RICI HEALTHCARE HOLDINGS LIMITED
瑞慈醫療服務控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1526)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2020

FINANCIAL SUMMARY

- Revenue for the six months ended June 30, 2020 amounted to RMB583.3 million, representing a decrease of 17.0% from RMB702.9 million for the corresponding period in 2019.
- Gross profit for the six months ended June 30, 2020 amounted to RMB42.0 million, as compared to RMB150.7 million for the corresponding period in 2019.
- Loss attributable to owners of the Company for the six months ended June 30, 2020 amounted to RMB164.1 million, as compared to loss attributable to owners of the Company of RMB60.2 million for the corresponding period in 2019.

In this announcement, “we”, “us”, “our” and “Rici” refer to the Company (as defined below) and where the context otherwise requires, the Group (as defined below).

The board (the “**Board**”) of directors (the “**Directors**”) of Rici Healthcare Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) announces the unaudited consolidated financial results of the Group for the six months ended June 30, 2020 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2019. The Group’s unaudited interim condensed consolidated balance sheet, unaudited interim condensed consolidated statement of profit or loss, unaudited interim condensed consolidated statement of comprehensive income and explanatory notes 1 to 19 as presented below are extracted from the Group’s unaudited interim condensed consolidated financial information for the six months ended June 30, 2020.

Interim condensed consolidated balance sheet

As at June 30, 2020

	Note	**Unaudited June 30, 2020 *RMB'000***	Audited December 31, 2019 *RMB'000*
ASSETS			
Non-current assets			
Property and equipment		**1,175,660**	1,160,468
Right-of-use assets	*5*	**1,462,836**	1,554,771
Intangible assets		**11,976**	14,019
Investments accounted for using equity method		**7,320**	7,125
Financial assets at fair value through profit or loss		**4,500**	4,500
Deposits for long-term leases		**39,082**	41,926
Deferred income tax assets	*6*	**169,164**	179,764
Prepayments		**198,236**	55,266
		3,068,774	3,017,839
Current assets			
Inventories		**42,445**	44,383
Trade receivables	*7*	**206,855**	290,027
Other receivables	*8*	**38,960**	33,181
Prepayments		**18,542**	16,270
Amounts due from related parties		**1,727**	980
Cash and cash equivalents	*9(a)*	**416,677**	329,551
Restricted cash	*9(b)*	**248,136**	338,346
		973,342	1,052,738
Total assets		**4,042,116**	4,070,577
EQUITY			
Equity attributable to owners of the Company			
Share capital	*10*	**1,065**	1,065
Reserves		**491,346**	643,170
		492,411	644,235
Non-controlling interests		**(167,415)**	(81,299)
Total equity		**324,996**	562,936

	Note	Unaudited June 30, 2020 *RMB'000*	Audited December 31, 2019 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	*11*	**453,790**	259,276
Lease liabilities	*12*	**1,316,676**	1,409,877
Other financial liabilities		**122,666**	115,927
Other long-term liabilities		**12,303**	12,303
		1,905,435	1,797,383
Current liabilities			
Borrowings	*11*	**694,152**	663,486
Lease liabilities	*12*	**305,267**	267,211
Contract liabilities		**281,069**	229,157
Trade and other payables	*13*	**509,430**	515,540
Amounts due to related parties		**1,650**	1,500
Income tax payables		**6,694**	19,941
Deferred income		**13,423**	13,423
		1,811,685	1,710,258
Total liabilities		**3,717,120**	3,507,641
Total equity and liabilities		**4,042,116**	4,070,577

Interim condensed consolidated statement of profit or loss

For the six months ended June 30, 2020

	Note	**Unaudited** Six months ended June 30, **2020** *RMB'000*	Unaudited 2019 *RMB'000*
Revenue	*14*	**583,260**	702,933
Cost of sales	*15*	**(541,293)**	(552,244)
Gross profit		**41,967**	150,689
Distribution costs and selling expenses	*15*	**(70,256)**	(86,712)
Administrative expenses	*15*	**(135,892)**	(140,781)
Net impairment reversals on financial assets	*15*	**3,237**	126
Other income		**9,400**	16,182
Other losses		**(2,555)**	(175)
Operating loss		**(154,099)**	(60,671)
Finance costs	*16*	**(82,183)**	(76,093)
Finance income	*16*	**10,811**	6,017
Finance costs — net	*16*	**(71,372)**	(70,076)
Share of results of investments accounted for using equity method		**195**	391
Loss before income tax		**(225,276)**	(130,356)
Income tax (expense)/credit	*17*	**(24,937)**	13,235
Loss for the period		**(250,213)**	(117,121)
Attributable to:			
Owners of the Company		**(164,097)**	(60,241)
Non-controlling interests		**(86,116)**	(56,880)
		(250,213)	(117,121)
Loss per share for loss attributable to owners of the Company			
— Basic and diluted	*18*	**RMB(0.10)**	RMB(0.04)

Interim condensed consolidated statement of comprehensive income

For the six months ended June 30, 2020

	Unaudited	Unaudited
	Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
Loss for the period	**(250,213)**	(117,121)
Other comprehensive income or losses	**—**	—
Total comprehensive loss for the period	**(250,213)**	(117,121)
Attributable to:		
Owners of the Company	**(164,097)**	(60,241)
Non-controlling interests	**(86,116)**	(56,880)
	(250,213)	(117,121)

Notes to the Financial Information

For the six months ended June 30, 2020

1 General information

Rici Healthcare Holdings Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands on July 11, 2014. The address of the Company's registered office is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1–1002, Cayman Islands.

The Company, an investment holding company and its subsidiaries (collectively, the "**Group**") are principally engaged in the provision of general hospital services, specialty hospital services and medical examination services in the People's Republic of China ("**PRC**").

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since October 6, 2016.

The interim condensed consolidated financial information is presented in thousands of Renminbi ("**RMB'000**"), unless otherwise stated, and were approved and authorised for issue by the board of directors of the Company on August 28, 2020.

2 Basis of preparation

The notes contained in this announcement are extracted from the full set of interim condensed consolidated financial information for the six months ended June 30, 2020 which have been prepared in accordance with HKAS 34 *Interim Financial Reporting*, and do not include all the notes of the type normally included in an annual financial statements. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements of the Group for the year ended December 31, 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") and together with any public announcements made by the Company.

(a) Going concern

As at June 30, 2020, the Group's current liabilities exceeded its current assets by RMB838,343,000. The directors considered that the contract liabilities and the deferred income included in current liabilities of the Group as at June 30, 2020 amounting to RMB294,492,000 will not expect to have cash outflow from the Group. The Group meets its day-to-day working capital requirements depending on cash flows generated from operating activities, bank borrowings and uncommitted credit facilities provided by banks in the PRC. Based on the

Group's past experience and good credit standing, the directors are confident on future operating cash flows and that these bank financing could be renewed and/or extended for at least another twelve months upon maturity, if necessary. The directors therefore are of the opinion that it is appropriate to adopt the going concern basis in preparing the interim condensed consolidated financial information.

3 Accounting policies

The accounting policies applied in the interim condensed consolidated financial information are consistent with those of the annual financial statements of the Group for the year ended December 31, 2019, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new standard, amendments and interpretation of HKFRSs effective for the financial year ending December 31, 2020, as set out below.

