3 million for the Corresponding Period of Previous Year, which was primarily due to an increase of RMB3.8 million in finance income for the Reporting Period when compared with the Corresponding Period of Previous Year and a decrease in loan interest expenses by RMB1.6 million when compared with the previous year.

For the Reporting Period, we have recorded an Adjusted Net Profit of RMB52.8 million, representing a decrease of approximately 4.3% when compared to the Adjusted Net Profit of RMB55.2 million for the Corresponding Period of Previous Year (after excluding the amortization of identifiable intangible assets identified in acquisitions in the Corresponding Period of Previous Year). Without taking into account the impact of the adjusted items, such decrease was mainly due to the increase in income tax expenses of RMB8.6 million when compared with the Corresponding Period of Previous Year (which is mainly due to the significant increase in the operating profit of the Group) and the increase in employee benefit expenses of RMB16.4 million when compared with the Corresponding Period of Previous Year, and such increase in expenses being partially offset by the increase in management service fees charged to Cixi Hospital and Jinhua Hospital.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

As at June 30, 2019, our total equity was RMB1,769.5 million (as at December 31, 2018: RMB1,668.0 million). As at June 30, 2019, we had current assets of RMB1,360.5 million (as at December 31, 2018: RMB681.7 million) and current liabilities of RMB501.7 million (as at December 31, 2018: RMB538.1 million). As at June 30, 2019, our current ratio was 2.71, when compared with 1.27 as at December 31, 2018.

Our current assets increased by approximately RMB678.8 million from RMB681.7 million as at December 31, 2018 to RMB1,360.5 million as at June 30, 2019, primarily due to an improvement in our operating results and an increase in our cash balance upon our issuance of HKD800 million of convertible bonds on February 27, 2019. Our current liabilities decreased by RMB36.4 million from RMB538.1 million as at December 31, 2018 to RMB501.7 million as at June 30, 2019, primarily due to a decrease in accruals and other payables.

During the Reporting Period, our cash was mainly used as working capital. As at June 30, 2019, we had cash and cash equivalents of RMB881.4 million (as at December 31, 2018: RMB195.5 million). As at June 30, 2019, we had bank borrowings of RMB261.6 million (as at December 31, 2018: RMB263.6 million), the details of which are included in Note 21 to the condensed consolidated financial information. The table below sets forth the maturity profile of our borrowings in the periods indicated:

	Bank borrowings	
	As at June 30, 2019 RMB' 000	As at December 31, 2018 RMB' 000
Within 1 year	125,125	89,692
Between 1 and 2 years	68,251	74,538
Between 2 and 5 years	68,251	99,385
	<u>261,627</u>	<u>263,615</u>

As of June 30, 2019, the net gearing ratio of the Company, which was calculated as interest bearing liabilities divided by total equity, was 14.78%. Our Directors believed that, after taking into account the financial resources available to us, including internally generated funds and the net proceeds from the global offering of the Company, we had sufficient working capital for our requirements. As at June 30, 2019, the Group did not have any material contingent liabilities or guarantees.

EVENTS AFTER THE REPORTING PERIOD

Mr. Wei Kai (魏凱) had resigned as the non-executive Director of the Company and a member of the audit committee of the Company (the “Audit Committee”) due to other work commitments with effect from July 24, 2019. Mr. Li Peng (李蓬) (“Mr. Li”) was appointed as non-executive Director of the Company with effect from July 24, 2019, who will hold office only until the first general meeting of the Company after his appointment and shall then be eligible for re-election at that general meeting, and thereafter subject to retirement by rotation at least once every three years at the annual general meeting in accordance with the memorandum and articles of association of the Company. The Board had appointed Mr. Li as a member of the Audit Committee with effect from July 24, 2019.

On July 24, 2019, the Company and Jinhua Hospital, a hospital managed by our Group, entered into a loan agreement. Pursuant to the loan agreement, the Company had conditionally agreed to grant a loan to Jinhua Hospital through the PRC subsidiaries of the Company, for a term of 36 months from the date of the relevant drawdown of the loan. The loan amount was RMB80 million, and the loan interest rate is 5.23% per annum which is subject to adjustment according to the applicable benchmark interest rates as published by the People’s Bank of China from time to time.

Save as disclosed, there is no material subsequent event undertaken by the Company or by the Group after June 30, 2019 and up to the date of this interim report.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS FROM THE LISTING AND OTHER FUND RAISING ACTIVITIES

Use of proceeds from listing

The shares of the Company (the “Shares”) were listed on the Main Board of the Stock Exchange on March 16, 2017 (the “Listing Date”). The net proceeds received by the Company from the global offering and upon exercise of the over-allotment option and after deducting underwriting commissions and all related expenses was HK\$465.6 million. The net proceeds received from the global offering has been or will be used in the manner consistent with that mentioned in the section headed “Future Plans and Use of Proceeds” of the prospectus of the Company dated February 28, 2017 (the “Prospectus”). All unutilized amounts are deposited in licensed banks in Hong Kong and will be used in a manner that is consistent with that mentioned in the Prospectus and according to the needs of the Company from time to time. An analysis of the utilization of the net proceeds from the Listing Date up to June 30, 2019 is set out below:

	Percentage to the total amount	Net Proceeds HK\$ million	Utilized Amount HK\$ million	Unutilized Amount HK\$ million
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	16.53	34.69
– Upgrading and improvement of medical facilities	7%	32.59	25.72	6.87
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	13.43	9.85
– Conducting academic research activities and developing employee training programs with a focus on management training and professional training	4%	18.62	—	18.62
Upgrading and improving our information technology system	7%	32.59	3.35	29.24
Providing funding for our working capital, rental and property related expenses and other general corporate purposes	10%	46.56	46.56	—
	<u>100%</u>	<u>465.60</u>	<u>366.33</u>	<u>99.27</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Convertible Bonds

Given the Group's needs of a substantial amount of funds for future acquisitions, on January 25, 2018, the Company entered into a subscription agreement with Vanguard Glory Limited ("Vanguard Glory", a shareholder who holds 70.19% issued share capital of the Company), pursuant to which the Company will issue, and Vanguard Glory will subscribe, convertible bonds in the principal amount of HK\$468 million (the "Vanguard Convertible Bonds"). With an initial conversion price of HK\$18.00, the Vanguard Convertible Bonds can be converted into 26,000,000 ordinary shares of the Company.

The net proceeds (after deducting all relevant costs and expenses) from the Vanguard Convertible Bonds amounted to approximately HK\$467 million. As at December 31, 2018, such net proceeds has been utilized as to approximately HK\$405 million for the acquisition of Cixi Hongai Medical Management Co., Ltd. ("Cixi Hongai") in March 2018. The unutilized portion of the net proceeds of approximately HK\$62 million as at December 31, 2018 had been placed into the Group's bank accounts maintained with licensed banks in Hong Kong and is expected to be applied according to the use of proceeds as stated in the circular of the Company dated February 12, 2018. The Company will use the unutilized portion of net proceeds in other acquisitions of hospitals or hospital management businesses by the Group. The Directors consider that this is fair and reasonable and in line with the interests of the Company and its shareholders as a whole. An analysis of the utilization of the net proceeds up to June 30, 2019 is set out below:

	Percentage to the total amount	Net Proceeds HK\$ million	Utilized Amount HK\$ million	Unutilized Amount HK\$ million
For acquisition of Cixi Hongai	45%	211	405	—
For other acquisitions of hospitals or hospital management businesses	55%	256	—	62
Total	100%	467	405	62

As at June 30, 2019, none of the Vanguard Convertible Bonds has been converted to Shares. Details of the Vanguard Convertible Bonds have been disclosed in the announcement and circular of the Company dated January 25, 2018 and February 12, 2018, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

On May 29, 2018, the Company and Hony Capital Fund VIII (Cayman), L.P. (the “Vendor”) entered into a shares purchase agreement (the “Share Purchase Agreement”) in relation to the sale and purchase of the entire equity interest in Oriental Ally, a company incorporated in the British Virgin Islands with limited liability and owned by the Vendor, with a consideration of RMB630,000,000 (equivalent to approximately HK\$773,879,717).

Oriental Ally is an investment holding company, which directly owns 100% equity interest in Impeccable Success Limited (“Impeccable Success”), which in turn directly owns 75% 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 consultancy services to Jinhua Hospital, a not-for-profit hospital in the PRC.

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

The consideration was satisfied by the issuance of the convertible bonds in the aggregate principal amount of HK\$773,879,717 by the Company to the Vendor on the completion date of the acquisition pursuant to the Share Purchase Agreement. On August 7, 2018, the convertible bonds were issued in registered form in the denomination of HK\$1.00 each provided that in no event shall any bonds be transferred, exchanged, converted or purchased in an aggregate principal amount that is less than HK\$1.00. The convertible bonds will mature five years from the issue at its principal amount or can be converted into ordinary shares of the Company at the holder’s option upon conversion at the conversion price of HK\$20.00 per conversion share (subject to adjustments to the conversion price).

