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

2021 Interim Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Shuai (陳帥)
(Chairman and Acting Chief Executive Officer)
Mr. Lu Wenzuo (陸文佐)
Mr. Pu Chengchuan (蒲成川)

Non-executive Directors

Ms. Shi Wenting (石文婷)
Ms. Liu Lu (劉路)
Ms. Wang Nan (王楠)

Independent Non-executive Directors

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

AUDIT COMMITTEE

Mr. Zhou Xiangliang (周向亮) *(Chairman)*
Ms. Shi Wenting (石文婷)
Mr. Shi Luwen (史錄文)

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

LISTING INFORMATION AND STOCK CODE

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

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

Hospital Corporation of China Limited (the "**Company**", together with its subsidiaries, the "**Group**", "**we**", "**our**")
1602, Tower B, Jin Qiu International Building
No. 6, Zhichun Road, Haidian District, Beijing
The People's Republic of China ("**PRC**")

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

REGISTERED OFFICE

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

COMPANY'S WEBSITE

www.hcclhealthcare.com

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants and Registered Public Interest Entity Auditor

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,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	*(Unaudited)*
Revenue	**207,248**	180,679
—Hospital management services	**112,233**	100,988
—General hospital services	**93,543**	79,568
—Sale of pharmaceutical products	**1,472**	123
Adjusted gross profit (1)	**112,907**	96,376
Adjusted net profit (2)(3)	**69,941**	56,474
Adjusted gross profit margin	**54.5%**	53.3%
Adjusted net profit margin (3)	**33.7%**	31.3%
Adjusted items		
Expenses of share-based awards and other one-off employee benefit expenses (2)(i)	**693**	2,424
(Losses)/gains on fair value change resulting from value change of convertible bonds and foreign exchange (Losses)/gains (2)(ii)	**(25,160)**	16,894
Amortization of identifiable intangible assets identified in acquisitions (2)(iii)	**13,373**	15,250
Investing and financing related expenses (2)(iv)	**1,100**	4,751
Total amount of impairment losses on intangible assets and the reversal of deferred income tax liabilities caused by the impairment on intangible assets (2)(v)(3)	**440,039**	617,935

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	*(Unaudited)*
Revenue	**207,248**	180,679
Gross profit (1)	**99,247**	80,702
Net loss (2)(3)	**(410,424)**	(566,992)
Basic loss per share (in RMB)	**(2.47)**	(3.87)

Notes:

(1) The gross profit of the Group for the Reporting Period amounted to approximately RMB99.2 million. Adjusted gross profit is calculated as the gross profit for the Reporting Period, excluding the impact from the expenses of share-based awards and amortization of identifiable intangible assets identified in acquisitions.

(2) The Group recorded a net loss of RMB410.4 million during the Reporting Period. The adjusted net profit (the "**Adjusted Net Profit**") is calculated as the profit for the Reporting Period excluding the impact from certain items which are considered as non-operating by the management, including (i) the relevant expenses of share-based awards of RMB0.3 million and other one-off employee benefit expenses of RMB0.4 million; (ii) the losses on the foreign exchange and relevant fair value changes of RMB18.2 million arising from the conversion of Hong Kong dollar denominated convertible bonds issued by the Company into RMB, and foreign exchange losses of RMB7.0 million mainly arising from cash and cash equivalents; (iii) amortization of identifiable intangible assets identified in acquisitions of RMB13.4 million; (iv) financial expenses on other financial liability at amortized cost of RMB1.1 million; (v) impairment losses on intangible assets of RMB542.7 million, and the reversal of deferred income tax liabilities caused by the impairment on consolidated intangible assets of RMB102.7 million. For the calculation of the Adjusted Net Profit, tax impacts of the adjusted items were not considered.

(3) The loss for the Reporting Period is primarily attributable to the volatile Coronavirus Disease 2019 pandemic (the "**COVID-19 Outbreak**") and the impacts arising from the policies of medical and healthcare service industry as well as payments for medical insurance such as DRGs and APG, which have had negative impact on the financial performance of the Group and have led to impairment losses on relevant intangible assets and goodwill. Impairment losses are one-off non-cash items recorded during the Reporting Period, which have no direct impact on the cash flow of the Group.

BUSINESS REVIEW AND PROSPECTS

Policy review

In the first half of 2021, medical reform policies have been rolled out successively. Policies such as Notice on the Issuance of 2021 Major Tasks for Intensifying Medical and Health System Reform (《關於印發深化醫藥衛生體制改革2021年重點工作任務的通知》) released by the General Office of the State Council, the Key Points of Healthy China Action 2021 (《健康中國行動2021年工作要點》) issued by the Office of Healthy China Action Promotion Committee, the System of Hierarchical Assessment Criteria for Smart Management in Hospitals (Trial) (《醫院智慧管理分級評估標準體系(試行)》) issued by the National Health Commission, and the local supporting policies at the provincial and municipal levels were introduced. The National Bureau of Disease Control and Prevention was also established. The frequent introduction of medical reform policies has demonstrated the Chinese government's determination to further promote the development of a more regulated market in the medical industry in China as well as a more refined and pragmatic approach to management, which entailed strategies and directions as well as tactics and guidelines. These include:

(1) accelerating the promotion of coordinated healthcare, medical insurance and pharmaceutical reform to facilitate centralized procurement of pharmaceuticals and consumables, deepening reform of medical service prices by facilitating group pricing based on disease diagnosis and establishing pilot hospitals for pricing based on type of disease, promoting refined management so as to improve medical insurance policies for primary-level institutions and guide patients in recovery and rehabilitation to visit primary-level clinics, as well as promoting the establishment of medical unities, accelerating the establishment of a hierarchical diagnosis and treatment system so as to promote health informatization among the general public;

(2) facilitating the systemization and normalization of centralized bulk procurement of drugs, exploring system reforms in respect of centralized procurement of medical consumables with high value in an in-depth manner, optimizing incentive mechanism so as to facilitate the implementation of centralized procurement policies of drugs and medical consumables by medical institutions. With the accelerated implementation of medical reform policies and the standard of unified medical insurance code, various local healthcare security administrations have carried out a new round of centralized procurement centered on "bulk procurement";

(3) achieving a more scientific, refined and informationized medical management system as well as enhancing the requirements for medical record quality, pushing forward the continuous improvement of medical techniques, skills and quality by enhancing the inherent quality of medical records and strengthening the management in all aspects. Smart management standards and systems for hierarchical assessment were established at hospitals, and local hospitals in various regions were encouraged to make full use of smart management tools so as to realize more streamlined and smarter management at hospitals. The assessment subjects are hospitals adopting informationized and smart management approaches, thereby carrying out hospital administration through data access and achieving hospital informationization by building hospital smart management database and other means.