(a) New standard, amendments and interpretation of HKFRSs adopted by the Group in 2020

A number of standard, amendments and interpretation of HKFRSs became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting these new standard, amendments and interpretation:

- Amendments to HKAS 1 and HKAS 8 — Regarding definition of material
- Amendments to HKFRS 3 — Regarding definition of a business
- Revised conceptual framework for financial reporting
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7 — Regarding interest rate benchmark reform
- Amendments to HKFRS 16 — Regarding COVID-19-related rent concessions

The Group has early adopted Amendment to HKFRS 16 — *Regarding COVID-19-related rent concessions* retrospectively from January 1, 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; b) any reduction in lease payments affects only payments due on or before June 30, 2021; and c) there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions except for Beijing Rich Ruitai Clinic Co., Ltd. ("**Beijing Ruitai**"). Rent concessions totalling RMB12,304,000 have been accounted for as negative variable lease payments and recognised in administrative expenses and cost of sales in the statement of profit or loss for the six months ended June 30, 2020, with a corresponding adjustment to the lease liabilities. Beijing Ruitai did not meet the conditions of practical expedient, and the revaluation totalling RMB3,268,000 was recognised in administrative expenses and cost of sales in the statement of profit or loss for the six months ended June 30, 2020, with a corresponding adjustment to the lease liabilities and right-of-use assets. There is no impact on the opening balance of equity at January 1, 2020.

A number of new or amended standards became applicable for the current reporting period. Except for the Amendment to HKFRS 16 set out above, the Group did not change its accounting policies or make retrospective adjustments as a result of adopting these standards.

(b) Impact of new standards and amendments of HKFRSs issued but not yet applied by the Group

Certain new accounting standards and amendments of HKFRSs have been published but are not mandatory for the financial year beginning January 1, 2020 and have not been early adopted by the Group. Those which are more relevant to the Group's current operations are as below:

		Effective for annual periods beginning on or after
Amendments to HKAS 1	Regarding classification of liabilities as current or non-current	January 1, 2022
Amendments to HKAS 16	Regarding property, plant and equipment: proceeds before intended use	January 1, 2022
Amendments to HKAS 37	Regarding onerous contracts — cost of fulfilling a contract	January 1, 2022
Annual Improvements to HKFRS Standards 2018–2020		January 1, 2022
Amendments to HKFRS 3	Regarding reference to the conceptual framework	January 1, 2022
HKFRS 17	Insurance Contracts	January 1, 2023
Amendments to HKFRS 10 and HKAS 28	Regarding sale or contribution of assets between an investor and its associate or joint venture	To be determined

These new standards and amendments described above are either currently not relevant to the Group or not expected to have material impact on the Group's interim condensed consolidated financial information when they become effective.

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 the 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 to the consolidated financial statements of the Group for the year ended December 31, 2019.

5 Right-of-use assets

	Unaudited As at June 30, 2020	Audited As at December 31, 2019
	RMB'000	*RMB'000*
Properties	**1,391,152**	1,479,170
Equipment	**68,536**	72,403
Land use rights	**3,148**	3,198
	1,462,836	1,554,771

	Properties	Equipment	Land use rights	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at January 1, 2020				
Cost	1,672,915	78,538	4,698	1,756,151
Accumulated depreciation	(193,745)	(6,135)	(1,500)	(201,380)
Net book amount	1,479,170	72,403	3,198	1,554,771
Six months ended June 30, 2020				
Opening net book amount	1,479,170	72,403	3,198	1,554,771
Additions	16,759	—	—	16,759
Revaluation (i)	2,904	—	—	2,904
Disposal	(9,084)	—	—	(9,084)
Depreciation	(98,597)	(3,867)	(50)	(102,514)
Closing net book amount	1,391,152	68,536	3,148	1,462,836
As at June 30, 2020				
Cost	1,665,927	78,538	4,698	1,749,163
Accumulated depreciation	(274,775)	(10,002)	(1,550)	(286,327)
Net book amount	1,391,152	68,536	3,148	1,462,836

(i) The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions except for Beijing Ruitai (Note 3(a)). Beijing Ruitai did not meet the conditions of practical expedient, so revaluation has been applied, and lease liabilities and right-of-use assets have been adjusted accordingly.

6 Deferred income tax assets

	Unaudited As at June 30, 2020	Audited As at December 31, 2019
	RMB'000	*RMB'000*
Deferred income tax assets		
— to be recovered within 12 months	**27,496**	10,060
— to be recovered after more than 12 months	**141,668**	169,704
	169,164	179,764

The gross movement on the deferred income tax assets account is as follows:

	Unaudited Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
At beginning of the period, as originally presented	**179,764**	142,880
(Debited)/credited to the consolidated statement of profit or loss	**(10,600)**	33,827
At the end of the period	**169,164**	176,707

7 Trade receivables

	Unaudited As at June 30, 2020	Audited As at December 31, 2019
	RMB'000	*RMB'000*
Trade receivables	**219,129**	308,177
Less: loss allowance of trade receivables	**(12,274)**	(18,150)
	206,855	290,027

As at June 30, 2020 and December 31, 2019, the fair value of trade receivables approximated their carrying amounts.

The aging analysis of trade receivables based on service provided date is as follows:

	Unaudited As at June 30, 2020 *RMB'000*	Audited As at December 31, 2019 *RMB'000*
Trade receivables		
— Up to 6 months	**188,672**	272,223
— 6 months to 1 year	**21,689**	17,569
— 1 to 2 years	**3,870**	11,275
— 2 to 3 years	**2,802**	3,800
— Over 3 years	**2,096**	3,310
	219,129	308,177

8 Other receivables

	Unaudited As at June 30, 2020 *RMB'000*	Audited As at December 31, 2019 *RMB'000*
Deposits	**12,280**	12,903
Advances to staff	**8,885**	4,756
Interest receivable	**3,657**	3,944
Others	**14,255**	11,695
	39,077	33,298
Less: loss allowance of other receivables	**(117)**	(117)
	38,960	33,181

As at June 30, 2020 and December 31, 2019, the fair value of other receivables approximated their carrying amounts.

9 Cash and bank balances

(a) Cash and cash equivalents

	Unaudited As at June 30, 2020 *RMB'000*	Audited As at December 31, 2019 *RMB'000*
Cash at bank and on hand		
— Denominated in RMB	**252,988**	264,812
— Denominated in USD	**159,160**	60,706
— Denominated in HKD	**4,529**	4,033
	416,677	329,551

(b) Restricted cash

As at June 30, 2020, fixed deposits of USD35,050,000 (December 31, 2019: USD48,500,000) were pledged at banks for the Group's borrowings of RMB220,000,000 (December 31, 2019: RMB300,000,000) (Note 11).

10 Share capital

Ordinary shares, issued and fully paid:

	Number of ordinary shares	**Share capital** *RMB'000*
As at December 31, 2019 and June 30, 2020	1,590,324,000	1,065

11 Borrowings

	Unaudited As at June 30, 2020 *RMB'000*	Audited As at December 31, 2019 *RMB'000*
Non-current:		
Bank borrowings — secured and/or guaranteed (i)	**430,057**	233,557
Other borrowings — secured and guaranteed (ii)	**73,335**	49,205
	503,392	282,762
Less: current portion of non-current borrowings	**(49,602)**	(23,486)
	453,790	259,276
Current:		
Bank borrowings — secured and/or guaranteed (iii)	**644,550**	640,000
Add: current portion of non-current borrowings	**49,602**	23,486
	694,152	663,486
Total borrowings	**1,147,942**	922,762

(i) As at June 30, 2020, non-current bank borrowings include:

(a) RMB9,677,000 borrowings secured by buildings with net book value of RMB36,258,000; and

(b) RMB107,640,000 borrowings secured by revenue collection rights of Changzhou Rich Obstetrics & Gynecology Hospital Co., Ltd. ("**Changzhou Rich Hospital**"), a subsidiary of the Group, and guaranteed by related parties, Dr. Fang Yixin ("**Dr. Fang**") and Dr. Mei Hong ("**Dr. Mei**").