On December 21, 2018 and January 16, 2019, the Company and Leap Wave Limited (the “Subscriber”) entered into a subscription agreement and an amendment agreement respectively pursuant to which the Company agreed to issue and the Subscriber agreed to subscribe for the convertible bonds (the “LW Convertible Bonds”) in the aggregate principal amount of HK\$800,000,000 for 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 in five years from their issuance or can be converted into ordinary shares of the Company at the holder’s option at the conversion price of HK\$20.00 per conversion share (subject to adjustments 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 \times 6% \times 5.

MANAGEMENT DISCUSSION AND ANALYSIS

The market price of the shares on January 16, 2019, being the date on which the terms of the issuance of the convertible bonds were fixed was HK\$16.18.

The unutilized portion of the net proceeds of approximately HK\$800 million as at June 30, 2019 is expected to be applied according to the use of proceeds as stated in the circular of the Company dated January 16, 2019. The Company will use the unutilized portion of such net proceeds in acquisitions of hospitals or hospital management businesses by the Group and as discussed in the section headed “Business Review and Prospects” above, it is expected that the Company will be actively proceeding to later stages of such projects in the second half of 2019. An analysis of the utilization of the net proceeds up to June 30, 2019 is set out below:

	Percentage to the total amount	Net Proceeds HK\$ million	Utilized Amount HK\$ million	Unutilized Amount HK\$ million
Acquisition of hospitals or hospital management businesses	100%	800	—	800
Total	100%	800	—	800

As at June 30, 2019, none of the LW Convertible Bonds has been converted to Shares. Details of the LW Convertible Bonds have been disclosed in the announcements of the Company dated December 21, 2018, January 16, 2019 and February 27, 2019 respectively.

EXPOSURE TO FOREIGN EXCHANGE RISK

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

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

As at June 30, 2019, the Group was exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US dollars and HK dollars.

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

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF GROUP ASSETS

Details of the Group's assets pledged as security for bank borrowing as at June 30, 2019 are set out in Note 21 to the condensed consolidated financial information.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this interim report, for the six months ended June 30, 2019, the Group did not have any significant investment or future plans for material investments or capital assets.

EMPLOYEE AND REMUNERATION POLICIES

As at June 30, 2019, the Group had 468 full-time employees (as at June 30, 2018: 420). 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, 2019, the total employee benefits expenses (including Directors' remuneration) were RMB64.3 million (first half of 2018: RMB76.6 million).

MATERIAL ACQUISITIONS, FINANCING ACTIVITY AND DISPOSALS

December 21, 2018 The Company and Leap Wave Limited (the "Subscriber") entered into a subscription agreement (as amended by an amendment agreement dated January 16, 2019) pursuant to which, among other things, the Company agreed to issue and the Subscriber agreed to subscribe for the convertible bonds in the aggregate principal amount of HK\$800,000,000 for a total consideration equal to the aggregate principal amount of the convertible bonds and with an initial conversion price of HK\$20.00 per conversion share. The transaction was approved by extraordinary general meeting of the Company held on February 1, 2019 and the convertible bonds were issued on February 27, 2019.

CONTINGENT LIABILITIES

As at June 30, 2019, the Group did not have any material contingent liabilities or guarantees.

INTERIM DIVIDEND

The board of Directors has recommended that no interim dividend be declared in respect of the six months ended June 30, 2019.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at the date of this report, 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 ⁽⁴⁾
Mr. Zhao John Huan	Interest in controlled corporation	161,693,985 ⁽¹⁾	117.01%
	Deemed interests ⁽²⁾	2,500,000 ⁽²⁾	1.81%
Ms. Liu Lu	Interest in controlled corporation	9,098,800 ⁽³⁾	6.58%

Notes:

- (1) This includes the Shares held by Mr. Zhao John Huan in respect of the convertible bonds for an aggregate principal amount of HK\$1,241,879,717. For more details, please refer to the circular of the Company dated February 13, 2018.
- (2) This includes the Shares held by Midpoint Honour Limited and pledged in favour of Hony Capital 2008 Management Limited which is indirectly controlled by Mr. Zhao John Huan.
- (3) Ms. Liu Lu is a general partner 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 50% interests 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 Health Investment Management Co., Ltd. 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)), which is a limited partnership formed under the laws of the PRC as an investment vehicle and holds 6.58% interests in the Company.
- (4) As at the date of this report, the total number of issued shares of the Company was 138,194,000.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Save as disclosed above, as of the date of this report, 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 the date of this report, 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 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	Approximate percentage of interest in the Company ⁽⁵⁾
Vanguard Glory	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 ⁽¹⁾⁽²⁾⁽³⁾	Interest in controlled corporation	161,693,985	117.01%
	Deemed interests	2,500,000	1.81%
Hony Managing Partners Limited ⁽¹⁾⁽²⁾⁽³⁾	Interest in controlled corporation	161,693,985	117.01%
	Deemed interests	2,500,000	1.81%
Exponential Fortune Group Limited ⁽¹⁾⁽²⁾⁽³⁾	Interest in controlled corporation	161,693,985	117.01%
	Deemed interests	2,500,000	1.81%
Hony Capital Fund VIII (Cayman), L.P. ⁽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%
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)) ⁽⁴⁾	Beneficial owner	9,098,800	6.58%

CORPORATE GOVERNANCE AND OTHER INFORMATION

Name of Shareholder	Capacity/Nature of interest	Number of Shares or underlying Shares	Approximate percentage of interest in the Company ⁽⁵⁾
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") ⁽⁴⁾	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)) ⁽⁴⁾	Interest in controlled corporation	9,098,800	6.58%
Anhui Investment Group Holdings Co., Ltd. (安徽省投資集團控股有限公司) ⁽⁴⁾	Interest in controlled corporation	9,098,800	6.58%
Mr. Niu Yang ⁽⁴⁾	Interest in controlled corporation	9,098,800	6.58%
Leap Wave Limited ⁽⁵⁾	Beneficial owner	40,000,000	28.94%

Notes:

- (1) Aggregating the Shares held by Midpoint Honour and pledged in favour of Hony Capital 2008 Management Limited.
- (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.
- (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.
- (4) Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) is a limited partnership formed under the laws of the PRC as an investment vehicle. The general partner of Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership) is Anhui Zhong'an. Anhui Zhong'an is jointly held as to 50% by Hefei Kangyang Capital Management Partnership (Limited Partnership) and as to 45% by Anhui Investment Group Holdings Co., Ltd.. Mr. Niu Yang is the general partner of Hefei Kangyang Capital Management Partnership (Limited Partnership).
- (5) Leap Wave Limited entered into a subscription agreement with the Company on December 21, 2018 (which has been amended on January 16, 2019) to subscribe for the convertible bonds issued by the Company, which can be converted into 40,000,000 conversion shares of the Company, representing approximately 28.94% of the issued share capital of the Company as at the date of this report.
- (6) As at the date of this report, the total number of issued shares of the Company was 138,194,000.

SHARE-BASED PAYMENT SCHEMES

(a) Share Subscription Agreement

On March 31, 2016, the Company entered into a share subscription agreement (the “**Share Subscription Agreement**”) with certain members of the management (collectively, the “**Management Subscribers**”), their respective investment holding companies, Midpoint Honour Limited (a shareholder of the Company collectively owned by the investment holding companies of the Management Subscribers) (“**Midpoint Honour**”), Hony Capital 2008 Management Limited (a management company established by Hony Capital) and Vanguard Glory, the immediate parent company of the Company.

The Share Subscription Agreement was subsequently amended on December 4, 2016 and January 23, 2017, respectively (“**Amended Agreements**”).

Pursuant to the Share Subscription Agreement, the Company allotted and issued 300 new ordinary shares to Midpoint Honour (the “**Subscription Shares**”), representing 3% of the Company’s then issued ordinary shares for RMB31,152,000, and such Subscription Shares were treated as treasury shares. On December 4, 2016, the Company repurchased 14 Subscription Shares at a price of HK\$1,787,495.50 and subsequently cancelled these shares. Pursuant to the Amended Agreements, the Subscription Shares with par value amounting to RMB2,000 were treated as treasury shares. On March 16, 2017, the remaining 286 Subscription Shares were divided into 2,860,000 shares of a par value of HK\$0.001 each upon the capitalization issue.

Pursuant to the Share Subscription Agreement and the Amended Agreements, Midpoint Honour is subject to lock-up restrictions and shall put back the Subscription Shares to the Company, when any one of the Management Subscribers resign with the Company’s consent, with a consideration equal to the subscription consideration plus interests where available (the “**Put Back Consideration**”). As a result, it is accounted 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. Options are conditional on the employees completing the first year and second year’s services, which are the vesting period. The options are exercisable starting 12 months (the “**First Batch Share Options**”) or 24 months (the “**Second Batch Share Options**”) from the Listing Date. The exercise price of the granted options is equal to the Put Back Consideration. The granted share options were considered as equity-settled share-based payment to the subscriber.

On March 15, 2018, pursuant to the Share Subscription Agreement and the Amendment Agreements, the First Batch Share Options of unlocked treasury shares were vested to the respective Management Subscribers. On May 23, 2018, one of the Management Subscribers, Mr. Zhang Xiaopeng, 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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. On March 31, 2019, one of the 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 RMB341,000 was recognized as “cost of revenue” for the six months ended June 30, 2019 (the first half of 2018: RMB4,218,000).