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

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

In the first half of 2021, under the guidance of overall strategy, the Group fully leveraged the comprehensive strengths of the operation team to strengthen management and control system, enhance the quality of asset and explore innovative business models in accordance with the existing "Three-step" strategy in addition to maintaining the stable operation of all Group Hospitals. The Group also communicated with and gained understanding of private hospitals in the key districts to be focused on by the Group, and conducted multiple site visits to such hospitals. While maintaining its focus on the Internet medical industry, the Group explored the implementation of Internet diagnosis and treatment models, and incubation of projects that integrates online and offline medical services.

Honghe Pharmaceutical (Zhejiang) Co., Ltd.* (弘和醫藥（浙江）有限公司) ("**Honghe Pharmaceutical**", a supply chain subsidiary of the Company) obtained its business license on 22 February 2021 and then successfully obtained business licenses for GSP and Class III devices, marking the official launch of the Group's strategic plans for supply chain. Adhering to the approach of "quality-oriented and regulated operation", Honghe Pharmaceutical adopts strict, standardized and regulated management. In the future, Honghe Pharmaceutical will continue to devote efforts in supply chain management of hospitals to strengthen the pharmaceutical supply chain business.

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

As at the date of this report, the number of beds in the hospitals owned, managed or founded by the Group ("**Group Hospitals**") remains the same as that as at December 31, 2020.

Continuing to strengthen operations to create value on an ongoing basis

The Group adopted comprehensive measures for the Group Hospitals such as streamlining strategic positioning, reinforcing cultural development, providing management tools, nurturing cadres, implementing management system, assisting in attracting mid- to high-end talents, which facilitated the continued healthy development of each Group Hospital. The Group continued to promote a two-level coordinated development model for itself and the Group Hospitals, provide support and value-added services to Group Hospitals in various key aspects and continuously improve the operation of the Group and the Group Hospitals, including the improvement of, among others, significant event reporting, financial budgets and final accounts and capitalization of expenditures; the medical management department has established a coordinated management group to work on resources sharing between the Group and Group Hospitals to improve operation of the hospitals and enhance synergy. It also continued to work on the informatization construction of the Group and Group Hospitals; and continued to work on the standardized management of the Company to strengthen connection with shareholders and resources in the capital market.

The Group has achieved certain results in constantly improving the integrated operation and management of the Group Hospitals, which has laid a solid foundation for the continuing steady and healthy growth of each Group Hospital in the future. In April 2021, the Group held its first administrator management salon with an aim to build a learning and communication platform among administrators, through which learning, exchange and discussion on topics focusing on difficulties and weaknesses of hospital administration were carried out, laying a solid foundation for the management personnel of each Group Hospital to achieve "enhancing the quality of assets". In June 2021, the Group organized a class for improving capability of medical insurance management talents with an aim to enhance the knowledge on medical insurance policies of medical staff in Group Hospitals and further regulate diagnosis and treatment behaviours, thereby achieving more standardized diagnosis and treatment services process and more precise policy implementation in each Group Hospital to lay a solid foundation for successfully carrying out medical insurance work in the future and achieve the ultimate goal of mutual benefits among hospitals, patients and medical insurance.

At the same time, the Group continued to focus on progressing lean projects so that following the effective organization, project selection, implementation and execution in Group Hospitals, the lean management philosophy can be deepened, application of quality management tools can be popularized and project management can be enhanced. The practical application of various achievements has improved the medical safety and service quality of each hospital, thereby enhancing management and hospital value.

During the six months ended June 30, 2021 (the "**Reporting Period**"), the Group Hospitals recorded approximately 1,229,859 out-patient visits, representing a 17% increase when compared with 1,048,985 out-patient visits for the six months ended June 30, 2020 (the "**Corresponding Period of Previous Year**"); approximately 42,608 in-patient visits (based on discharges), representing an increase of 13% when compared with 37,622 in-patient visits for the Corresponding Period of Previous Year; approximately 10,284 in-hospital surgical operations, representing an increase of 34% when compared with 7,681 in-hospital surgical operations for the Corresponding Period of Previous Year. As the current COVID-19 pandemic situation in the PRC continues but gradually stabilizes as compared with the Corresponding Period of Previous Year, the operating business performance of some of the Group Hospitals improved as compared with the Corresponding Period of Previous Year. It is expected that the business (including the volume of out-patient visits, in-patient visits and surgical operations of Group Hospitals) of the Group in 2021 will still be affected by the COVID-19 pandemic, but the overall impact will be controllable.

The Group will continue to promote and implement the “Three-step” development strategy in the second half of 2021 and proactively promote integration of industry resources. The principal measures to be adopted include:

As the first step, the Group will strengthen the management and control system to further establish standards and rules, so as to optimize its management and control system and rebuild the corporate culture, which mainly includes:

1. Further clarifying the management and control model of the Group. The Group identified the general manager’s office as the highest deliberative body for issues within the Board’s authority. It also specified its responsibility in strategy, talent and capital management and control, while establishing a matrix management model with information system as the underlying infrastructure and management tool;

2. Deepening and consolidating the incentive and constraining mechanism for hospital administrators. In order to enhance the responsibility management for objectives of Group Hospitals and allow hospital administrators to perform their role as the primary person in charge of hospital operation, the Group has set up the appraisal mechanism for hospital administrators that are linked to the annual business plans of Group Hospitals. This has clarified the incentive and constraining principles for hospital administrators;

3. Building a professional training system. Leveraging on external resources from the medical management consultancy industry, the Group organized trainings on various topics, including hospital management, new hospital development model and hospital quality management. It developed an internal professional training system to educate key hospital management personnel and medical professionals about the latest medical management concepts and offer them a platform to practise what they have learnt.

As the second step, the Group will enhance the quality of assets. Its key tasks include building its own supply chain system and information system and giving full support to the development of the medical service network with Zhejiang Jinhua Guangfu Oncological Hospital* (浙江金華廣福腫瘤醫院) (“**Jinhua Hospital**”) as the regional center. Details of the progress are as follows:

1. Building the information system of the Group. The Chief Technology Officer of the Group and the technology department are responsible for the overall IT infrastructure construction and digitalization of the Group and the Group Hospitals. While further promoting hospital information infrastructure construction and application upgrade, the Group drew experience therefrom to update and optimize the overall IT blueprint and plan, so as to implement, design and launch the group-wide digitalized medical operation solutions in phases;

2. Optimizing the supply chain system of the Group. The Supply Chain Director guided the optimization of the development of the supply chain system of the Group. Honghe Pharmaceutical, a supply chain subsidiary of the Company, will gradually undertake the business of drug and large-scale medical equipment procurement of the Group Hospitals in the future. The Group will enhance the management “pharmacy at one’s own expense” in Group Hospitals as well as optimizing the connection of IT information system between Honghe Pharmaceutical and the Group Hospitals, so as to further increase operation efficiency;

3. Developing Jinhua Hospital as the regional center of the Group. The Group has offered talent, financial and material resources to support and cooperate with Jinhua Hospital. Taking up frontline responsibility in hospital operation management, the medical management department strives to promote the long-term healthy development of Jinhua Hospital and positioned itself as the Group’s regional center.