(ii) As at June 30, 2020, non-current other borrowings include RMB29,774,000 borrowings secured by equipment with net book value of RMB41,592,000.

(iii) As at June 30, 2020, short term bank borrowings include:

(a) RMB110,000,000 borrowings secured by buildings with net book value of RMB37,069,000; and

(b) RMB220,000,000 borrowings secured by USD35,050,000 fixed deposits (Note 9(b)).

All the short-term and long-term bank borrowings are guaranteed by the Company's subsidiaries for each other.

As at June 30, 2020, all the borrowings were denominated in RMB and their fair value approximates their carrying amount.

12 Lease liabilities

	Unaudited As at June 30, 2020 *RMB'000*	Audited As at December 31, 2019 *RMB'000*
Present value of the minimum lease payments:		
Within 1 year	**305,267**	267,211
After 1 year but within 2 years	**239,586**	255,589
After 2 year but within 5 years	**551,062**	570,488
After 5 years	**526,028**	583,800
	1,621,943	1,677,088

13 Trade and other payables

	Unaudited As at June 30, 2020 *RMB'000*	Audited As at December 31, 2019 *RMB'000*
Trade payables due to third parties (b)	**167,024**	142,207
Payables for purchase of property and equipment	**109,334**	135,337
Staff salaries and welfare payables	**83,021**	103,537
Loans from non-controlling interests of subsidiaries (a)	**81,174**	60,982
Deposits payable	**6,085**	6,100
Accrued taxes other than income tax	**4,784**	5,101
Interest payables	**1,430**	873
Accrued advertising expenses	**733**	2,657
Accrued professional service fees	**500**	2,260
Others	**55,345**	56,486
	509,430	515,540

(a) Balance represents loans from the non-controlling interests of subsidiaries, which are unsecured. As at June 30, 2020 and December 31, 2019, loans from non-controlling interests of subsidiaries bore interest rate at 8% per annum.

(b) The aging analysis of the trade payables based on invoice date is as follows:

	Unaudited As at June 30, 2020 *RMB'000*	Audited As at December 31, 2019 *RMB'000*
Trade payables		
— Up to 3 months	**95,533**	109,866
— 3 to 6 months	**36,202**	12,416
— 6 months to 1 year	**18,147**	6,434
— 1 to 2 years	**7,259**	4,024
— 2 to 3 years	**1,389**	2,172
— Over 3 years	**8,494**	7,295
	167,024	142,207

The trade and other payables are usually paid within 60 days of recognition. As at June 30, 2020 and December 31, 2019, the fair value of all trade and other payables approximated their carrying amounts.

14 Revenue and segment information

Management has determined the operating segments based on the information reviewed by the chief operating decision-maker ("**CODM**") for the purpose of corporate planning, allocating resources and assessing performance.

Management considers the business from a business perspective, and assesses the performance of the business segment based on segment profit without allocation of administrative expenses, interest income, interest expenses, other finance costs and income tax expense.

The amounts provided to management with respect to total assets and total liabilities are measured consistent with that of the financial statements. These assets are allocated based on the operations of segments. Certain assets and liabilities related to some companies with corporate function are not allocated into segments. Elimination of revenue are mainly inter-segment service charges related to general hospital business.

The Group manages its business by three operating segments based on their services, which is consistent with the way in which information is reported internally to the Group's CODM for the purpose of resources allocation and performance assessment:

(i) General hospital

The business of this segment is in Nantong, a city of Jiangsu Province. Revenue from this segment is derived from general hospital services provided by Nantong Rich Hospital Co., Ltd. ("**Nantong Rich Hospital**") and hemodialysis services provided by Nantong Rich Hemodialysis Center Co., Ltd. ("**Nantong Rich Hemodialysis Center**").

(ii) Medical examination centers

The business of this segment is in Shanghai, Jiangsu Province and other provinces in the PRC. Revenue from this segment is derived from medical examination services and clinic services.

(iii) Specialty hospitals

The business of this segment is in Shanghai and Jiangsu Province. Revenue from this segment is derived from specialty hospital services and maternal and child nursing services.

(*a*) *Revenue*

Revenue of the Group consists of the following:

	Unaudited Six months ended June 30,	
	2020	2019
	RMB'000	*RMB'000*
General Hospital		
Outpatient pharmaceutical revenue	**21,990**	24,885
Outpatient service revenue	**29,960**	30,592
Inpatient pharmaceutical revenue	**111,866**	106,326
Inpatient service revenue	**88,594**	79,660
Medical Examination Centers		
Examination service revenue	**289,913**	440,639
Management service revenue and others	**229**	1,256
Specialty Hospitals		
Outpatient pharmaceutical revenue	**1,106**	648
Outpatient service revenue	**10,120**	3,919
Inpatient pharmaceutical revenue	**398**	259
Inpatient service revenue	**29,084**	14,749
	583,260	702,933

(*b*) *Segment information*

The following table presents revenue and profit information regarding the Group's operation segments for the six months ended June 30, 2020 and 2019, and the segment assets and liabilities at the respective balance sheet dates.

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same way as in the statement of profit or loss.

	General Hospital *RMB'000*	Medical Examination Centers *RMB'000*	Specialty Hospitals *RMB'000*	Unallocated *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
For the six months ended June 30, 2020 (unaudited)						
Revenue	258,860	290,142	40,708	–	(6,450)	583,260
Segment profit/(loss)	73,787	(49,081)	(52,995)	–	–	(28,289)
Administrative expenses						(135,892)
Net impairment reversals on financial assets						3,237
Interest income						4,757
Interest expenses						(82,183)
Net exchange gains						6,054
Total loss before income tax						(225,276)
Income tax expense						(24,937)
Loss for the period						(250,213)
Other information						
Additions to property and equipment, right-of-use assets and intangible assets	74,386	51,880	6,316	–	–	132,582
Depreciation and amortization	11,180	136,033	34,672	–	–	181,885
As at June 30, 2020 (unaudited)						
Segment assets	1,514,444	3,306,730	779,965	858,852	(2,417,875)	4,042,116
Segment liabilities	982,941	3,188,303	878,055	249,241	(1,581,420)	3,717,120

	General Hospital *RMB'000*	Medical Examination Centers *RMB'000*	Specialty Hospitals *RMB'000*	Unallocated *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
For the six months ended June 30, 2019 (unaudited)						
Revenue	249,896	444,695	19,575	—	(11,233)	702,933
Segment profit/(loss)	72,732	49,116	(53,643)	(115)	(4,113)	63,977
Administrative expenses						(140,781)
Net impairment reversals on financial assets						126
Interest income						5,650
Interest expenses						(76,093)
Net exchange gains						367
Total loss before income tax						(130,356)
Income tax credit						13,235
Loss for the period						(117,121)
Other information						
Additions to property and equipment, right-of-use assets and intangible assets	50,231	247,139	12,672	—	—	310,042
Depreciation and amortization	8,568	129,768	28,579	—	—	166,915
As at December 31, 2019 (audited)						
Segment assets	1,245,870	3,415,155	830,397	859,934	(2,280,779)	4,070,577
Segment liabilities	740,765	3,115,817	843,248	113,615	(1,305,804)	3,507,641