(b) Pre-IPO Share Appreciation Rights Scheme

On November 28, 2016, the Board of the Company approved a share appreciation rights scheme prior to the initial public offering (the “Pre-IPO SARs Scheme”) which enables the Company to grant share appreciation rights to certain members of management (collectively referred to as the “Pre-IPO SARs Grantees”).

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

Pursuant to the lock-up restrictions provided in the Pre-IPO SARs Scheme, from March 15, 2018, the first batch, which is 25% of the total notional shares were free to be vested. On May 23, 2018, one of the Pre-IPO SARs Grantees, Mr. Zhang Xiaopeng, resigned and the remaining 75% locked-up notional shares granted to him lapsed pursuant to the Pre-IPO SARs Scheme.

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

On March 15, 2019, the second batch, which is 25% of the total notional shares were free to be vested. On March 31, 2019, one of the Pre-IPO SARs Grantees resigned and the remaining 50% locked-up notional shares granted to him lapsed pursuant to the Pre-IPO SARs Scheme.

The share-based compensation expense related to the Pre-IPO SARs Scheme of RMB2,030,000 was derecognized as “cost of revenue” for the six months ended June 30, 2019 (the first half of 2018: RMB2,898,000 was recognized as “cost of revenue”).

CORPORATE GOVERNANCE AND OTHER INFORMATION

(c) Service Contract with Mr. Lu Wenzuo

Pursuant to a service contract 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:

- (a) Certain share awards (the “**Share Awards**”) to acquire 1% equity interest in each of Weikang Investment and Tibet Dazi Honghe Ruixin Business Management Co., Ltd. (“**Honghe Ruixin**”) for each of the three years ending December 31, 2017 from New Pride and Tibet Honghe Zhiyuan Business Management Co., Ltd. (“**Honghe Zhiyuan**”) or receive a cash payment equivalent to the value of 1% equity interest in each of Weikang Investment and Honghe Ruixin for each of the three years ending December 31, 2017 and such Share Awards will be settled by New Pride at the end of Mr. Lu’s tenure; and
- (b) Share appreciation rights (“**Mr. Lu’s SARs**”) to receive a cash payment based on the appreciation of 1% of the notional equity interest in Weikang Investment and Honghe Ruixin. Mr. Lu’s SARs will be settled by New Pride at the end of Mr. Lu’s tenure.

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

On January 25, 2019, Mr. Lu Wenzuo submitted an application to New Pride for the exercise of Mr. Lu’s SARs. As at June 30, 2019, the payment was not yet made.

The share-based compensation expense related to Mr. Lu’s SARs of RMB277,000 was derecognized as “cost of revenue” for the six months ended June 30, 2019 (the first half of 2018: RMB7.3 million was recognized as “cost of revenue”).

(d) Share Incentive Scheme

On October 24, 2017, Vanguard Glory entered into a share incentive scheme (the “Share Incentive Scheme”) with certain members of management (collectively referred to as the “Share Incentive Grantees”) respectively. Pursuant to the Share Incentive Scheme, Vanguard Glory granted 6,412,201 share awards to the Share Incentive Grantees entitling them to subscribe shares held by Vanguard Glory at the exercise price of HKD14.35 per share, subject to certain lock-up restrictions.

On May 23, 2018, one of the Share Incentive Grantees, Mr. Zhang Xiaopeng, resigned and the Company agreed that all of the share awards granted by Vanguard Glory to Mr. Zhang would remain in effect after his resignation with an accelerated vesting schedule.

On August 31, 2018, another member of the Share Incentive Grantees entered into a termination agreement with the Company. As agreed by the Company, 25% of the share awards granted by Vanguard Glory to her would be released from the lock-up restrictions and free to be vested after her resignation, the remaining 75% locked-up notional shares granted to her lapsed.

On March 31, 2019, another member of the Share Incentive Grantees entered into a termination agreement with the Company. As agreed by the Company, 50% of the share awards granted by Vanguard Glory to him would be released from the lock-up restrictions and free to be vested after his resignation, the remaining 50% locked-up notional shares granted to him lapsed.

The share-based compensation expenses in relation to the share awards granted to the resigned Share Incentive Grantee for the six months ended June 30, 2019 was recognised as capital reserve upon his resignation.

The share-based compensation expense related to the Share Incentive Scheme of RMB4,010,000 (the first half of 2018: RMB12,124,000) was recognized as “cost of revenue” for the six months ended June 30, 2019.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

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

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

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

Category	Type	Date of Grant	Exercise Price per Share	Exercise Period	Balance as at January 1, 2019	Granted during the Reporting period	Exercised during the Reporting period	Cancelled/ Lapsed during the Reporting period	Balance as at June 30, 2019
Employees of the Group	Management Subscription	March 31, 2016	RMB10.384	March 15, 2018 - March 15, 2019	2,860,000	-	-	-	2,860,000
	Pre-IPO Share Appreciation Rights Scheme	November 28, 2016	HKD12.80	March 15, 2018 - March 15, 2021	1,562,500	-	(312,500)	(250,000)	1,000,000

CONTINUING CONNECTED TRANSACTION

During the Reporting Period, Jiande Hospital, an indirectly non-wholly owned subsidiary of the Company, has entered into two continuing connected transactions (the “CCTs”) respectively with Zhejiang Dajia Medical Instruments Co., Ltd.* (浙江大佳醫療器械有限公司) (“Zhejiang Dajia”) and Zhejiang Zhongyouli Medicines Co., Ltd.* (浙江中友力醫藥有限公司) (“Zhejiang Zhongyouli”).

As of June 30, 2019, the cost of purchasing medicines, medical equipment and consumables incurred by the Group pursuant to the CCTs amounted to approximately RMB20,851,000 (of which RMB3,026,000 was attributable to Zhejiang Dajia for the purchase of medical equipment and consumables and RMB17,825,000 was attributable to Zhejiang Zhongyouli for the purchase of medicines).

During the six months ended on June 30, 2019, the Group has adopted the following internal control measures in relation to the CCTs:

1. conducted quarterly review of the guidance or reference prices available on public purchasing platforms in Zhejiang province;
2. compared, on a quarterly basis, procurement prices of medicine, medical consumables and equipment offered to Jiande Hospital by Zhejiang Zhongyouli and Zhejiang Dajia, against the procurement prices of similar or related products offered to other hospitals managed or founded by the Group recently, including Jinhua Hospital and Cixi Hospital; and
3. seeking quotations for similar medicines, medical consumables or equipment from independent third party suppliers from time to time.

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

The independent non-executive Directors of the Company will conduct an annual review of the CCTs to ensure that they are conducted in accordance with the terms of the agreements governing the CCTs (the “Agreements”) and the pricing policies of the Company during the year ending on December 31, 2019, and that the terms under the Agreements are normal commercial terms or more favorable terms as compared to those offered by independent third party suppliers during the year ending on December 31, 2019.

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%.

* *For identification purpose only*

CORPORATE GOVERNANCE AND OTHER INFORMATION

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. The Board considered 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.

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. Having made specific enquiry to all Directors, the Company confirms that all Directors have complied with the Securities Dealing Code and the Model Code during the Reporting Period.

AUDIT COMMITTEE

The unaudited results and the condensed consolidated financial statements of the Group for the six months ended June 30, 2019 have been reviewed by the Audit Committee. The Audit Committee consists of two independent non-executive Directors, Mr. Zhou Xiangliang (周向亮) (Chairman) and Mr. Shi Luwen (史錄文), and a non-executive Director, Mr. Li Peng (李蓬). The Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements.

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

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

FINANCIAL INFORMATION

The Group's interim results for the six months ended June 30, 2019 have not been audited but have been reviewed by the Group's external auditor, PricewaterhouseCoopers, and by the Audit Committee.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF HOSPITAL CORPORATION OF CHINA LIMITED

(incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 30 to 72, which comprises the interim condensed consolidated balance sheet of Hospital Corporation of China Limited (the 'Company') and its subsidiaries (together, the 'Group') as at June 30, 2019 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 'Interim Financial Reporting'. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, August 28, 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended June 30,	
		2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Revenue	6	208,531	174,459
Cost of revenue		<u>(124,088)</u>	<u>(120,613)</u>
Gross profit		84,443	53,846
Selling expenses		–	(105)
Administrative expenses		(33,722)	(32,723)
Other gains/(losses)-net	7	42,579	(41,344)
Other income	8	<u>515</u>	<u>1,788</u>
Operating profit/(loss)		93,815	(18,538)
Finance income	9	25,246	423
Finance expense	9	<u>(6,122)</u>	<u>(8,635)</u>
Profit/(loss) before income tax		112,939	(26,750)
Income tax expense	10	<u>(18,014)</u>	<u>(9,426)</u>
Profit/(loss) for the period		94,925	(36,176)
Other comprehensive income		<u>–</u>	<u>–</u>
Total comprehensive income/(loss) for the period		<u>94,925</u>	<u>(36,176)</u>
Attributable to:			
Owners of the Company		82,029	(38,269)
Non-controlling interests		<u>12,896</u>	<u>2,093</u>
Total comprehensive income/(loss) for the period		<u>94,925</u>	<u>(36,176)</u>
Earnings/(losses) per share for profit/(loss) attributable to owners of the Company			
– Basic earnings/(losses) per share (in RMB)	11	0.594	(0.280)
– Diluted earnings/(losses) per share (in RMB)	11	<u>0.005</u>	<u>(0.280)</u>