As the third step, the Group will explore innovative business models. Based on the characteristics of the development of the medical service industry in the new era, the Group will further enrich the existing business mix in the future. It will gradually transform from a medical group that is principally engaged in operation of hospitals into a large medical service technology group. The Group will, for instance, expand upstream and downstream services in the industry chain, such as ancillary services of the supply chain. With a focus on integrated medical services, it will also explore innovative business models such as CRO, biotechnology, intelligent healthcare and big data in healthcare. Meanwhile, it will seek strategic cooperation with major online medical platforms for the joint development of the offline medical industry.

1. Optimizing the capital structure of the Group. Based on the review and analysis of the existing capital structure of the Group, the Group has been actively engaging with, among others, external investment banks and commercial banks to explore possible optimization solutions for its capital structure. This laid a solid foundation for the Group to expand its innovative business;

2. Researching into the direction of business model innovation. The Group carried out in-depth research on the latest development trend in the current medical service industry, thereby exploring potential opportunities for business model innovation of the Group in the future. This includes, but is not limited to, upstream and downstream medical services in the industry chain, online healthcare, third-party cooperation and empowerment, and in-depth construction of the supply chain system for the Group.

FINANCIAL REVIEW

Results of Operations

During the Reporting Period, our revenue was approximately RMB207.2 million, representing an increase of approximately 14.7% when compared with approximately RMB180.7 million of the Corresponding Period of Previous Year, which was mainly attributable to an increase in management service fees derived from Shanghai Yangsi Hospital* (上海楊思醫院) (“**Yangsi 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.

Our revenue from the hospital management services segment included our revenue from the provision of hospital management services to Yangsi Hospital, Cixi Honghe Hospital*（慈溪弘和醫院）(“**Cixi Hospital**”) and Jinhua Hospital. During the Reporting Period, the revenue from this segment was approximately RMB112.2 million, representing an increase of approximately 11.1% when compared with approximately RMB101.0 million of the Corresponding Period of Previous Year. The increase in revenue was mainly attributable to the increase in the management service fees recognized for providing services to Yangsi Hospital.

During the Reporting Period, our revenue from the general hospital services segment increased by approximately 17.5% to approximately RMB93.5 million from approximately RMB79.6 million in the Corresponding Period of Previous Year. Revenue from this segment 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, which was the result of the increase in the number of out-patient and in-patient visits of Jiande Hospital for the Reporting Period.

Our adjusted gross profit was approximately RMB112.9 million for the Reporting Period, excluding the impacts of expenses of share-based awards and amortization of identifiable intangible assets identified in acquisitions, representing an increase of approximately 17.2% when compared with approximately RMB96.4 million for the Corresponding Period of Previous Year. This was mainly attributable to the increase in the management service fees recognized for providing services to Yangsi Hospital.

We recorded adjusted administrative expenses of approximately RMB20.6 million for the Reporting Period, excluding the impacts of other one-off employee benefit expenses, representing a decrease of approximately 24.9% when compared with approximately RMB27.5 million for the Corresponding Period of Previous Year, which was primarily due to a decrease in employee benefit expenses and professional service fees for the Reporting Period when compared with the Corresponding Period of Previous Year.

We recorded adjusted operating profit of approximately RMB91.1 million for the Reporting Period, representing an increase of approximately RMB22.8 million from approximately RMB68.3 million for the Corresponding Period of Previous Year. This is mainly due to the increase in the management service fees recognized for providing services to Yangsi Hospital.

We recorded adjusted financial expense (net) of approximately RMB1.1 million for the Reporting Period, excluding the impact of foreign exchange losses mainly relating to cash and cash equivalents, and financial expenses on other financial liability at amortized cost, representing a decrease of approximately RMB4.7 million when compared with the financial income (net) of approximately RMB3.6 million for the Corresponding Period of Previous Year. The decrease in financial income (net) was primarily due to a decrease of approximately RMB6.2 million in interest income from loan to a related party, demand deposit, term deposit and deposit held at call when compared with the Corresponding Period of Previous Year.

For the Reporting Period, we have recorded an Adjusted Net Profit of approximately RMB69.9 million, representing an increase of approximately 23.7% when compared to the Adjusted Net Profit of approximately RMB56.5 million of the Corresponding Period of Previous Year. Without taking into account the impact of the adjusted items, such increase was mainly due to the increase in the management service fees recognized for providing services to Yangsi Hospital.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2021, our total equity was approximately RMB957.2 million (as at December 31, 2020: approximately RMB1,367.2 million). As at June 30, 2021, we had current assets of approximately RMB1,273.1 million (as at December 31, 2020: approximately RMB1,265.9 million) and current liabilities of approximately RMB442.7 million (as at December 31, 2020: approximately RMB481.1 million). As at June 30, 2021, our current ratio was approximately 2.88, as compared with approximately 2.63 as at December 31, 2020.

Our current assets increased by approximately RMB7.2 million from approximately RMB1,265.9 million as at December 31, 2020 to approximately RMB1,273.1 million as at June 30, 2021, primarily due to an increase in receivables from related parties and financial assets at fair value through profit or loss. Our current liabilities decreased by approximately RMB38.4 million from approximately RMB481.1 million as at December 31, 2020 to approximately RMB442.7 million as at June 30, 2021, primarily due to the decrease in borrowings due within one year and the decrease in balances of accruals, other payables and provisions.

Our primary uses of cash in the Reporting Period were for working capital, term deposits and payment for financial assets at fair value through profit or loss. We financed our liquidity requirements mainly with cash flows generated from our operating activities. As at June 30, 2021, we had bank borrowings of approximately RMB72.0 million (as at December 31, 2020: approximately RMB131.7 million), and we had cash and cash equivalents of approximately RMB769.7 million (as at December 31, 2020: approximately RMB860.7 million).