15 Expenses by nature

	Unaudited Six months ended June 30, 2020 RMB'000	2019 RMB'000
Employee benefits expenses	**334,412**	351,969
Depreciation and amortization	**181,885**	166,915
Pharmaceutical costs	**78,854**	72,511
Medical consumables costs	**44,150**	53,009
Outsourcing testing expenses	**30,592**	30,325
Utility expenses	**29,609**	27,286
Impairment losses on property and equipment	**15,123**	—
Office expenses	**11,049**	14,177
Professional service charges	**9,627**	14,836
Maintenance expenses	**3,574**	4,029
Entertainment expenses	**3,091**	5,967
Short-term or low-value operating lease rentals	**2,089**	3,228
Advertising expenses	**2,008**	12,350
Travel expenses	**1,606**	2,929
Stamp duty and other taxes	**1,691**	1,612
Auditor's remuneration	**664**	1,124
Net impairment reversals on receivables	**(3,237)**	(126)
COVID-19-related rent concessions	**(15,572)**	—
Other expenses	**12,989**	17,470
	744,204	779,611

16 Finance costs — net

	Unaudited Six months ended June 30, **2020** ***RMB'000***	 2019 *RMB'000*
Interest on lease liabilities	**52,139**	49,522
Interest on borrowings	**32,190**	20,369
Interest on other financial liabilities	**6,739**	6,202
	91,068	76,093
Amount capitalised	**(8,885)**	—
Finance costs	**82,183**	76,093
Net exchange gains	**(6,054)**	(367)
Interest income	**(4,757)**	(5,650)
Finance income	**(10,811)**	(6,017)
Finance costs — net	**71,372**	70,076

17 Income tax expense/(credit)

The amount of income tax expense/(credit) recognised in the consolidated statement of profit or loss represents:

	Unaudited Six months ended June 30, **2020** ***RMB'000***	 2019 *RMB'000*
Current income tax		
— Current period	**14,630**	19,128
— Adjustment for current tax of prior years	**(293)**	1,464
Deferred income tax *(Note 6)*	**10,600**	(33,827)
Income tax expense/(credit)	**24,937**	(13,235)

The corporate income tax rate applicable to the Group's subsidiaries located in mainland China is 25%.

18 Loss per share

(a) Basic

Basic loss per share is calculated by dividing the net loss attributable to the owners of Company by the weighted average number of ordinary shares in issue during the six months ended June 30, 2020 and 2019, respectively.

	Unaudited	
	Six months ended June 30,	
	2020	2019
Net loss attributable to owners of the Company *(RMB'000)*	**(164,097)**	(60,241)
Weighted average number of ordinary shares in issue	**1,590,324,000**	1,591,982,912
Basic loss per share *(RMB)*	**(0.10)**	(0.04)

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted number of ordinary shares in issue for the potential dilutive effect caused by the share options granted under the share option scheme assuming they were exercised.

For the six months ended June 30, 2020 and 2019, as the average market share price of the Company's share was lower than assumed exercise price including the fair value of any services to be supplied to the Group in the future under the share option arrangement, there would be no dilutive impact.

19 Dividend

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2020 (2019: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND STRATEGIC OUTLOOK

Industry Overview

During the Reporting Period, numerous industries were affected negatively to different degrees due to the outbreak of COVID-19 (the "**Pandemic**"). While healthcare companies were inevitably negatively affected by the Pandemic, it also raised the healthcare awareness of consumers in China, which might have positive effects on the long-term development of the healthcare industry.

The first half of 2020 was difficult for the hospital industry in China as a whole. According to Number of Medical Institutions in China at the end of June 2020 (《2020年6月底全國醫療衛生機構數》) and Medical Service Conditions in China during January to June 2020 (《2020年1–6月全國醫療服務情況》) published by National Health Commission (國家衛生健康委員會) of the PRC (the "**NHC**") in August 2020, as of the end of June 2020, there were 35,000 hospitals in China, comprising 12,000 public hospitals and 23,000 private hospitals, representing a decrease of 38 public hospitals and an increase of 1,406 private hospitals, respectively, as compared to the end of June 2019. From January to June 2020, 1.2 billion and 220.0 million visits took place in public and private hospitals, representing a year-on-year decrease of 22.0% and 18.0%, respectively, while 67.3 million and 17.1 million patients were discharged from public and private hospitals, representing a year-on-year decrease of 18.8% and 1.5%, respectively.

As for the medical examination industry, under the impacts of the Pandemic in the first half of 2020, while on one hand, medical examination centers in many regions in China had to adjust their operation hours based on anti-pandemic requirements, leading to a decreased number of visits when the Pandemic was most severe, on the other hand, the Pandemic has also accelerated the process of medical examination services transferred from offline to online. In the long term, the Pandemic might further raise the awareness about health among consumers in China, contributing to promising growth prospects for the medical examination industry.

In terms of the obstetrics, gynecology and pediatrics (the "**OGP**") industry, even though the overall birth rate is currently in decline, the sub-replacement fertility and consumption upgrades have driven the increase in demands for high-quality OGP services from a new generation of consumers. There is still plenty room for the growth of middle and high-end OGP services. The Pandemic is a test for the OGP industry, expediting the phase-out of less competitive industry players and allowing the OGP industry to develop in a healthier and more orderly manner in the future.

General Hospital Business

Nantong Rich Hospital is the medical service center in southeast Nantong and the only high-level general hospital in Nantong Economic and Technological Development Area. It is now a Class III Grade B general hospital, a designated hospital for medical insurance reimbursement and a National Standardized Medical Residency Training Coordination Bases (國家級住院醫師規範化培訓協同基地). In May 2020, Nantong Rich Hospital became an affiliated hospital of Nantong University (南通大學) under the name of Nantong University Affiliated Rich Hospital (南通大學附屬瑞慈醫院). As of June 30, 2020, it had 277 doctors, 115 medical technicians and 431 nurses. Nantong Rich Hospital attaches importance to clinical research and development, and has one Construction Project for National Key Clinical Specialty (pediatric surgery) (國家臨床重點專科建設項目(小兒外科)), one Provincial Key Clinical Specialty under Construction (pediatrics) (省級重點建設專科(兒科)), seven Municipal Key Clinical Disciplines Specialties (市級臨床重點專科) (including pediatrics, orthopedics, cardio-thoracic surgery, cardiovascular medicine, nursing (pediatrics), general surgery and ophthalmology) and one Municipal Key Discipline under Construction (pediatrics general medicine) (市級重點建設學科(小兒內科)). During the Reporting Period, the hospital vigorously carried out research projects, including one new project of new technology and 25 ongoing research subjects. During the Pandemic, the hospital fulfilled its public responsibility to control the local pandemic and sent three medical staff to join the second batch of medical team from Nantong for supporting Hubei.