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	June 30, 2019 RMB' 000 (Unaudited)	December 31, 2018 RMB' 000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	12	146,616	143,940
Right-of-use assets	3(a)	4,696	–
Intangible assets	13	2,921,307	2,936,539
Land use right	13	39,015	39,487
Deferred income tax assets	23	1,170	933
Other receivables, deposits and prepayments	15	2,452	3,243
Total non-current assets		3,115,256	3,124,142
Current assets			
Inventories		7,831	8,664
Contract assets		11,454	–
Trade receivables	14	37,553	33,822
Other receivables, deposits and prepayments	15	2,152	2,895
Amounts due from related parties	16	235,835	191,040
Financial assets at fair value through profit or loss	5.3	184,233	249,767
Cash and cash equivalents		881,397	195,521
Total current assets		1,360,455	681,709
Total assets		4,475,711	3,805,851
EQUITY			
Equity attributable to owners of the Company			
Share capital	17	123	123
Share premium	17	435,304	432,993
Treasury shares	17	–	–*
Reserves	18	914,779	910,458
Retained earnings/(accumulated losses)		62,857	(19,172)
Non-controlling interests		356,478	343,582
Total equity		1,769,541	1,667,984

* The balance stated above was less than RMB500.

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET– CONTINUED

	Note	June 30, 2019 RMB' 000 (Unaudited)	December 31, 2018 RMB' 000 (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings	21	136,502	173,923
Convertible bonds	22	1,714,985	1,073,856
Lease liabilities	3(a)	2,022	–
Deferred income tax liabilities	23	350,498	350,512
Accruals, other payables and provisions	20	437	1,466
Total non-current liabilities		2,204,444	1,599,757
Current liabilities			
Trade payables	19	16,095	16,885
Accruals, other payables and provisions	20	72,604	137,836
Amounts due to related parties	16	27,634	40,136
Contract liabilities		70	549
Current income tax liabilities		37,016	31,212
Borrowings	21	125,125	89,692
Lease liabilities	3(a)	2,382	–
Financial liability at amortised cost		220,800	221,800
Total current liabilities		501,726	538,110
Total liabilities		2,706,170	2,137,867
Total equity and liabilities		4,475,711	3,805,851

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

The financial statements on pages 30 to 72 were approved by the Board of Directors on August 28, 2019 and were signed on its behalf.

Zhao John Huan

Shan Guoxin

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

* The balance stated above was less than RMB500.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY— CONTINUED

	Attributable to owners of the Company						Attributable to non- controlling interests	Total equity	
	Share capital	Treasury shares	Share premium	Reserves (Note 18)	Retained earnings	Sub-total			
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000			RMB' 000
<i>(Unaudited)</i>									
Balance at January 1, 2018	123	(3)	404,021	1,070,628	39,344	1,514,113	48,012	1,562,125	
Comprehensive loss									
- (Loss)/Profit for the period	-	-	-	-	(38,269)	(38,269)	2,093	(36,176)	
Non-controlling interests on acquisition of subsidiaries	-	-	-	-	-	-	146,499	146,499	
Share vested under the share- based payments	17	-	3	28,972	40,500	-	69,475	-	69,475
Share-based payments-share subscription agreement	18	-	-	-	2,687	-	2,687	-	2,687
Share-based payments-share option scheme	18	-	-	-	12,124	-	12,124	-	12,124
Balance at June 30, 2018	<u>123</u>	<u>-*</u>	<u>432,993</u>	<u>1,125,939</u>	<u>1,075</u>	<u>1,560,130</u>	<u>196,604</u>	<u>1,756,734</u>	

* The balance stated above was less than RMB500.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Six months ended June 30,	
		2019	2018
Note		RMB' 000 (Unaudited)	RMB' 000 (Unaudited)
Cash flows from operating activities			
	Cash generated from operations	17,725	55,518
	Income tax paid	(21,651)	(18,269)
9	Interests received	216	423
	Net cash (used in)/generated from operating activities	(3,710)	37,672
Cash flows from investing activities			
	Purchase of property, plant and equipment	(5,778)	(18,950)
	Payments for intangible assets	(178)	–
5.3(iii)	Purchase of monetary funds	–	(155,000)
5.3(iii)	Payment for acquisition of subsidiaries, net of cash acquired	–	(304,318)
	Payment of professional fees for acquisition	(2,008)	(3,648)
	Payment for deposit on acquisition of subsidiaries	–	(35,000)
	Refund of acquisition deposit	–	80,000
	Loans to related parties	(38,573)	(42)
5.3(iii)	Proceeds from disposal of financial assets at fair value through profit or loss	68,730	29,650
	Interest received on fixed deposits	3,032	–
	Net cash generated from/(used in) investing activities	25,225	(407,308)
Cash flows from financing activities			
	Proceeds from borrowing	40,000	40,000
22	Proceeds from convertible bonds	682,160	378,706
	Repayment to related parties	(28,124)	(35,555)
	Repayment of borrowing	(41,759)	(1,639)
	Payment of loan interests	(7,201)	(7,676)
	Payment of professional fees for financing	(1,623)	–
	Principal elements of lease payments	(948)	–
	Dividend and withholding tax paid	–	(2,115)
	Net cash received from financing activities	642,505	371,721
	Net increase in cash and cash equivalents	664,020	2,085
	Cash and cash equivalents at beginning of period	195,521	260,787
	Effects of exchange rate changes on cash and cash equivalents	21,856	1,933
	Cash and cash equivalents at end of the period	881,397	264,805

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED 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 its privately owned hospital; (ii) provision of management and consultation services to not-for-profit hospitals and (iii) wholesale of pharmaceutical products in the People's Republic of China (the 'PRC').

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

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

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

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended June 30, 2019 has been prepared in accordance with International Accounting Standard ('IAS') 34, 'Interim financial reporting'. The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial report and thus should be read in conjunction with the annual financial report of the Group for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards ('IFRS'), and any public announcements made by the Company during the six months ended June 30, 2019.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended December 31, 2018, as described in those annual financial statements, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 16 Leases.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 3 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from January 1, 2019 in note 3(b) below.

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

(a) Adjustments recognised on adoption of IFRS 16

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

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

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3 CHANGES IN ACCOUNTING POLICIES – *continued*

(a) Adjustments recognised on adoption of IFRS 16 – *continued*

The recognised right-of-use assets relate to the following types of assets:

	June 30, 2019 RMB' 000	January 1, 2019 RMB' 000
Properties	4,696	1,109
Total right-of-use assets	4,696	1,109

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

- right-of-use assets – increased by RMB1,109,000
- prepayments – decreased by RMB234,000
- lease liabilities – increased by RMB875,000

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

(i) *Impact on segment disclosures and earnings per share*

Segment assets and segment liabilities for June 2019 increased as a result of the change in accounting policy, while EBITDA decreased according to the policy change. Lease liabilities are now included in segment liabilities. The following segments were affected by the change in policy:

	EBITDA RMB' 000	Segment assets RMB' 000	Segment liabilities RMB' 000
General hospital services	–	417	312
Wholesale of pharmaceutical products	–	953	875
Unallocated	(25)	3,326	3,217
	(25)	4,696	4,404

Earnings per share decreased by RMB0.004 per share for the six months ended June 30, 2019 as a result of the adoption of IFRS 16.

3 CHANGES IN ACCOUNTING POLICIES – *continued*

(a) Adjustments recognised on adoption of IFRS 16 – *continued*

(ii) *Practical expedients applied*

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

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

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

The Group leases a warehouse, a retail store, an equipment and various offices. Rental contracts are typically made for fixed periods of 2 to 6 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

3 CHANGES IN ACCOUNTING POLICIES – *continued*

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

From January 1, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

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

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

4 ESTIMATES

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

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied in the preparation of the consolidated financial statements for the year ended December 31, 2018.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

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

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2018.

There have been no changes in the risk management policies since year end.

5.2 Liquidity risk

Compared to those of 2018 year end, except for the addition of contractual undiscounted cash flow in relation to the convertible bonds amounting to HKD800,000,000, which will mature in five years from the issuance, there was no material change in the contractual undiscounted cash out flows for financial liabilities. Upon their maturity, the Company shall redeem in whole the 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 \times 6% \times 5.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

5.3 Fair value estimation

(i) Fair value hierarchy

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

The following table presents the Group's financial assets and liabilities that are measured at fair value at June 30, 2019 and December 31, 2018.