As at June 30, 2021, the Group's borrowings were repayable as follows:

	Bank borrowings	
	As at June 30, 2021	As at December 31, 2020
	RMB'000	*RMB'000*
Within 1 year	**55,983**	97,309
Between 1 and 2 years	**15,983**	34,386
	71,966	131,695

As at June 30, 2021, the net gearing ratio, calculated based on the borrowing balance divided by the total equity, of the Company is approximately 7.5%. The Directors believed that, after taking into account the financial resources available to us, which include internally generated funds and the net proceeds from the Listing, we had sufficient working capital to meet our needs. As at June 30, 2021, the Group did not have any other material contingent liabilities or guarantees.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group did not undertake any material acquisitions and disposals of subsidiaries, associates and joint ventures from January 1, 2021 until June 30, 2021.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As of June 30, 2021, the Group did not have any significant investments or future plans for material investments or capital assets.

EXPOSURE TO FOREIGN EXCHANGE RISK

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

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

As at June 30, 2021, the Group was exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to USD and HKD.

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

PLEDGE OF ASSETS

As at June 30, 2021 and December 31, 2020, Impeccable Success has pledged its paid-up equity interests in Zhejiang Honghe Zhiyuan to Industrial and Commercial Bank of China Jinhua Economic Development Zone Branch to secure certain loans granted to Jinhua Hospital with a maximum amount of RMB412.5 million.

As at June 30, 2021 and December 31, 2020, Zhejiang Honghe Zhiyuan has provided a joint liability to Industrial and Commercial Bank of China Jinhua Economic Development Zone Branch in respect of the same loans granted to Jinhua Hospital with a maximum amount of RMB550 million.

As at June 30, 2021 and December 31, 2020, the Group has pledged its assets as security for bank borrowings, details of which are set out in Note 18 to the interim condensed consolidated financial information.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2021.

HUMAN RESOURCES

As at June 30, 2021, we had a total of 493 employees (as at June 30, 2020: 473). 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, 2021, the total employee benefits expenses (including Directors' remuneration) were approximately RMB56.3 million (for the six months ended June 30, 2020: approximately RMB57.3 million).

We set performance targets for our employees based on their position and department, and regularly review their performance. The results of these reviews are used in their salary determinations, bonus awards and promotion appraisals. Our employee-related insurance consists of employee pension insurance, maternity insurance, unemployment insurance, work-related injury insurance, medical insurance and housing accumulation funds as required by Chinese laws and regulations. The Company has adopted certain share-based payment schemes for the purpose of, among others, providing incentive and rewards to eligible persons with outstanding performance and contributions to the Group.

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

EVENTS AFTER THE REPORTING PERIOD

Revision of annual cap of the continuing connected transactions under the Medical Consumables and Equipment Procurement Agreement

In view of its anticipated business development, Jiande Hospital (which is owned as to 70% by the Company indirectly and 30% by Hangzhou Jinhoubo Enterprise Management Co., Ltd.* (杭州金厚樸企業管理有限公司, "**Hangzhou Jinhoubo**") directly, and Hangzhou Jinhoubo is in turn held as to 90% by Mr. Hong Jiangxin (洪江鑫) and 10% by Mr. Hong Yang (洪楊)) will include some of the medical consumables and equipment originally purchased from other third parties into the scope of procurement from Zhejiang Dajia Medical Instruments Co., Ltd.* (浙江大佳醫療器械有限公司, "**Zhejiang Dajia**"), and taking into consideration the historical transaction amounts of such medical consumables and equipment purchased from third parties, the Board envisages that the existing annual cap for the transactions contemplated under the Medical Consumables and Equipment Procurement Agreement entered into on 3 June 2019 between Jiande Hospital and Zhejiang Dajia (the "**Medical Consumables and Equipment Procurement Agreement**") for the financial year ending December 31, 2021 will not be sufficient. On July 12, 2021, Jiande Hospital and Zhejiang Dajia entered into a supplemental agreement to revise the annual cap for the continuing connected transactions under the Medical Consumables and Equipment Procurement Agreement for the financial year ending December 31, 2021 from RMB9.0 million to RMB12.0 million.

Please refer to the announcements of the Company dated July 12, 2021 and June 3, 2019 for details.

Exercise of Put Option

As one of the conditions to the completion of the acquisition of Oriental Ally Holdings Limited contemplated under the Share Purchase Agreement dated May 29, 2018 (the "**Acquisition of Oriental Ally**"), the Company granted a put option (the "**Put Option**") to Hony 2015 (Shenzhen) Equity Investment Funds Center (Limited Partnership)* (弘毅貳零壹伍(深圳)股權投資基金中心(有限合夥), "**Hony 2015**"), Hony Capital Management (Tianjin) (Limited Partnership)* (弘毅投資管理(天津)(有限合夥), "**Hony Tianjin**") and Hony Kangshou Management Consulting (Shanghai) Co., Ltd.* (弘毅康壽管理諮詢(上海)有限公司，"**Kangshou**", a limited liability company established under the laws of the PRC and held as to 99.9% by Hony 2015 and 0.1% by Hony Tianjin (collectively, the "**Guangsha Minority Shareholders**") under a undertaking letter (the "**Undertaking Letter**"), pursuant to which the Company undertook to acquire the remaining 25% equity interests in Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd.* (浙江弘和致遠醫療科技有限公司，"**Zhejiang Honghe Zhiyuan**", formerly known as Zhejiang Guangsha Medical Technology Co., Ltd* 浙江廣廈醫療科技有限公司) held by Kangshou (the "**Remaining Interests**") (the "**Subsequent Acquisition**"), no later than the date falling on the third anniversary of the date of completion of the Acquisition of Oriental Ally (i.e. on or before August 7, 2021) at the purchase price of not less than RMB210 million plus other reasonable expenses incurred by the Guangsha Minority Shareholders in connection with their investment in Zhejiang Honghe Zhiyuan.

The Guangsha Minority Shareholders had informed the Company on August 5, 2021 that they intended to exercise the Put Option to require the Company to acquire the Remaining Interests in accordance with the terms and conditions of the Undertaking Letter. After receipt of the exercise notice, the Company shall enter into definitive agreement(s) in respect of the Subsequent Acquisition with Kangshou, and the Subsequent Acquisition is expected to be effected by way of equity transfer or through alternative transaction structure permitted under the PRC laws and regulations.

As at the date of this report, the parties are in the process of negotiating the specific terms of the Subsequent Acquisition, including but not limited to, the actual purchase price for the Remaining Interests which shall be determined with reference to a valuation of the Remaining Interest to be conducted by an independent professional valuer appointed by the parties. The Company currently expects that the above conditions will be fulfilled in the first quarter of 2022.