Nantong Rich Hospital was affected to some degrees by the Pandemic, but recovered faster than its industry peers. Furthermore, since the Pandemic prompted more local patients to seek medical services locally, while the numbers of outpatient and inpatient visits during the Reporting Period decreased as compared with the corresponding period of the last year, the revenue increased as compared with the corresponding period of the last year. During the Reporting Period, revenue of Nantong Rich Hospital was RMB252.4 million (corresponding period in 2019: RMB241.5 million), representing an increase of 4.5% as compared with the corresponding period of the last year. During the Reporting Period, the number of outpatient visits of Nantong Rich Hospital was 151,984 (corresponding period in 2019: 185,982), and the number of inpatient visits of Nantong Rich Hospital was 11,365 (corresponding period in 2019: 13,173), which decreased by 18.3% and 13.7% as compared with the corresponding period of the last year, respectively.

The Group established Nantong Rich Meidi Elderly Care Center Co., Ltd. (南通瑞慈美邸護理院有限公司) ("**Nantong Meidi**") and Nantong Rich Hemodialysis Center, leveraging on the medical resources of Nantong Rich Hospital. Nantong Meidi is jointly established with a Japanese elderly care management company, Medical Care Service Company (日本美邸養老服務有限公司), featuring a combination of medical treatment and elderly care and mainly providing services for elderly with disability and dementia. As of June 30, 2020, Nantong Meidi served 100 elderly people and enjoyed a occupancy rate of 94.3% (as of June 30, 2019: 103, 100%). The occupancy rate dropped because Nantong Meidi required appointments for visits and admissions during the Pandemic. Nantong Rich Hemodialysis Center is aimed at providing personalized and scientific dialysis solutions as well as independent and professional healthcare management services to patients with nephropathy, so as to improve their life quality and survival rate. During the Reporting Period, Nantong Rich Hemodialysis Center provided dialysis treatment 9,189 times (during the six months ended June 30, 2019: 5,342), representing an increase of 72.0% as compared with the corresponding period of the last year.

Medical Examination Business

During the Pandemic, some medical examination centers under our medical examination business made different adjustments to operation arrangement to comply with local policies. Meanwhile, our medical examination business was involved in anti-pandemic actions, proactively fulfilling its social responsibilities. Our medical examination center in Wuhan actively facilitated the allocation and transportation of local supplies during the Pandemic, while our medical examination staff in Shanghai, Nantong and Hefei participated in local anti-pandemic work. Moreover, Rici's medical examination business donated RMB5.0 million worth of high-end medical examination services to Shanghai Medical and Hygiene Development Fund (上海市醫藥衛生發展基金) for frontline anti-pandemic medical staff and their families. In addition, our medical examination business donated RMB5.0 million worth of high-end medical examination services to Red Cross Society of China Nanjing Branch (南京市紅十字會) for the medical staff who aided in Wuhan from Nanjing and working in the frontline of anti-pandemic in districts of Nanjing.

Meanwhile, our medical examination business continued to pursue the dual-brand strategy. The second medical examination center under our high-end medical examination brand, "MEDIC International Medical Examination (幸元會國際健康體檢)", officially opened in Gubei, Shanghai in the Reporting Period.

As of June 30, 2020, the Group had 60 medical examination centers in China (as of June 30, 2019: 57), representing a year-on-year growth of 5.3% and covering 28 cities. These medical examination centers are mainly located in first-tier, new-first-tier and second-tier cities.

During the Reporting Period, the total number of visits of customers under our medical examination business was 590,617 (corresponding period in 2019: 905,375), representing a decrease of 34.8% as compared with the corresponding period of the last year, mainly due to the closure of certain medical examination centers as required by anti-pandemic policies in different areas during the Pandemic. During the Reporting Period, the numbers of corporate and individual customers were 439,860 and 150,757 (corresponding period in 2019: 733,368 and 172,007), representing a decrease of 40.0% and 12.4% as compared with the corresponding period of the last year, respectively. The average spending per capita of customers was RMB491.2 (corresponding period in 2019: RMB486.7), representing an increase of 0.9% as compared with the corresponding period of the last year.

Specialty Hospital Business

The three OGP hospitals under Rici's OGP segment are currently located in Changzhou, Shanghai and Wuxi, respectively, all of which are aimed at high-net-worth individuals and are specialized in OGP as well as medical-graded maternity care which are rare in the market, achieving a 24-hour medical linkage and providing attentive N-to-1 services to our customers. Our OGP segment established a strategic cooperation with Children's Hospital of Fudan University (復旦大學附屬兒科醫院), Obstetrics and Gynecology Hospital of Fudan University (復旦大學附屬婦產科醫院) and Children's Hospital of Shanghai (上海市交通大學附屬兒童醫院).

During the Pandemic, our three OGP hospitals strengthened their prevention and control measures, providing a more optimized and safer medical environment for high-net-worth individuals. During the Reporting Period, revenue from our OGP segment increased as compared with that in the corresponding period of the last year. Changzhou Rich Hospital, which is the first hospital officially opened among the three hospitals, is a designated hospital for medical insurance reimbursement and served 10,211 outpatients and 550 inpatients during the Reporting Period (corresponding period in 2019: 8,914 and 481), representing an increase of 14.6% and 14.3% as compared with the corresponding period of the last year, respectively. Shanghai Shuixian Obstetrics, Gynecology and Pediatrics Hospital Co., Ltd. (上海瑞慈水仙婦兒醫院有限公司) ("**Rich Shuixian**") served 5,880 outpatients and 383 inpatients during the Reporting Period (corresponding period in 2019: 1,955 and 115), representing increases of 200.8% and 233.0% as compared with the corresponding period of the last year, respectively. In May 2020, the second phase of the ancillary maternity care center under Rich Shuixian officially opened. Wuxi Rich Obstetrics, Gynecology and Pediatric Hospital Co., Ltd. (無錫瑞慈婦兒醫院有限公司) ("**Wuxi Rich Hospital**"), the newest among our three OGP hospitals, served 1,812 outpatients and 144 inpatients during the Reporting Period. On March 25, 2020, as a result of the adjustment of development strategies of the Group's specialty hospital business, Shanghai Rich Medical Investment Group Co., Ltd. (上海瑞慈醫療投資集團有限公司) ("**Shanghai Rich Medical**", an indirectly wholly-owned subsidiary of the Company) terminated the cooperation with Shanghai Jiangyang Industry Company (上海江楊實業有限公司) and Nanjing South New City Cultural Tourism Development Co., Ltd. (南京南部新城文化旅遊發展有限公司), respectively. Please refer to the Company's announcement dated March 25, 2020 for details.

Prospects

As Nantong Rich Hospital enters its 20th anniversary, it is improving in different aspects, including equipment, technology and expansion of inpatient capacity, laying the foundation for its next stage of development. In terms of the equipment, Nantong Rich Hospital has recently upgraded and optimized its equipment, and is now equipped with among others, linear accelerator, gamma knife and PET/CT, many of which are the latest or most advanced in Nantong, providing the basis for developing featured specialties in the future. In terms of technology and external cooperation, it further strengthens the technological cooperation with well-known hospitals in Shanghai and renowned professionals, heavily leveraging quality medical resources of Shanghai to provide services for patients in Nantong and nearby areas. The second phase expansion project of Nantong Rich Hospital is in orderly progress. When the second phase is completed, it is expected that the number of beds will increase significantly. Furthermore, Nantong Meidi and Nantong Rich Hemodialysis Center under the general hospital business are currently working on improving the efficiency and leveraging on the synergy with Nantong Rich Hospital.