	Level 1 RMB' 000	Level 2 RMB' 000	Level 3 RMB' 000	Total RMB' 000
<i>(Unaudited)</i>				
As at June 30, 2019				
Assets				
Financial assets at fair value through profit or loss ("FVPL")				
– Monetary funds with floating rates	–	183,033	–	183,033
– Call option to acquire subsidiaries' remaining interests	–	–	1,200	1,200
Total assets	<u>–</u>	<u>183,033</u>	<u>1,200</u>	<u>184,233</u>
Liabilities				
Financial liabilities at FVPL				
– Convertible bonds (Note 22)	–	–	1,714,985	1,714,985
Total liabilities	<u>–</u>	<u>–</u>	<u>1,714,985</u>	<u>1,714,985</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

5.3 Fair value estimation – *continued*

(i) Fair value hierarchy – *continued*

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

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

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

5.3 Fair value estimation – *continued*

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

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

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

The following table presents the changes in level 2 instruments for the six months ended June 30, 2019.

	Monetary funds with floating rates RMB' 000
<i>(Unaudited)</i>	
Opening balance as at January 1, 2019	248,567
Additions	–
Settlements	(68,730)
Gains recognised in other gains – net*	<u>3,196</u>
Closing balance as at June 30, 2019	<u><u>183,033</u></u>
* Includes unrealised gains recognised in profit or loss attributable to balances held at the end of the reporting period	<u><u>2,490</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

5.3 Fair value estimation – *continued*

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

	Call option to acquire subsidiaries' remaining interests RMB' 000	Convertible bonds (Note 22) RMB' 000	Total RMB' 000
<i>(Unaudited)</i>			
Opening balance as at January 1, 2019	1,200	(1,073,856)	(1,072,656)
Additions	–	(682,160)	(682,160)
Settlements	–	–	–
Gains recognised in other gains – net*	–	41,031	41,031
	<u>1,200</u>	<u>(1,714,985)</u>	<u>(1,713,785)</u>
Closing balance as at June 30, 2019	<u>1,200</u>	<u>(1,714,985)</u>	<u>(1,713,785)</u>
* Includes unrealised gains recognised in profit or loss attributable to balances held at the end of the reporting period	<u>–</u>	<u>41,031</u>	<u>41,031</u>

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

5.3 Fair value estimation – *continued*

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

(a) Call option to acquire subsidiaries' remaining interests

On October 27, 2017, New Pride Holdings Limited ('New Pride') entered into a sale purchase agreement in relation to the sale and purchase of the entire equity interest in Jiande Hexu Enterprise Management Co., Ltd. ('Jiande Hexu') with Mr. Hong Jiangxin and Mr. Hong Yang. Pursuant to the sale purchase agreement, Zhejiang Xinxiangli Investment Co., Ltd., a company incorporated under the laws of the PRC with limited liability and held as to 83% by Mr. Hong Jiangxin, granted to New Pride a call option to acquire the remaining interests at a consideration calculated in accordance with an agreed formula. New Pride may exercise the call option at any time during the period commencing from the date of the completion of the acquisition and ending on December 31, 2020, to the extent that the call option and the acquisition of the remaining interest are permissible under the then applicable policies, laws and regulations in the PRC and the Listing Rules, and subject to the availability of finance to fund the exercise of call option.

The directors of the Company have assessed fluctuation of the inputs to the call option valuation and determined no material change in its fair value as of June 30, 2019.

(b) 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, 2019 was mainly impacted by the bond yield, which was determined by factors including market interest rates, the convertible bonds' risky rate, expiration dates of the convertible bonds and the volatility of the Company' stock price.

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

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

5.4 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
- Cash and cash equivalents
- Trade payables
- Contract liabilities
- Accruals, other payables and provisions (excluding non-financial liabilities)
- Amounts due to related parties
- Borrowings

6 SEGMENT INFORMATION

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

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

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

(a) General hospital services

Revenue from this segment is generated in the PRC and derived from hospital services provided by Jiande Hospital of Traditional Chinese Medicine Co., Ltd. ('Jiande Hospital') and Jiande Xinlin Pharmacy Co., Ltd. ('Xinlin Pharmacy') for the six months ended June 30, 2019.

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, 2019 and 2018, respectively.

(b) Hospital management services

Revenue from this segment is generated in the PRC and derived from providing comprehensive management services and receiving management service fee by Weikang Investment Management Co., Ltd. ('Weikang Investment'), Tibet Dazi Honghe Ruixin Business Management Co., Ltd. ('Honghe Ruixin'), Cixi Honghe Medical Management Co., Ltd. ('Cixi Honghe') and Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd. ('Zhejiang Honghe Zhiyuan') who changed its registered name from "Zhejiang Guangsha Medical Technology Co., Ltd." ('Guangsha Medical') to "Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd." on April 28, 2019.

6 SEGMENT INFORMATION – *continued*

(b) Hospital management services – *continued*

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

Cixi Honghe, a subsidiary of Cixi Hongai Medical Management Co., Ltd. ('Cixi Hongai'), entered into a letter of intent with Cixi Union Hospital ('Cixi Hospital') on February 1, 2018 and signed a supplemental agreement of the letter of intent with Cixi Hospital on March 7, 2018. Pursuant to the letter of intent, Cixi Honghe has provided management and consultancy services to Cixi Hospital with a period of 50 years from 2018 to 2067.

On March 26, 2018, Cixi Honghe entered into a five-year hospital management agreement with Cixi Hospital covering the period from 2018 to 2022. Pursuant to the hospital management agreement, Cixi Honghe can derive management fee based on the pre-set formulas set out in the five-year hospital management agreement.

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

(c) Wholesale of pharmaceutical products

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

(d) Unallocated

The 'Unallocated' category mainly represents the headquarter financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6 SEGMENT INFORMATION – *continued*

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

	General hospital services RMB' 000	Hospital management services RMB' 000	Wholesale of pharmaceutical products RMB' 000	Elimination RMB' 000	Unallocated RMB' 000	Total RMB' 000
<i>(Unaudited)</i>						
Six months ended June 30, 2019						
Segment revenue	98,301	108,181	2,948	(899)	–	208,531
Inter-segment revenue	–	–	(899)	899	–	–
Revenue from external customers	<u>98,301</u>	<u>108,181</u>	<u>2,049</u>	<u>–</u>	<u>–</u>	<u>208,531</u>
Timing of revenue recognition						
– At a point in time	46,419	–	2,049	–	–	48,468
– Over time	<u>51,882</u>	<u>108,181</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>160,063</u>
	<u>98,301</u>	<u>108,181</u>	<u>2,049</u>	<u>–</u>	<u>–</u>	<u>208,531</u>
EBITDA	1,079	90,213	(578)	479	–	91,193
Depreciation	(3,673)	(1,016)	(285)	–	(542)	(5,516)
Amortization	(3,787)	(11,858)	(191)	–	(46)	(15,882)
Finance (expense)/income	<u>(851)</u>	<u>124</u>	<u>4</u>	<u>–</u>	<u>(2,126)</u>	<u>(2,849)</u>
Unallocated income – net					45,993	45,993
(Loss)/Profit before tax	<u>(7,232)</u>	<u>77,463</u>	<u>(1,050)</u>	<u>479</u>	<u>43,279</u>	<u>112,939</u>
<i>(Unaudited)</i>						
As at June 30, 2019						
Segment assets	414,247	1,588,475	3,557	–	851,665	2,857,944
Goodwill	<u>301,995</u>	<u>1,306,506</u>	<u>9,266</u>	<u>–</u>	<u>–</u>	<u>1,617,767</u>
Total assets	<u>716,242</u>	<u>2,894,981</u>	<u>12,823</u>	<u>–</u>	<u>851,665</u>	<u>4,475,711</u>
Total liabilities	<u>143,038</u>	<u>358,906</u>	<u>2,148</u>	<u>–</u>	<u>2,202,078</u>	<u>2,706,170</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6 SEGMENT INFORMATION – *continued*

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

	General hospital services RMB' 000	Hospital management services RMB' 000	Wholesale of pharmaceutical products RMB' 000	Elimination RMB' 000	Unallocated RMB' 000	Total RMB' 000
<i>(Unaudited)</i>						
Six months ended June 30, 2018						
Segment revenue	86,680	87,408	16,100	(15,729)	–	174,459
Inter-segment revenue	–	–	(15,729)	15,729	–	–
Revenue from external customers	<u>86,680</u>	<u>87,408</u>	<u>371</u>	<u>–</u>	<u>–</u>	<u>174,459</u>
Timing of revenue recognition						
– At a point in time	42,364	–	371	–	–	42,735
– Over time	<u>44,316</u>	<u>87,408</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>131,724</u>
	<u>86,680</u>	<u>87,408</u>	<u>371</u>	<u>–</u>	<u>–</u>	<u>174,459</u>
EBITDA	2,110	42,396	3,218	(771)	–	46,953
Depreciation	(3,320)	(1,034)	(114)	–	(54)	(4,522)
Amortization	(3,680)	(2,768)	(190)	–	(32)	(6,670)
Finance (expense)/income	<u>(717)</u>	<u>304</u>	<u>12</u>	<u>–</u>	<u>(6,852)</u>	<u>(7,253)</u>
Unallocated cost – net					<u>(55,258)</u>	<u>(55,258)</u>
(Loss)/Profit before tax	<u>(5,607)</u>	<u>38,898</u>	<u>2,926</u>	<u>(771)</u>	<u>(62,196)</u>	<u>(26,750)</u>
<i>(Unaudited)</i>						
As at June 30, 2018						
Segment assets	394,197	735,749	13,123	(657)	206,783	1,349,195
Goodwill	<u>299,588</u>	<u>1,117,529</u>	<u>9,265</u>	<u>–</u>	<u>–</u>	<u>1,426,382</u>
Total assets	<u>693,785</u>	<u>1,853,278</u>	<u>22,388</u>	<u>(657)</u>	<u>206,783</u>	<u>2,775,577</u>
Total liabilities	<u>153,875</u>	<u>138,885</u>	<u>8,445</u>	<u>–</u>	<u>717,638</u>	<u>1,018,843</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