As the Board deems Kangshou as a connected person of the Company for the purpose of the Subsequent Acquisition, the Subsequent Acquisition will constitute a connected transaction of the Company. The Company will comply with the relevant requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") with respect to the Subsequent Acquisition in due course, including but not limited to the announcement, circular, appointment of independent financial adviser and shareholders' approval requirements (as applicable).

Please refer to the announcements of the Company dated August 5, 2021 and May 29, 2018 and the circular of the Company dated June 24, 2018 for details.

Proposed alteration of terms of the LW Convertible Bonds

On August 12, 2021, in accordance with the terms and conditions of the convertible bonds issued to Leap Wave Limited ("**Leap Wave**") on February 27, 2019 in the aggregate principal amount of HK$800,000,000 (the "**LW Convertible Bonds**"), upon approval of Leap Wave, the Company executed a deed of amendment to amend certain terms of the LW Convertible Bonds in relation to early redemption, subject to and effective from the fulfilment of certain conditions precedent.

Please refer to the announcements of the Company dated December 21, 2018, January 16, 2019, February 27, 2019 and August 12, 2021 and the circular of the Company dated January 16, 2019 for details.

Save as disclosed herein, no material subsequent event was undertaken by the Company or by the Group after June 30, 2021 and up to the date of this report.

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

As at June 30, 2021, the interests or short positions of our Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) to be entered into the register required to be kept by the Company pursuant to Section 352 of the SFO, or (iii) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") were as follows:

Long positions in the Shares and underlying Shares of the Company

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

Notes:

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

(2) As at June 30, 2021, the total number of issued shares of the Company was 138,194,000.

Save as disclosed above, as of June 30, 2021, so far as is known to the Directors, none of the Directors or the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified pursuant to Divisions 7 and 8 of Part XV of the SFO or to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at June 30, 2021, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the shares or the underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued Shares of the Company:

Long positions in the Shares and underlying Shares of the Company

Name of Shareholder	Capacity/Nature of interest	Number of Shares or underlying Shares of the Company	Approximate percentage of shareholding interest [7]
Vanguard Glory[1]	Beneficial owner	123,000,000	89.01%
Hony Capital Fund V, L.P.[2]	Interest in controlled corporation	123,000,000	89.01%
Hony Capital Fund V GP, L.P.[2]	Interest in controlled corporation	123,000,000	89.01%
Hony Capital Fund V GP Limited[2]	Interest in controlled corporation	123,000,000	89.01%
Hony Group Management Limited[2][3]	Interest in controlled corporation	161,693,985	117.01%
Hony Managing Partners Limited[2][3]	Interest in controlled corporation	161,693,985	117.01%
Exponential Fortune Group Limited[2][3]	Interest in controlled corporation	161,693,985	117.01%
Hony Fund VIII[3]	Beneficial owner	38,693,985	28.00%
Hony Capital Fund VIII GP (Cayman), L.P.[3]	Interest in controlled corporation	38,693,985	28.00%
Hony Capital Fund VIII GP (Cayman) Limited[3]	Interest in controlled corporation	38,693,985	28.00%
Mr. Zhao John Huan[4]	Interest in controlled corporation	161,693,985	117.01%
Anhui Zhong'an LP[5]	Beneficial owner	9,098,800	6.58%
Anhui Zhong'an[5]	Interest in controlled corporation	9,098,800	6.58%
Hefei Kangyang Capital Management Partnership (Limited Partnership) (合肥康養資本管理合夥企業(有限合夥))[5]	Interest in controlled corporation	9,098,800	6.58%
Anhui Chuanggu Equity Investment Fund Management Co., Ltd. (安徽創谷股權投資基金管理有限公司)[5]	Interest in controlled corporation	9,098,800	6.58%
Mr. Niu Yang[5]	Interest in controlled corporation	9,098,800	6.58%
Leap Wave Limited[6]	Beneficial owner	40,000,000	28.94%
Legend Holdings Corporation[6]	Interest in controlled corporation	40,000,000	28.94%

(1) Vanguard Glory is a wholly-owned subsidiary of Hony Fund V, L.P. and holds (a) 97,000,000 shares of the Company and (b) convertible bonds issued by the Company, which can be converted into 26,000,000 shares of the Company and represent approximately 18.81% of the issued share capital of the Company as of June 30, 2021. For further details, please refer to the section headed "Convertible Bonds" in this report.

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

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

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

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

(6) Leap Wave Limited, which is wholly-owned by Legend Holdings Corporation, holds convertible bonds issued by the Company that can be convertible into 40,000,000 shares of the Company, representing approximately 28.94% of the issued share capital of the Company as of June 30, 2021. For further details, please refer to the section headed "Convertible Bonds" in this report.

(7) As at June 30, 2021, the total number of issued shares of the Company was 138,194,000.

USE OF NET PROCEEDS FROM LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange on March 16, 2017 (the "Listing Date"). The net proceeds received by the Company from the global offering and the exercise of the over-allotment option after deducting underwriting commissions and all related expenses was approximately HK$465.6 million. The net proceeds received from the global offering has been and will be used in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the prospectus of the Company dated February 28, 2017 (the "Prospectus"). All of the unutilized amount has been placed with licensed banks in Hong Kong, and will be utilized in the manner as described in the Prospectus and in accordance with the Company's needs from time to time. An analysis of the utilization of the net proceeds from the Listing Date up to June 30, 2021 is set out below:

	Percentage of the total amount	Net proceeds	Utilized amount up to December 31, 2020	Utilized amount subsequent to December 31, 2020 and up to June 30, 2021	Unutilized amount as at June 30, 2021	Expected time period
		HK$ million	*HK$ million*	*HK$ million*	*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	51.22	–	–	–
– Upgrading and improvement of medical facilities	7%	32.59	32.59	–	–	–
Employee training programs at the hospitals we own or manage from time to time, efforts to recruit talents and academic research activities						
– Human resources expenses	6%	27.94	27.94	–	–	–
– Employing medical professionals and experts in business management	5%	23.28	23.28	–	–	–
– Conducting academic research activities and developing employee training programs with a focus on management training and professional training	4%	18.62	12.23	1.30	5.09	The balance is expected to be fully utilized by the end of 2023
Upgrading and improving our information technology system	7%	32.59	28.32	2.30	1.97	The balance is expected to be fully utilized by the end of 2021
Provide funding for our working capital, rental and property related expenses and other general corporate purposes	10%	46.56	46.56	–	–	–
	100%	465.60	454.94	3.60	7.06	

CONVERTIBLE BONDS

Vanguard Convertible Bonds

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

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

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

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

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

The market price of the Company's shares on January 25, 2018, being the date on which the terms of the issuance of the Vanguard Convertible Bonds were determined, was HK$15.00 per share.