Private medical examination industry has undergone fierce price competitions and mergers over these years, and is facing a new turning point. The unit price for medical examination users in China is still relatively lower compared with that of developed countries, and Chinese consumers have a significant demand for high-quality medical examination services. Furthermore, the integration of online services with the medical examination industry might give rise to more opportunities for the medical examination industry. Rici's medical examination business will focus on the Yangtze River Delta, while at the same time increasing its investment in the Great Bay Area market, strategically extending its presence in some key cities. In the future, Rici's medical examination business will place emphasis on precision medical examination centering on cardiovascular diseases and cancer inspection and provide health management as long-term services, so as to cultivate its core competitive strength.

In the Yangtze River Delta, represented by Shanghai, more and more people choose high-end private OGP services, as the consumption power of the mid- and high-net-worth individuals further increases. Our OGP segment aims to become the leading brand of private OGP hospital in the Yangtze River Delta. The Group plans to establish Rich Shuixian as the flagship hospital of our OGP segment, providing a talent nurturing platform and a technical support platform for our OGP segment. Currently, Changzhou Rich Hospital and Rich Shuixian under our OGP segment are vigorously attempting to increase their revenue through different means, while Wuxi Rich Hospital is working on raising its local brand reputation.

FINANCIAL REVIEW

Revenue

We derive revenue mainly from our general hospital business and medical examination business. The following table sets forth the components of our revenue by operating segments for the periods indicated:

	Six months ended June 30,		
	2020	2019	% of Change
	(RMB'000)	*(RMB'000)*	
General hospital business	**258,860** (1)	249,896 (1)	3.6%
Medical examination business	**290,142** (2)	444,695 (2)	-34.8%
Specialty hospital business	**40,708**	19,575	108.0%
Inter-segment	**(6,450)**	(11,233)	-42.6%
Total	**583,260**	702,933	-17.0%

Notes:

(1) Included the revenue from hemodialysis business.

(2) Included the revenue from embedded clinic business in medical examination centers.

Our revenue decreased by 17.0% from RMB702.9 million for the six months ended June 30, 2019 to RMB583.3 million for the Reporting Period, mainly affected by the Pandemic, as our medical examination centers across China were unable to resume normal operation during the Pandemic.

Revenue from the general hospital business for the Reporting Period amounted to RMB252.4 million, representing an increase of 4.5% from RMB241.5 million for the corresponding period in 2019, excluding inter-segment revenue of RMB6.5 million and RMB8.4 million for the six months ended June 30, 2020 and 2019, respectively. The Pandemic led to a decrease of 1,808 in the number of served inpatient individuals, an increase in the revenue per inpatient by 24.9% and an increase of the revenue from inpatients by RMB14.5 million. Meanwhile, the number of outpatient visits decreased by 33,998, revenue per outpatient increased by 14.6%, and revenue from outpatients decreased by RMB3.5 million.

Revenue from the medical examination business for the Reporting Period amounted to RMB290.1 million, representing a decrease of 34.4% from RMB441.9 million for the corresponding period in 2019, excluding the inter-segment revenue of RMB2.8 million for the six months ended June 30, 2019, while there is no inter-segment revenue in the corresponding period of 2020. Affected by the Pandemic, our medical examination centers across China were unable to resume normal operation during the Pandemic.

Revenue from the specialty hospital business for the Reporting Period amounted to RMB40.7 million (corresponding period in 2019: RMB19.6 million). For the Reporting Period, the numbers of outpatients and inpatients served by our specialty hospital services were 17,903 and 1,077, respectively. Revenue generated from outpatients and inpatients visits were RMB11.2 million and RMB29.5 million, respectively.

Cost of Sales

Cost of sales primarily consists of pharmaceuticals and medical consumables costs, staff costs and depreciation and amortization expenses. The following table sets forth a breakdown of cost of sales by operating segments for the periods indicated:

	Six months ended June 30,		
	2020	2019	% of Change
	(RMB'000)	*(RMB'000)*	
General hospital business	**182,184** (1)	174,777 (1)	4.2%
Medical examination business	**280,185** (2)	323,010 (2)	-13.3%
Specialty hospital business	**85,374**	69,125	23.5%
Inter-segment	**(6,450)**	(14,668)	-56.0%
Total	**541,293**	552,244	-2.0%

Notes:

(1) Included the cost of sales of hemodialysis business.

(2) Included the cost of sales of embedded clinic business in medical examination centers.

Our cost of sales decreased by 2.0% from RMB552.2 million for the six months ended June 30, 2019 to RMB541.3 million for the Reporting Period.

Cost of sales of the general hospital business during the Reporting Period amounted to RMB182.2 million, representing an increase of 4.2% from RMB174.8 million during the corresponding period in 2019. The increase was mainly attributable to the increase in the pharmaceutical costs caused by the expansion of revenue scale in the first half of 2020.

Cost of sales of the medical examination business during the Reporting Period amounted to RMB280.2 million, representing an decrease of 13.3% from RMB323.0 million during the corresponding period in 2019. The decrease was mainly due to the impact of the Pandemic. Our medical examination centers throughout the country could not operate normally during the Pandemic, so the labor costs and medical consumable costs of the medical examination business decreased along with the decrease of revenue.

Cost of sales of the specialty hospitals business amounted to RMB85.4 million during the Reporting Period, representing an increase of 23.5% from RMB69.1 million during the corresponding period in 2019. This was mainly due to the facts that (i) specialty hospitals were in the early stage of operation, and with the growth of income scale, the remuneration costs of medical personnel, pharmaceutical costs and medical consumables costs increased; and (ii) the cost of sales of Wuxi Rich Hospital was nil in the first half of 2019 since it was officially opened in the second half of the last year.

Gross Profit

Our gross profit decreased from RMB150.7 million for the six months ended June 30, 2019 to RMB42.0 million for the Reporting Period. Gross profit margin decreased by 14.2 percentage points from 21.4% for the six months ended June 30, 2019 to 7.2% for the Reporting Period. As the medical examination business was affected by the Pandemic, our revenue significantly decreased, while its fixed costs remained generally stable. The profit margin of the medical examination business decreased from 27.4% for the six months ended June 30, 2019 to 3.4% for the Reporting Period.

Distribution Costs and Selling Expenses

Our distribution costs and selling expenses amounted to RMB70.3 million during the Reporting Period, as compared to RMB86.7 million for the corresponding period in 2019. The decline was mainly due to the decrease of sales commissions and advertising expenses as affected by the Pandemic.

Administrative Expenses

Our administrative expenses amounted to RMB135.9 million during the Reporting Period, as compared to RMB140.8 million for the corresponding period in 2019.

Other Income

Our other income, which mainly comprised government subsidies, rental income and income from equipment sales, amounted to RMB9.4 million during the Reporting Period (corresponding period in 2019: RMB16.2 million).

Other Losses

Our other losses during the Reporting Period amounted to RMB2.6 million, as compared to other losses of RMB0.2 million for the corresponding period in 2019. Other losses mainly represented losses on disposal of equipment and other miscellaneous losses.

Finance Costs — net

Our net finance costs amounted to RMB71.4 million during the Reporting Period, as compared to the net finance costs of RMB70.1 million for the corresponding period in 2019. The interest expenses amounted to RMB82.2 million during the Reporting Period, representing an increase of RMB6.1 million from RMB76.1 million for the corresponding period in 2019.