7 OTHER GAINS/(LOSSES) -NET

	Six months ended June 30,	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Net fair value gains/(losses) on convertible bonds	41,031	(43,682)
Net fair value gains on financial assets at FVPL	3,196	2,415
Others	(1,648)	(77)
	<u>42,579</u>	<u>(41,344)</u>

8 OTHER INCOME

	Six months ended June 30,	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Government grants and subsidies (a)	109	1,509
Others	406	279
	<u>515</u>	<u>1,788</u>

- (a) The Government grants and subsidies of RMB109,000 (six months ended June 30, 2018: RMB1,509,000) mainly consist of RMB75,000 (six months ended June 30, 2018: RMB1,380,000) granted by the People's Government of Sanlin Town in Shanghai in consideration of the taxation contribution of Weikang Investment for the six months ended June 30, 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

9 FINANCE INCOME/(EXPENSE)-NET

	Six months ended June 30,	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Finance income		
Finance income on financial liability at amortized cost	1,000	–
Interest income on fixed deposits	3,032	–
Interest income on short-term bank deposit	110	–
Interest income on deposits held at call with banks	106	–
Interest income on short-term structured deposits	–	423
Foreign exchange gains – net	20,998	–
	<u>25,246</u>	<u>423</u>
Finance expense		
Foreign exchange losses – net	–	(959)
Interest expense on bank borrowings	(6,097)	(7,676)
Interest expense on lease liabilities	(25)	–
	<u>(6,122)</u>	<u>(8,635)</u>
Finance income/(expense) – net	<u>19,124</u>	<u>(8,212)</u>

10 INCOME TAX EXPENSE

Subsidiaries established and operating in Mainland China are subject to the PRC corporate income tax at the rates of 15% or 25% (six months ended June 30, 2018: 15% or 25%) for the six months ended June 30, 2019.

	Six months ended June 30,	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Current income tax:		
– PRC corporate income tax	18,265	12,793
Deferred income tax (Note 23)	(251)	(3,367)
	<u>18,014</u>	<u>9,426</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

10 INCOME TAX EXPENSE – *continued*

(a) Cayman Islands Income Tax

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

(b) Hong Kong Profits Tax

Hong Kong profits tax rate was 16.5% (six months ended June 30, 2018: 16.5%) for the six months ended June 30, 2019. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for the periods ended June 30, 2019 and 2018.

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

The income tax rate of Tibet Honghe Zhiyuan Business Management Co., Ltd. ('Honghe Zhiyuan') and Honghe Ruixin was 15% (six months ended June 30, 2018: 15%) for the six months ended June 30, 2019. The income tax rate of other subsidiaries was 25% (six months ended June 30, 2018: 25%) for the six months ended June 30, 2019.

(d) Withholding Tax

The withholding tax rate of Bliss Success Holdings Limited and Impeccable Success Limited was 10% (six months ended June 30, 2018: 10%) pursuant to PRC Enterprise Income Tax based on the remittance of dividends from subsidiaries in the PRC in the foreseeable future, respectively.

New Pride obtained the Certificate of Resident Status of Hong Kong Special Administrative Region and its subsidiary, Weikang Investment, completed the tax filing as the withholding agent of New Pride. After the tax filing, New Pride can get the tax treaty benefits with the preferential tax rate of 5% for the dividends declared by Weikang Investment instead of 10% when Weikang Investment settles the dividends in 2019. As at June 30, 2019, Weikang Investment has not yet settled the dividends declared in previous years.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

11 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 2019 and 2018.

	Six months ended June 30,	
	2019 (Unaudited)	2018 (Unaudited)
Total profit/(loss) attributable to owners of the Company (RMB' 000)	82,029	(38,269)
Weighted average number of ordinary shares in issue (in thousands)	<u>138,121</u>	<u>136,457</u>
Basic earnings/(losses) per share (in RMB)	<u>0.594</u>	<u>(0.280)</u>

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

	Six months ended June 30,	
	2019 (Unaudited)	2018 (Unaudited)
Total profit/(loss) attributable to owners of the Company (RMB' 000)	82,029	(38,269)
Fair value change of the convertible bonds (RMB' 000)	<u>(80,994)</u>	<u>–</u>
Total profit/(loss) used to determine diluted earnings/(losses) per share (RMB' 000)	<u>1,035</u>	<u>(38,269)</u>
Weighted average number of ordinary shares in issue (in thousands)	138,121	136,457
Adjustment for calculation of diluted earnings per share :		
– Convertible bonds (in thousands)	<u>64,694</u>	<u>–</u>
Weighted average number of ordinary shares in issue and potential ordinary shares (in thousands)	<u>202,815</u>	<u>136,457</u>
Diluted earnings/(losses) per share (in RMB)	<u>0.005</u>	<u>(0.280)</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB' 000	Leasehold improvements RMB' 000	Medical equipment RMB' 000	Office equipment, furniture and motor vehicles RMB' 000	Construction- in-progress RMB' 000	Total RMB' 000
<i>(Unaudited)</i>						
Six months ended June 30, 2019						
Net book value						
Opening amount as at						
January 1, 2019	115,678	234	21,319	6,709	-	143,940
Additions	-	7	5,115	138	2,491	7,751
Disposals	(117)	-	(56)	(17)	-	(190)
Depreciation	(2,067)	(46)	(1,992)	(780)	-	(4,885)
Closing amount as at June 30, 2019	<u>113,494</u>	<u>195</u>	<u>24,386</u>	<u>6,050</u>	<u>2,491</u>	<u>146,616</u>

<i>(Unaudited)</i>						
Six months ended June 30, 2018						
Net book value						
Opening amount as at						
January 1, 2018	17,765	21	-	597	-	18,383
Additions	-	-	5,272	606	-	5,878
Business combination	101,990	313	17,982	6,722	-	127,007
Depreciation	(2,106)	(57)	(1,550)	(809)	-	(4,522)
Closing amount as at June 30, 2018	<u>117,649</u>	<u>277</u>	<u>21,704</u>	<u>7,116</u>	<u>-</u>	<u>146,746</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

13 INTANGIBLE ASSETS AND LAND USE RIGHT

	Goodwill RMB' 000	Contractual rights to provide management services RMB' 000	Licenses RMB' 000	Software RMB' 000	Sub-total RMB' 000	Land use right RMB' 000	Total RMB' 000
<i>(Unaudited)</i>							
Six months ended June 30, 2019							
Net book value							
Opening amount as at January 1, 2019	1,617,767	1,137,153	180,047	1,572	2,936,539	39,487	2,976,026
Additions	-	-	-	178	178	-	178
Amortisation	-	(11,823)	(3,427)	(160)	(15,410)	(472)	(15,882)
Closing amount as at June 30, 2019	<u>1,617,767</u>	<u>1,125,330</u>	<u>176,620</u>	<u>1,590</u>	<u>2,921,307</u>	<u>39,015</u>	<u>2,960,322</u>
<i>(Unaudited)</i>							
Six months ended June 30, 2018							
Net book value							
Opening amount as at January 1, 2018	950,915	108,313	-	174	1,059,402	-	1,059,402
Additions	-	-	-	1,400	1,400	-	1,400
Business combination	475,467	322,900	186,900	92	985,359	40,430	1,025,789
Amortisation	-	(2,768)	(3,347)	(82)	(6,197)	(473)	(6,670)
Closing amount as at June 30, 2018	<u>1,426,382</u>	<u>428,445</u>	<u>183,553</u>	<u>1,584</u>	<u>2,039,964</u>	<u>39,957</u>	<u>2,079,921</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

14 TRADE RECEIVABLES

	As at June 30, 2019 RMB' 000 (Unaudited)	As at December 31, 2018 RMB' 000 (Audited)
Trade receivables	40,112	34,822
Less: provision for impairment of trade receivables	<u>(2,559)</u>	<u>(1,000)</u>
Trade receivables – net	<u><u>37,553</u></u>	<u><u>33,822</u></u>

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

As at June 30, 2019 and December 31, 2018, the ageing analysis based on invoice date of the trade receivables was as follows:

	As at June 30, 2019 RMB' 000 (Unaudited)	As at December 31, 2018 RMB' 000 (Audited)
1 – 90 days	30,453	28,843
91 – 180 days	2,606	2,150
181 days – 1 year	5,197	2,795
Over 1 year	<u>1,856</u>	<u>1,034</u>
	<u><u>40,112</u></u>	<u><u>34,822</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

15 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at June 30, 2019 RMB' 000 (Unaudited)	As at December 31, 2018 RMB' 000 (Audited)
Prepayments for purchase of equipments	1,859	3,243
Advances to employees	777	516
Deposits for rental	557	539
Receivables from Social Security Bureau	530	303
Other prepayments	441	806
Other receivables	440	731
	<hr/>	<hr/>
Total	4,604	6,138
	<hr/>	<hr/>
Less: non-current portion	2,452	3,243
	<hr/>	<hr/>
Current portion	<u>2,152</u>	<u>2,895</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16 BALANCES WITH RELATED PARTIES

As at June 30, 2019 and December 31, 2018, the balances with related parties are unsecured, interest free, receivable/payable on demand and are denominated in RMB.