The net proceeds from the Vanguard Convertible Bonds, after deducting all related costs and expenses, was approximately HK$467 million. The net proceeds of approximately HK$405 million were used to acquire Cixi Hongai Medical Management Co., Ltd. ("**Cixi Hongai**") in March 2018. As at June 30, 2021, the remaining net proceeds of approximately HK$62 million were placed in the bank account of the Group opened with licensed banks in Hong Kong, and was expected to be utilized in accordance with the use of proceeds as referred to in the circular of the Company dated February 13, 2018. The unutilized amount of the net proceeds will be used for acquisitions of other hospitals or hospital management businesses by the Group. The Directors believe that it is fair and reasonable, and in the interests of the Company and its shareholders as a whole. As at June 30, 2021, the analysis of use of the net proceeds is as follows:

	Intended use of net proceeds		Revised use of unutilized net proceeds		Utilized amount up to December 31, 2020	Utilized amount subsequent to December 31, 2020 and up to June 30, 2021	Unutilized amount as at June 30, 2021	Expected time period
	HK$ million	*Percentage of the total amount*	*HK$ million*	*Percentage of the total amount*	*HK$ million*	*HK$ million*	*HK$ million*	
Acquisition of Cixi Hongai	211	45%	405	87%	405	–	–	–
Acquisitions of other hospitals or hospital management businesses	256	55%	62	13%	–	–	62	The balance is expected to be fully utilized by 2023
	467	100%	467	100%	405	–	62	

As at June 30, 2021, none of the Vanguard Convertible Bonds has been converted into shares of the Company. Details of the Vanguard Convertible Bonds were disclosed in the announcement and circular of the Company dated January 25, 2018 and February 13, 2018, respectively.

Dilution Impact on Earnings per Share

As calculated based on loss attributable to owners of the Company of approximately RMB341.1 million for the six months ended June 30, 2021, basic and diluted losses per share of the Company amounted to RMB2.47 and RMB2.47, respectively.

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

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

Hony Convertible Bonds

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

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

On August 7, 2018, the acquisition was completed, and Oriental Ally became a subsidiary of the Company. The Company directly holds 100% of the equity interest in Oriental Ally. Through Oriental Ally, the Company indirectly holds 75% of the equity interest in Zhejiang Honghe Zhiyuan. The remaining 25% equity interest held by Hony Kangshou Management Consulting (Shanghai) Co., Ltd. shall be recognized as a non-controlling interest. The consideration was satisfied by the issuance of the convertible bonds (the "**Hony Convertible Bonds**") in the aggregate principal amount of HK$773,879,717 by the Company to Hony Fund VIII on the completion date of the acquisition pursuant to the Share Purchase Agreement. On August 7, 2018, the Hony Convertible Bonds were issued in registered form in the denomination of HK$1.00 each provided that in no event shall any Hony Convertible Bonds be transferred, exchanged, converted or purchased in an aggregate principal amount less than HK$1.00. The Hony Convertible Bonds will mature five years from their issuance or may be converted into 38,693,985 ordinary shares of the Company (assuming the conversion rights are exercised in full and subject to adjustment) at the holder's option at the conversion price of HK$20.00 per conversion share (subject to adjustment to the conversion price). Upon maturity, the Company will redeem all outstanding Hony Convertible Bonds at its principal amount.

The market price of the Company's shares on May 29, 2018, being the date on which the terms of the issuance of the Hony Convertible Bonds were determined, was HK$20.10 per share.

As at June 30, 2021, none of the Hony Convertible Bonds has been converted into shares of the Company. Details of the Hony Convertible Bonds have been disclosed in the announcement and circular of the Company dated May 29, 2018 and June 24, 2018, respectively.

Dilution Impact on Earnings per Share

As calculated based on loss attributable to owners of the Company of approximately RMB341.1 million for the six months ended June 30, 2021, basic and diluted losses per share of the Company amounted to RMB2.47 and RMB2.47, respectively.

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

Date	**August 7, 2023**
	(HK$ per Share)
Share price	20.0

LW Convertible Bonds

In view of the Group's need for further financing to fund our future acquisitions, on December 21, 2018 and January 16, 2019, the Company and Leap Wave entered into a subscription agreement and an amendment agreement respectively, pursuant to which the Company agreed to issue and Leap Wave agreed to subscribe for convertible bonds (the "**LW Convertible Bonds**") in the aggregate principal amount of HK$800,000,000 at a total consideration equal to the aggregate principal amount of the convertible bonds. On February 27, 2019, the LW Convertible Bonds were issued in registered form in the denomination of HK$1.00 each. The LW Convertible Bonds will mature five years from their issuance or may be converted into 40,000,000 ordinary shares of the Company (assuming the conversion rights are exercised in full and subject to adjustment) at the holder's option at the conversion price of HK$20.00 per conversion share (subject to adjustment to the conversion price). Upon maturity, the Company shall redeem in whole the LW Convertible Bonds with the redemption amount calculated in accordance with the following formula: principal amount of outstanding convertible bonds + principal amount of outstanding convertible bonds × 6% × 5.

The market price of the Company's shares on January 16, 2019, being the date on which the terms of the issuance of the LW Convertible Bonds were determined, was HK$16.18 per share.

The unutilized portion of the net proceeds of approximately HK$800,000,000 as at June 30, 2021 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 for acquisitions of other hospitals or hospital management businesses by the Group and as discussed in the section headed "Management Discussion and Analysis" in this report, the Group will strive to make substantial progress on such projects in 2021. An analysis of the utilization of the net proceeds up to June 30, 2021 is set out below:

	Percentage to the total amount	Net proceeds *HK$ million*	Utilized amount up to December 31, 2020 *HK$ million*	Utilized amount subsequent to December 31, 2020 and up to June 30, 2021 *HK$ million*	Unutilized amount as at June 30, 2021 *HK$ million*	Expected time period
Acquisitions of hospitals or hospital management businesses	100%	800	–	–	800	The balance is expected to be fully utilized by 2024
Total	100%	800	–	–	800	

As at June 30, 2021, none of the LW Convertible Bonds has been converted into shares of the Company. 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 and the circular of the Company dated January 16, 2019.

Dilution Impact on Earnings per Share

As calculated based on loss attributable to owners of the Company of approximately RMB341.1 million for the six months ended June 30, 2021, basic and diluted losses per share of the Company amounted to RMB2.47 and RMB2.47, respectively.