Share of Results

For the Reporting Period, the Group recognised a share of profit of RMB0.2 million from investments accounted for using equity method (corresponding period in 2019: RMB0.4 million) in its consolidated results, mainly due to the operating profit of RMB0.4 million of Nantong Meidi, a subsidiary of a joint venture of the Group, whose business operation has been stable since its establishment in the second half of 2014; and offset by the operating loss of RMB0.2 million of Neijiang Rich Ruichuan Clinic Co., Ltd., an associate of the Group primarily engaged in providing medical examination services.

Income Tax Expense/Credit

For the Reporting Period, income tax expense amounted to RMB24.9 million (corresponding period in 2019: income tax credit of RMB13.2 million). The increase of income tax expense was mainly due to part of deferred income tax asset recognised in the previous year was reversed during the Reporting Period.

Loss for the Period

For the foregoing reasons, in the Reporting Period, we recorded a net loss of RMB250.2 million (corresponding period in 2019: a net loss of RMB117.1 million), mainly due to the fact that as a result of the Pandemic, the Company's medical examination centers across China were unable to resume normal operation during the Pandemic, and consequently the revenue was severely affected by the pressure of pandemic control measures.

Adjusted EBITDA

To supplement our interim condensed consolidated financial information which are presented in accordance with HKAS 34, "Interim Financial Reporting", we use adjusted EBITDA as an additional financial measure. We define adjusted EBITDA as loss/profit for the period before certain expenses and depreciation and amortization as set out in the table below. Adjusted EBITDA is not an alternative to (i) loss/profit before income tax or loss/profit for the period (as determined in accordance with HKFRSs) as a measure of our operating performance; (ii) cash flows from operating, investing and financing activities as a measure of our ability to meet our cash needs; or (iii) any other measures of performance or liquidity. The following table reconciles our loss for the periods under HKFRSs to our definition of adjusted EBITDA for the periods indicated.

	Six months ended June 30,	
	2020	2019
	(RMB'000)	*(RMB'000)*
Adjusted EBITDA calculation		
Loss for the period	**(250,213)**	(117,121)
Adjusted for:		
Income tax expense/(credit)	**24,937**	(13,235)
Finance costs — net	**71,372**	70,076
Depreciation and amortization	**181,885**	166,915
Pre-opening expenses and EBITDA loss of soft-opening[1]	**9,407**	20,952
Share option expenses	**12,273**	12,754
Adjusted EBITDA	**49,661**	140,341
Adjusted EBITDA margin[2]	**8.5%**	20.0%

Notes:

(1) Primarily represents (a) the pre-opening expenses, such as staff costs and rental expenses, incurred in the applicable period in connection with the construction of medical examination centers; and (b) the EBITDA loss incurred during the period when the newly opened medical examination centers and specialty hospitals commenced their operations.

(2) The calculation of adjusted EBITDA margin is based on adjusted EBITDA divided by revenue and multiplied by 100%.

The adjusted EBITDA amounted to RMB49.7 million during the Reporting Period, representing a decrease of 64.6% from RMB140.3 million for the corresponding period in 2019, mainly due to the increase of losses caused by the Pandemic.

FINANCIAL POSITION

Property and Equipment

Property and equipment primarily consist of buildings, medical equipment, general equipment, leasehold improvements and construction in progress. As at June 30, 2020, the property and equipment of the Group amounted to RMB1,175.7 million, representing an increase of RMB15.2 million as compared to RMB1,160.5 million as at December 31, 2019. The increase of properties and equipment was primarily due to the second phase expansion project of Nantong Rich Hospital.

Trade Receivables

As at June 30, 2020, the trade receivables of the Group were RMB206.9 million, representing a decrease of RMB83.1 million as compared to RMB290.0 million as at December 31, 2019, mainly because (i) the revenue from the medical examination business of the Group decreased during the Reporting Period; and (ii) the collection of the funds reimbursed from medical insurance accelerated.

Net Current Liabilities

As at June 30, 2020, the Group's current liabilities exceeded its current assets by RMB838.3 million (as at December 31, 2019: the Group's current liabilities exceeded its current assets by RMB657.5 million). The increase of the Group's net current liabilities was mainly due to (i) a significant increase in advance collection from sales of medical examination cards at the end of the Reporting Period; (ii) the decrease in revenue from medical examination business of the Group, which led to a decrease in the balance of trade receivables; and (iii) the increase in borrowings during the Reporting Period.

Liquidity and Capital Resources

As at June 30, 2020, the Group had cash and cash equivalents of RMB416.7 million, with available unused bank facilities of RMB502.1 million. As at June 30, 2020, the Group had outstanding bank borrowings of RMB1,074.6 million, with non-current portion of long-term bank borrowings of RMB430.1 million included. Based on the Group's past experience and good credit standing, the Directors are confident that such bank facilities could be renewed or extended for at least another twelve months upon renewal. We adopt prudent treasury policies in cash and financial management to achieve better risk control, manage financial resources efficiently and minimise the cost of funds. For the currency in which cash and cash equivalents are denominated, please refer to note 9 to the interim condensed consolidated financial information.

Significant Investments, Material Acquisitions and Disposals

For the Reporting Period, the Group did not have any significant investment, material acquisition or disposal.

Capital Expenditure and Commitments

For the Reporting Period, the Group incurred capital expenditures of RMB132.6 million (corresponding period in 2019: RMB310.0 million), primarily due to (i) the second phase expansion project of Nantong Rich Hospital; (ii) purchases of medical equipment as well as renovation for our medical examination centers, general hospital and specialty hospitals; and (iii) the lease of business premises for new medical examination centers.

As at June 30, 2020, the Group had a total capital commitment of RMB184.5 million (as at December 31, 2019: RMB229.0 million), mainly comprising the related contracts of the second phase expansion project of Nantong Rich Hospital and the Group's system upgrade.

Borrowings

As at June 30, 2020, the Group had total bank and other borrowings of RMB1,147.9 million (as at December 31, 2019: RMB922.8 million). Please refer to note 11 to the interim condensed consolidated financial information for more details.

Contingent Liabilities

The Group had no material contingent liability as at June 30, 2020 (as at December 31, 2019: Nil).

Financial instruments

The Group did not have any financial instruments as at June 30, 2020 (as at December 31, 2019: Nil).

Gearing Ratio

As at June 30, 2020, on the basis of net debt divided by total capital, the Group's gearing ratio was 87.9% (as at December 31, 2019: 80.1%). The increase in gearing ratio was mainly due to the significant losses and the decrease of reserves caused by the Pandemic during the Reporting Period.

Cash Flow and Fair Value Interest Rate Risk

Our exposure to changes in interest rates is mainly attributable to our bank borrowings and lease liabilities.

Borrowings obtained at variable rates expose us to cash flow interest rate risk. Borrowings obtained at fixed rates expose us to fair value interest rate risk. As at June 30, 2020, borrowings of RMB595,107,000 were with floating interest rate. We did not hedge our cash flow and fair value interest rate risk during 2020.

Foreign Exchange Risk

For the Reporting Period, the Group was not exposed to significant foreign currency risk, except for the remaining bank deposits from the initial public offering of the Company dated October 6, 2016 (the "**IPO**"), which were denominated in Hong Kong dollar, and the bank deposits denominated in United States dollar. The Group currently does not have a foreign currency hedging policy. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

Credit Risk

We have no significant concentration of credit risk. The carrying amounts of cash and cash equivalents, trade and other receivables and deposits from long-term leases represent our maximum exposure to credit risk in relation to our financial assets. The objective of our measures to manage credit risk is to control potential exposure to recoverability problem.