	As at June 30, 2019 RMB' 000 (Unaudited)	As at December 31, 2018 RMB' 000 (Audited)
Amounts due from related parties		
– Trade in nature		
Jinhua Hospital	113,743	97,858
Yangsi Hospital	72,876	32,456
Cixi Hospital	8,601	226
– Others		
Jinhua Hospital	40,000	21,102
Vanguard Glory Limited	360	360
Yangsi Hospital	202	56
Midpoint Honour Limited	36	36
Grand Roc Holdings Limited	9	9
Han Prestige Limited	8	8
Dongyang Guangfu Hospital	–	37,356
Hony Capital Fund VIII (Cayman), L.P.	–	1,573
Total	235,835	191,040

As at June 30, 2019 and December 31, 2018, the ageing analysis based on trading date of the trade receivables was as follows:

	As at June 30, 2019 RMB' 000 (Unaudited)	As at December 31, 2018 RMB' 000 (Audited)
Within 30 days	50,442	39,677
30 to 90 days	50,142	10,048
90 to 180 days	8,773	14,319
Over 180 days	85,863	66,496
	195,220	130,540

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16 BALANCES WITH RELATED PARTIES – *continued*

As at June 30, 2019, none of the trade receivables was individually determined to be impaired (2018: nil).

	As at June 30, 2019 RMB' 000 (Unaudited)	As at December 31, 2018 RMB' 000 (Audited)
Amounts due to related parties		
– Trade in nature		
Zhejiang Zhongyouli Medicines Co., Ltd.	9,549	–
Dajia Medical Equipment Co., Ltd.	3,745	4,207
– Others		
Yangsi Hospital	6,066	2,268
Jinhua Hospital	4,459	3,152
Vanguard Glory Limited	1,495	1,492
Cixi Hospital	1,243	17
Zhejiang Xinxiangli Investment Co., Ltd.	1,024	4,000
Dongyang Guangfu Hospital	53	–
Dajia Group Co., Ltd.	–	25,000
	<u>27,634</u>	<u>40,136</u>
Total	<u>27,634</u>	<u>40,136</u>

Their carrying values due as at June 30, 2019 and December 31, 2018, approximate their fair values.

As at June 30, 2019 and December 31, 2018, the ageing analysis based on trading date of the trade payables was as follows:

	As at June 30, 2019 RMB' 000 (Unaudited)	As at December 31, 2018 RMB' 000 (Audited)
Within 30 days	4,305	385
30 to 90 days	6,715	1,236
90 to 180 days	1,226	2,517
Over 180 days	1,048	69
	<u>13,294</u>	<u>4,207</u>
	<u>13,294</u>	<u>4,207</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

17 SHARE CAPITAL, TREASURY SHARES AND SHARE PREMIUM

	Number of shares	Nominal value of shares HKD
Authorised		
Ordinary shares	<u>500,000,000</u>	<u>500,000</u>

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

	Number of shares	Ordinary shares RMB' 000	Treasury shares RMB' 000	Share premium RMB' 000	Total RMB' 000
<i>(Unaudited)</i>					
Issued and Paid					
As at January 1, 2018	138,194,000	123	(3)	404,021	404,141
Vesting of shares under management subscription scheme	<u>-</u>	<u>-</u>	<u>3</u>	<u>28,972</u>	<u>28,975</u>
As at June 30, 2018	<u>138,194,000</u>	<u>123</u>	<u>-*</u>	<u>432,993</u>	<u>433,116</u>

* The balance stated above was less than RMB500.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

18 RESERVES

	Capital reserve RMB' 000	Other reserve RMB' 000	Total RMB' 000
<i>(Unaudited)</i>			
At January 1, 2019	878,445	32,013	910,458
Share-based payments-share subscription agreement	311	–	311
Share-based payments-share option scheme	4,010	–	4,010
	<u> </u>	<u> </u>	<u> </u>
At June 30, 2019	<u>882,766</u>	<u>32,013</u>	<u>914,779</u>
 <i>(Unaudited)</i>			
At January 1, 2018	1,046,641	23,987	1,070,628
Share-based payments-share awards	40,500	–	40,500
Share-based payments-share subscription agreement	2,687	–	2,687
Share-based payments-share option scheme	12,124	–	12,124
	<u> </u>	<u> </u>	<u> </u>
At June 30, 2018	<u>1,101,952</u>	<u>23,987</u>	<u>1,125,939</u>

19 TRADE PAYABLES

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

	As at June 30, 2019 RMB' 000 (Unaudited)	As at December 31, 2018 RMB' 000 (Audited)
Within 90 days	11,520	10,474
91 to 180 days	1,820	4,807
181 days to 1 year	1,505	713
Over 1 year	1,250	891
	<u> </u>	<u> </u>
	<u>16,095</u>	<u>16,885</u>

The carrying amounts of trade payables are denominated in RMB. The carrying amounts approximate their fair values due to their short-term maturities.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

20 ACCRUALS, OTHER PAYABLES AND PROVISIONS

	As at June 30, 2019 RMB' 000 (Unaudited)	As at December 31, 2018 RMB' 000 (Audited)
Accrued employee benefits	28,348	21,987
Share-based payments	16,903	20,538
Duty and tax payables other than corporate income tax	10,869	9,158
Other payables to suppliers for purchase of plant and equipment	7,576	6,950
Accrued professional service fee	3,639	3,551
Other payables of medical allowance	2,289	2,312
Payments due to Zhejiang Guangsha Holdings Group Ltd.	–	59,173
Payables to management subscribers	–	2,281
Others	3,417	13,352
	<u>73,041</u>	<u>139,302</u>
Total	73,041	139,302
Less: non-current portion	437	1,466
	<u>72,604</u>	<u>137,836</u>
Current portion	72,604	137,836

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

21 BORROWINGS

	As at June 30, 2019			As at December 31, 2018		
	Current RMB' 000 (Unaudited)	Non-current RMB' 000 (Unaudited)	Total RMB' 000 (Unaudited)	Current RMB' 000 (Audited)	Non-current RMB' 000 (Audited)	Total RMB' 000 (Audited)
Bank borrowing						
Secured but unguaranteed (a)	85,125	136,502	221,627	49,692	173,923	223,615
Secured and guaranteed	–	–	–	30,000	–	30,000
Unsecured but guaranteed	–	–	–	10,000	–	10,000
Unsecured and unguaranteed (b)	40,000	–	40,000	–	–	–
	<u>125,125</u>	<u>136,502</u>	<u>261,627</u>	<u>89,692</u>	<u>173,923</u>	<u>263,615</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

21 BORROWINGS – *continued*

- (a) On December 11, 2017, the Company entered into a long-term loan agreement with China Merchants Bank Shanghai Zhangyang Branch, the proceed of which amounting to HKD285,280,000 was used for settlement of the consideration paid for acquisition of Jiande Hexu.

The bank loan commencing from December 12, 2017 will mature until 2022 and bear a floating interest rate with reference to Hong Kong Interbank Offer Rate plus 360 basis points per annum. The bank loan was secured by the 100% equity interest of Jiande Hexu and Jiande Heyue Enterprise Management Co., Ltd. and 70% equity interest of Jiande Hospital, Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. and DJ Medicines.

- (b) On February 15, 2019, Jiande Hospital entered into a loan agreement with Agricultural Bank of China Jiande Branch, the proceed of which amounting to RMB30,000,000. The bank loan will mature on February 14, 2020 and bear a fixed interest rate of 4.79%.

On March 20, 2019, Jiande Hospital entered into a loan agreement with Agricultural Bank of China Jiande Branch, the proceed of which amounting to RMB10,000,000. The bank loan will mature on March 19, 2020 and bear a fixed interest rate of 4.79%.