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

Date	**February 27, 2024** *(HK$ per Share)*
Share price	20.0

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

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

Substantial Shareholders	As at June 30, 2021		Immediately upon full conversion of the Vanguard Convertible Bonds, the Hony Convertible Bonds and the LW Convertible Bonds	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*
Vanguard Glory	97,000,000	70.19	123,000,000	50.64
Hony Fund VIII	0	0.00	38,693,985	15.93
Leap Wave	0	0.00	40,000,000	16.47
Anhui Zhong'an LP	9,098,800	6.58	9,098,800	3.75

SHARE-BASED PAYMENT SCHEMES

(a) Share Subscription Agreement

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

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

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

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

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

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

The share-based compensation expense related to the Share Subscription Agreement of RMB0.00 were recognized as 'cost of revenue' for the six months ended June 30, 2021 (six months ended June 30, 2020: RMB0.00).

(b) Pre-IPO Share Appreciation Rights Scheme

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

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

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

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

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

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

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

The share-based compensation expense related to the Pre-IPO SARs Scheme of RMB128,000 were derecognized as “cost of revenue” for the six months ended June 30, 2021 (six months ended June 30, 2020: RMB378,000 were derecognized as “cost of revenue”).

(c) Service Contract with Mr. Lu Wenzuo

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

(i) Certain share awards (the “**Share Awards**”) to acquire 1% of the equity interest in each of Weikang Investment and Tibet Dazi Honghe Ruixin Business Management Co., Ltd. (“**Honghe Ruixin**”) for each of the three years ending December 31, 2017 from New Pride and Tibet Honghe Zhiyuan Business Management Co., Ltd., or receive a cash payment equivalent to the value of 1% of the equity interest in each of Weikang Investment and Honghe Ruixin for each of the three years ending December 31, 2017; and

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

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

On January 25, 2019, Mr. Lu Wenzuo submitted an application to New Pride for the exercise of Mr. Lu’s SARs. As of December 31, 2020, the amount in respect of Mr. Lu’s SARs had not been settled.

The share-based compensation expenses related to Mr. Lu’s SARs of RMB0.00 were derecognized as “cost of revenue” for the six months ended June 30, 2021 (six months ended June 30, 2020: RMB0.00 were derecognized as “cost of revenue”).

(d) **Share Incentive Scheme**

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

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

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

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

Share-based compensation expenses related to the Share Incentive Scheme of RMB414,000 were recognized as 'cost of revenue' for the six months ended June 30, 2021 (six months ended June 30, 2020: RMB802,000).

(e) Post-IPO Share Appreciation Rights Scheme

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

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

(f) Share Award Scheme

The Company has adopted a share award scheme of the Company (the "**Share Award Scheme**") on January 18, 2021.

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

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

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

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

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

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

PUBLIC FLOAT

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

CHANGES TO DIRECTORS' INFORMATION

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

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

COMPLIANCE WITH MODEL CODE

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

AUDIT COMMITTEE

The unaudited results and the condensed consolidated financial information of the Group for the six months ended June 30, 2021 have been reviewed by the audit committee of the Company (the "**Audit Committee**"). The Audit Committee consists of two independent non-executive Directors, Mr. Zhou Xiangliang (周向亮) (Chairman) and Mr. Shi Luwen (史録文), and a non-executive Director, Ms. Shi Wenting (石文婷). The Audit Committee is of the opinion that such financial information 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, 2021 have not been audited but have been reviewed by the Group's external auditor, PricewaterhouseCoopers, and by the Audit Committee.

TO THE BOARD OF DIRECTORS OF HOSPITAL CORPORATION OF CHINA LIMITED
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 36 to 76, 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, 2021 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 30, 2021

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended June 30, 2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue	5	207,248	180,679
Cost of revenue		(108,001)	(99,977)
Gross profit		99,247	80,702
Administrative expenses		(21,057)	(29,507)
Selling expenses		(839)	–
Net impairment losses on financial assets		4,483)	(3,754)
Impairment losses on intangible assets		(542,715)	(668,219)
Other income		1,197	3,492
Other (losses)/gains-net	6	(15,185)	5,344
Operating loss		(483,835)	(611,942)
Finance income	7	3,696	21,122
Finance costs	7	(12,864)	(11,094)
Loss before income tax		(493,003)	(601,914)
Income tax credit	8	82,579	34,922
Loss for the period		(410,424)	(566,992)
Other comprehensive income		–	–
Total comprehensive loss for the period		(410,424)	(566,992)
Attributable to:			
Owners of the Company		(341,104)	(535,403)
Non-controlling interests		(69,320)	(31,589)
Total comprehensive loss for the period		(410,424)	(566,992)
Loss per share from loss attributable to owners of the Company			
– Basic and diluted loss per share (in RMB)	9	(2.47)	(3.87)

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	June 30, 2021 RMB'000 (Unaudited)	December 31, 2020 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	10	142,786	145,125
Right-of-use assets	11	48,958	38,875
Intangible assets	12	1,652,494	2,208,557
Deferred income tax assets	20	3,936	3,835
Other receivables, deposits and prepayments		2,092	1,897
Amount due from a related party	14	80,000	80,000
Total non-current assets		1,930,266	2,478,289
Current assets			
Inventories		6,530	6,560
Contract assets		10,256	–
Trade receivables	13	31,663	33,945
Other receivables, deposits and prepayments		2,719	2,827
Amounts due from related parties	14	260,075	271,120
Financial assets at fair value through profit or loss	4.3(i)	187,293	90,737
Term deposits	15	4,853	–
Cash and cash equivalents		769,696	860,726
Total current assets		1,273,085	1,265,915
Total assets		3,203,351	3,744,204
EQUITY			
Equity attributable to owners of the Company			
Share capital		123	123
Share premium		435,304	435,304
Reserves		928,525	928,111
Accumulated losses		(624,486)	(283,382)
		739,466	1,080,156
Non-controlling interests		217,764	287,084
Total equity		957,230	1,367,240

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	June 30, 2021 RMB'000 (Unaudited)	December 31, 2020 RMB'000 (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings	18	15,983	34,386
Convertible bonds	19	1,576,400	1,558,245
Lease liabilities	11	8,788	692
Deferred income tax liabilities	20	201,766	302,301
Accruals, other payables and provisions	17	493	196
Total non-current liabilities		1,803,430	1,895,820
Current liabilities			
Trade payables	16	16,303	16,762
Accruals, other payables and provisions	17	79,107	85,711
Amounts due to related parties	14	29,141	22,843
Contract liabilities		102	872
Current income tax liabilities		21,036	20,281
Borrowings	18	55,983	97,309
Lease liabilities	11	2,819	266
Other financial liability at amortized cost		238,200	237,100
Total current liabilities		442,691	481,144
Total liabilities		2,246,121	2,376,964
Total equity and liabilities		3,203,351	3,744,204

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

The financial statements on pages 36 to 76 were approved by the Board of Directors on August 30, 2021 and were signed on its behalf.