Cash and cash equivalents were deposited in major financial institutions, which the Directors believe are of high credit quality.

The Group has policies in place to ensure that receivables with credit terms are made to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the counterparties. The credit period granted to the customers and the credit quality of these customers are assessed, which takes into account their financial position, past experience and available forward-looking information. The Group considers the probability of default upon initial recognition of a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. For evaluating whether there has been a significant increase in credit risk, the Group considers available reasonable and supportive forward-looking information.

The credit risk of hospital business is related to the recoverability of trade receivables and other receivables. The credit risk of medical examination business is related to the length of the overdue period of trade receivables from corporate customers and other receivables.

Liquidity Risk

Our finance department monitors rolling forecasts of our liquidity requirements to ensure we have sufficient cash to meet operational needs while maintaining sufficient headroom on our undrawn borrowing facilities at all times so that we do not breach borrowing limits or covenants (where applicable) on any of our borrowing facilities. We expect to fund the future cash flow needs through cash flows generated from operations, borrowings from financial institutions and issuing debt instruments or capital injection from the shareholders of the Company (the "**Shareholders**"), as necessary. Based on contractual undiscounted payments, our financial liabilities were RMB4,127.4 million as at June 30, 2020 (as at December 31, 2019: RMB3,946.0 million).

Pledge of Assets

As at June 30, 2020, the Group had assets with a total carrying amount of RMB114,919,000 (as at December 31, 2019: assets of RMB123,160,000) and restricted deposits with an amount of USD35,050,000 (as at December 31, 2019: restricted deposits of USD48,500,000) pledged for the Group's borrowings.

Besides, the Group had 22.06% equity interest in Nantong Rich Hospital (as at December 31, 2019: 22.06%) secured to guarantee the exercise of the option right granted to Everbright (Haimen) Senior Healthcare Investment Fund (Limited Partnership) (海門光控健康養老產業投資合夥企業(有限合夥)). For details, please refer to the announcement of the Company dated September 3, 2018.

HUMAN RESOURCES

The Group had 7,039 employees as of June 30, 2020, as compared to 7,254 employees as of December 31, 2019. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination. Remuneration of the Group's employees includes basic salaries, allowances, bonus, share option scheme and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence. We provide regular training to our employees in order to improve their skills and knowledge. The training courses range from further educational studies to skill training to professional development courses for management personnel, including a management trainee program.

USE OF PROCEEDS FROM THE IPO

The net proceeds from the IPO amounted to RMB682.7 million after deducting share issuance costs and listing expenses. During the Reporting Period, the net proceeds from the listing were not utilized, with the balance amounting to approximately RMB220.8 million. As disclosed in the announcement of the Company dated February 18, 2020, the remaining unutilized net proceeds from the IPO will be used in accordance with the Group's development strategies, market conditions and intended use of such proceeds, which has been changed by the Board from "establishment of our multi-function facility" to "establishment of new medical examination centers and upgrading and renovation of existing medical examination centers", and are expected to be fully utilized on or before December 31, 2022. Details are set out in the following table:

	Net amount available as at December 31, 2019	**Actual amount utilized during the Reporting Period**	**Unutilized amount as at June 30, 2020**
	RMB'000	*RMB'000*	*RMB'000*
Establishment of new medical examination centers and upgrading and renovation of existing medical examination centers	220,808	—	220,808

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the Reporting Period.

SUBSEQUENT EVENT

On July 17, 2020, Shanghai Rich Medical entered into equity transfer agreements with Shanghai XDWYS Asset Management Co., Ltd. (上海新東吳優勝資產管理有限公司) (the "**Vendor**") in respect of the transfer of 30% equity interest in each of Guangzhou Rich Zhongxin Clinic Co., Ltd. (廣州瑞慈中信門診部有限公司), Suzhou Rich Ruihe Clinic Co., Ltd. (蘇州瑞慈瑞禾門診部有限公司), Nanjing Rich Ruixiang Clinic Co., Ltd. (南京瑞慈瑞祥門診部有限公司), Nantong Rich Ruifeng Clinic Co., Ltd. (南通瑞慈瑞峰健康體檢中心有限公司), Wuxi Rich Ruixi Clinic Co., Ltd. (無錫瑞慈瑞錫門診部有限公司), Yangzhou Rich Ruiyang Integrated Chinese and Western Medicines Clinic Co., Ltd. (揚州瑞慈瑞揚中西醫結合門診部有限公司) and Xuzhou Rich Ruixu Clinic Co., Ltd. (徐州瑞慈瑞徐體檢門診部有限公司) (collectively, the "**Target Companies**") from the Vendor to Shanghai Rich Medical, at a total consideration of RMB155.0 million. Upon completion of such transactions, the Vendor will cease to hold any equity interest in the Target Companies, and the Company will indirectly hold 81% equity interest through its subsidiaries in each of the Target Companies. Please refer to the Company's announcement dated July 17, 2020 for details of such transactions.

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the Shareholders as a whole. The Company has adopted the code provisions as set out in the Corporate Governance Code (the "**CG Code**") as contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), as its own code to govern its corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the CG Code during the Reporting Period, save for deviation from code provision A.2.1 of the CG Code.

Pursuant to code provision A.2.1 of the CG Code, the responsibility between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, the Company does not have a separate chairman and the chief executive officer and Dr. Fang performs these two roles. The Board considers that vesting the roles of the chairman and the chief executive officer in Dr. Fang is beneficial to the Group for implementing its new business strategies given his abundant experience in the healthcare industry and longtime and substantive involvement in the day to day management and operation of the Group. In addition, the balance of power and authority is ensured by the operation of the Board and the senior management, which comprises experienced and capable individuals independent from Dr. Fang (except his spouse, Dr. Mei, and his son, Mr. Fang Haoze). The Board comprised four executive Directors, one non-executive Director and three independent non-executive Directors as at the date of this announcement and has a fairly strong independence element in its composition.

The Board will continue to review and monitor the practices of the Company with an aim of maintaining a high standard of corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding dealings in the securities of the Company by the Directors and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company's securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the Reporting Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the Reporting Period.

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

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF INTERIM FINANCIAL INFORMATION

Audit Committee

The audit committee of the Board, comprising Ms. Wong Sze Wing, Ms. Jiao Yan and Dr. Wang Yong, has discussed with the management and the external auditor and reviewed the unaudited interim condensed consolidated financial information of the Group for the Reporting Period.

Auditor

In addition, the Company's external auditor, PricewaterhouseCoopers, has performed an independent review of the Group's interim condensed consolidated financial information for the Reporting Period in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity".

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange at ***www.hkexnews.hk*** and on the website of the Company at ***www.rich-healthcare.com***. The interim report of the Company for the Reporting Period containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

By Order of the Board
Rici Healthcare Holdings Limited
Fang Yixin
Chairman and Chief Executive Officer

Shanghai, the PRC, August 28, 2020

As at the date of this announcement, the Board comprises four executive Directors, namely Dr. Fang Yixin, Dr. Mei Hong, Mr. Fang Haoze and Ms. Lin Xiaoying; one non-executive Director, namely Ms. Jiao Yan; and three independent non-executive Directors, namely Dr. Wang Yong, Mr. Jiang Peixing and Ms. Wong Sze Wing.