As at June 30, 2019, the Group's borrowings were repayable as follows:

	Bank borrowings	
	As at June 30, 2019 RMB' 000 (Unaudited)	As at December 31, 2018 RMB' 000 (Audited)
Within 1 year	125,125	89,692
Between 1 and 2 years	68,251	74,538
Between 2 and 5 years	68,251	99,385
	<u>261,627</u>	<u>263,615</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

22 CONVERTIBLE BONDS

The movement of the convertible bonds are as follows:

	Convertible Bonds			Total RMB' 000
	March 5, 2018 RMB' 000	August 7, 2018 RMB' 000	February 27, 2019 RMB' 000	
As at January 1, 2019	430,241	643,615	–	1,073,856
Issuance of convertible bonds during the period	–	–	682,160	682,160
Difference between fair value and principal amount at initial recognition	2,318	(7,633)	120	(5,195)
Fair value change resulting from change in convertible bonds value	(35,931)	(44,686)	39,953	(40,664)
Accumulated amortization of difference between fair value and principal amount at initial recognition in the previous year	(642)	636	–	(6)
Aggregate difference yet to be recognised in (losses)/gains at June 30, 2019	<u>(1,290)</u>	<u>6,234</u>	<u>(110)</u>	<u>4,834</u>
As at June 30, 2019	<u>394,696</u>	<u>598,166</u>	<u>722,123</u>	<u>1,714,985</u>

(i) Convertible bonds issued on March 5, 2018

None of convertible bonds was converted into ordinary shares of the Company during the six months ended June 30, 2019.

As at June 30, 2019, the fair value of the convertible bonds was approximately HKD450,156,000, equivalent to approximately RMB395,986,000, which is determined by an independent qualified valuer.

22 CONVERTIBLE BONDS – *continued*

(ii) Convertible bonds issued on August 7, 2018

None of convertible bonds was converted into ordinary shares of the Company during the six months ended June 30, 2019.

As at June 30, 2019, the fair value of the convertible bonds was approximately HKD672,911,000, equivalent to approximately RMB591,932,000, which is determined by an independent qualified valuer.

(iii) Convertible bonds issued on February 27, 2019

On February 27, 2019, the Company issued convertible bonds in an aggregate principal amount of HKD800,000,000 (equivalent to approximately RMB682,160,000) in registered form in the denomination of HKD1.00 each. The convertible bonds will mature in five years from their issuance or can be converted into ordinary shares of the Company at the holder's option at the conversion price of HKD20.00 per conversion share (subject to adjustments to the conversion price). Upon maturity, the Company shall redeem in whole the convertible bonds with the redemption amount calculated in accordance with the following formula: principal amount of outstanding convertible bonds + principal amount of outstanding convertible bonds \times 6% \times 5.

The convertible bonds are designated as financial liabilities at fair value through profit or loss. The fair value of the convertible bonds on February 27, 2019 was HKD800,140,300, which is determined by an independent qualified valuer and approximated its principal amount.

Financial liabilities at fair value through profit or loss are measured at fair value at initial recognition with transaction cost charged to the profit or loss accounts. Subsequently, the fair values are remeasured, gains and losses from changes therein are recognised in the profit or loss account.

None of convertible bonds was converted into ordinary shares of the Company during the six months ended June 30, 2019.

As at June 30, 2019, the fair value of the convertible bonds was approximately HKD821,036,000, equivalent to approximately RMB722,233,000, which is determined by an independent qualified valuer.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

23 DEFERRED INCOME TAX

	As at June 30, 2019 RMB' 000 (Unaudited)	As at December 31, 2018 RMB' 000 (Audited)
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	–	–
– Deferred income tax assets to be recovered within 12 months	<u>1,170</u>	<u>933</u>
	<u>1,170</u>	<u>933</u>
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	(323,842)	(329,042)
– Deferred income tax liabilities to be settled within 12 months	<u>(26,656)</u>	<u>(21,470)</u>
	<u>(350,498)</u>	<u>(350,512)</u>
Deferred income tax liabilities – net	<u>(349,328)</u>	<u>(349,579)</u>

Deferred income tax assets

	Provisions RMB' 000	Changes in fair value RMB' 000	Unrealized profit RMB' 000	Total RMB' 000
<i>(Unaudited)</i>				
Balance at January 1, 2019	694	173	66	933
Credited to profit or loss	<u>303</u>	<u>–</u>	<u>(66)</u>	<u>237</u>
Balance at June 30, 2019	<u>997</u>	<u>173</u>	<u>–</u>	<u>1,170</u>
<i>(Unaudited)</i>				
Balance at January 1, 2018	–	–	–	–
Business combination	472	–	–	472
Credited to profit or loss	<u>168</u>	<u>3,571</u>	<u>192</u>	<u>3,931</u>
Balance at June 30, 2018	<u>640</u>	<u>3,571</u>	<u>192</u>	<u>4,403</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

23 DEFERRED INCOME TAX – *continued*

Deferred income tax liabilities

	Buildings and Intangible assets RMB' 000	Withholding tax RMB' 000	Changes in fair value RMB' 000	Interest capitalization RMB' 000	Total RMB' 000
<i>(Unaudited)</i>					
Balance at January 1, 2019	(335,520)	(13,406)	(1,126)	(460)	(350,512)
Credited/(charged) to profit or loss	3,481	(2,990)	(489)	12	14
Balance at June 30, 2019	<u>(332,039)</u>	<u>(16,396)</u>	<u>(1,615)</u>	<u>(448)</u>	<u>(350,498)</u>
<i>(Unaudited)</i>					
Balance at January 1, 2018	(27,078)	(8,555)	–	–	(35,633)
Business combination	(132,958)	–	–	(486)	(133,444)
Credited/(charged) to profit or loss	1,224	(1,322)	(484)	18	(564)
Balance at June 30, 2018	<u>(158,812)</u>	<u>(9,877)</u>	<u>(484)</u>	<u>(468)</u>	<u>(169,641)</u>

24 DIVIDENDS

The board of directors of the Company does not declare any dividends for the six months ended June 30, 2019 (six months ended June 30, 2018: nil).

25 COMMITMENTS

(a) Capital commitments

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

	Six months ended June 30, 2019 RMB' 000 (Unaudited)	Year ended December 31, 2018 RMB' 000 (Audited)
Property, plant and equipment	<u>2,103</u>	<u>–</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

26 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

Name	Relationship with the Group
Yangsi Hospital	Certain employees or directors of the Group are Yangsi Hospital's internal governance body members
Cixi Hospital	Certain employees or directors of the Group are Cixi Hospital's internal governance body members
Jinhua Hospital	Certain employees or directors of the Group are Jinhua Hospital's internal governance body members
Dongyang Guangfu Hospital	Certain employees or directors of the Group are Dongyang Guangfu Hospital's internal governance body members
Yongkang Hospital	Certain employees or directors of the Group are Yongkang Hospital's internal governance body members
Vanguard Glory Limited	Parent company
Grand Roc Holdings Limited	Related party which is owned by the then CEO during 2018
Midpoint Honour Limited	Related party which is owned by the management subscribers
Han Prestige Limited	Related party of parent company
Zhejiang Xinxiangli Investment Co., Ltd.	Related party which is controlled by Mr. Hong Jiangxin
Dajia Medical Equipment Co., Ltd.	Related party which is controlled by Mr. Hong Jiangxin
Dajia Group Co., Ltd.	Related party which is controlled by Mr. Hong Jiangxin
Zhejiang Zhongyouli Medicines Co., Ltd.	Related party which is controlled by a close family member of Mr. Hong Jiangxin
Hony Capital Fund VIII (Cayman), L.P.	Managed by Hony Capital Fund VIII GP (Cayman) Limited, which is ultimately held as to 49% by Mr. Zhao John Huan

The following significant transactions were carried out between the Group and its related parties for the periods ended June 30, 2019 and 2018. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

26 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(a) Significant transactions with related parties

	Six months ended June 30,	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Management Service fee		
– Yangsi Hospital	77,577	83,650
– Jinhua Hospital	19,702	–
– Cixi Hospital	9,793	3,758
	<u>107,072</u>	<u>87,408</u>
Purchase of medical equipment and pharmaceuticals		
– Zhejiang Zhongyouli Medicines Co., Ltd.	17,825	–
– Dajia Medical Equipment Co., Ltd	3,026	8,125
	<u>20,851</u>	<u>8,125</u>

(b) Loans to related parties

	Six months ended June 30,	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Loan to Dongyang Guangfu Hospital		
Beginning of the period	–	3,000
Interest charged	–	73
Interest received	–	(73)
	<u>–</u>	<u>(73)</u>
End of the period	<u>–</u>	<u>3,000</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

26 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(c) 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,	
	2019 RMB' 000 (Unaudited)	2018 RMB' 000 (Unaudited)
Wages, salaries and bonuses	7,616	12,365
Share-based compensation expenses	–	24,229
Others	192	354
	<u>7,808</u>	<u>36,948</u>

27 EVENTS AFTER THE REPORTING PERIOD

On July 24, 2019, a loan agreement was entered into between the Company as the lender and Jinhua Hospital as the borrower. Pursuant to the loan agreement, the Company has conditionally agreed to, through the PRC subsidiaries, grant the loan to Jinhua Hospital for a term of 36 months from the date of the relevant drawdown of the loan. The principal amount of the loan is RMB80,000,000, and the annual interest rate is 5.23%, which will be adjusted based on the applicable benchmark interest rates announced by the People's Bank of China from time to time. Jinhua Hospital will repay the loan within five days upon expiry of 36 months from the relevant drawdown date, and the accrued interest of the loan must be repaid at the same time.

Jinhua Hospital (as chargor) shall provide a charge over its accounts receivables from its medical services provision in favor of the Company (as chargee) to secure Jinhua Hospital's punctual repayment of the loan in accordance with the loan agreement.