Chen Shuai

Pu Chengchuan

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to owners of the Company						
		Share capital	Share premium	Reserves	(Accumulated losses)/retained earnings	Subtotal	Attributable to non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)								
Balance at January 1, 2021		**123**	**435,304**	**928,111**	**(283,382)**	**1,080,156**	**287,084**	**1,367,240**
Comprehensive loss								
– Loss for the period		–	–	–	(341,104)	(341,104)	(69,320)	(410,424)
Share-based payments								
– share option scheme		–	–	414	–	414	–	414
Balance at June 30, 2021		**123**	**435,304**	**928,525**	**(624,486)**	**739,466**	**217,764**	**957,230**
(Unaudited)								
Balance at January 1, 2020		123	435,304	924,231	123,448	1,483,106	334,734	1,817,840
Comprehensive loss								
– Loss for the period		–	–	–	(535,403)	(535,403)	(31,589)	(566,992)
Share-based payments								
– share option scheme		–	–	802	–	802	–	802
Dividends provided for or paid		–	–	–	–	–	(2,295)	(2,295)
Balance at June 30, 2020		123	435,304	925,033	(411,955)	948,505	300,850	1,249,355

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

	Notes	Six months ended June 30, 2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Cash flows from operating activities			
Cash generated from operations		112,401	44,935
Interests received		1,543	216
Income tax paid		(17,302)	(23,817)
Net cash generated from operating activities		96,642	21,334
Cash flows from investing activities			
Payments for property, plant and equipment		(8,417)	(6,216)
Payments for intangible assets		(196)	–
Payments for financial assets at fair value through profit or loss	4.3(iii)	(196,500)	(167,360)
Payment of professional fees for investing activities		–	(1,535)
Placement of term deposits with initial terms of over three months		(4,853)	(5,261)
Loans to related parties		(8,620)	(25,683)
Loans repayment from related parties		21	40
Proceeds from disposal of financial assets at fair value through profit or loss	4.3(iii)	101,706	109,168
Interest received on financial assets at fair value through profit or loss	4.3(iii)	–	106
Interest received on fixed deposits		212	7,758
Refund of monetary fund		–	15,000
Loans interest received from a related party		2,063	2,486
Redemption of term deposits with initial terms of over three months		–	134,370
Net cash (used in)/generated from investing activities		(114,584)	62,873
Cash flows from financing activities			
Proceeds from borrowings		12,900	30,100
Repayment to related parties		(787)	(489)
Repayment of borrowings		(72,244)	(31,929)
Payment of loan interests		(3,930)	(7,323)
Principal elements of lease payments		(952)	(1,097)
Dividend paid to non-controlling interests of subsidiaries		–	(2,295)
Net cash used in financing activities		(65,013)	(13,033)
Net (decrease)/increase in cash and cash equivalents		(82,955)	71,174
Cash and cash equivalents at the beginning of the period		860,726	836,624
Effects of exchange rate changes on cash and cash equivalents		(8,075)	14,695
Cash and cash equivalents at the end of the period		769,696	922,493

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

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 three not-for-profit hospitals and (iii) sale of pharmaceutical products in the People's Republic of China (the 'PRC').

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

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

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, 2021 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 information normally included in an annual financial statements and thus should be read in conjunction with the annual financial statements of the Group for the year ended December 31, 2020, 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, 2021.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended December 31, 2020, 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. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

2 BASIS OF PREPARATION – *continued*

(b) Impact of standards issued but not yet adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for June 30 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 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, 2020.

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

4.1 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, liquidity risk and price risk.

The interim condensed consolidated financial information does 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, 2020.

There has been no change in the risk management policies since the end of 2020.

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

4.2 Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents to meet operating capital requirements.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
(Unaudited)					
At June 30, 2021					
Borrowing and interests	58,243	17,360	–	–	75,603
Lease liabilities	3,363	2,493	3,716	4,144	13,716
Trade payables	16,303	–	–	–	16,303
Accruals, other payables and provisions (excluding accrued employee benefits, share-based payments and other tax liabilities)	23,178	–	–	–	23,178
Amounts due to related parties	29,141	–	–	–	29,141
Convertible bonds	–	–	1,576,400	–	1,576,400
Other financial liability at amortized cost	238,200	–	–	–	238,200
	368,428	19,853	1,580,116	4,144	1,972,541

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

4.2 Liquidity risk – *continued*

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
(Audited)					
At December 31, 2020					
Borrowing and interests	103,263	36,164	–	–	139,427
Lease liabilities	370	57	171	805	1,403
Trade payables	16,762	–	–	–	16,762
Accruals, other payables and provisions (excluding accrued employee benefits, share-based payments and other tax liabilities)	24,366	–	–	–	24,366
Amounts due to related parties	22,843	–	–	–	22,843
Convertible bonds	–	–	1,558,245	–	1,558,245
Other financial liability at amortised cost	237,100	–	–	–	237,100
	404,704	36,221	1,558,416	805	2,000,146

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

4.3 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 financial liabilities measured and recognised at fair value at June 30, 2021 and December 31, 2020.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
(Unaudited)				
As at June 30, 2021				
Assets				
Financial assets at fair value through profit or loss ('FVPL')				
– Monetary funds with floating rates	–	187,293	–	187,293
Total assets	–	187,293	–	187,293
Liabilities				
Financial liabilities at FVPL				
– Convertible bonds (Note 19)	–	–	1,576,400	1,576,400
Total financial liabilities	–	–	1,576,400	1,576,400

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

4.3 Fair value estimation – *continued*

(i) Fair value hierarchy – continued

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
(Audited)				
As at December 31, 2020				
Assets				
Financial assets at FVPL				
– Monetary funds with floating rates	–	90,737	–	90,737
Total assets	–	90,737	–	90,737
Liabilities				
Financial liabilities at FVPL				
– Convertible bonds	–	–	1,558,245	1,558,245
Total liabilities	–	–	1,558,245	1,558,245

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.

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

4.3 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 convertible bonds – option pricing models (e.g. 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, 2021.

	Monetary funds with floating rates RMB'000
(Unaudited)	
Opening balance as at January 1, 2021	90,737
Additions	196,500
Settlements	(101,706)
Gains recognised in other gains – net	1,762
Closing balance as at June 30, 2021	187,293

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

4.3 Fair value estimation – *continued*

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

The following table presents the changes in level 3 instruments for the six months ended June 30, 2021.

	Convertible bonds (Note 19) RMB'000
(Unaudited)	
Opening balance as at January 1, 2021	(1,558,245)
Losses recognised in other gains – net*	(18,155)
Closing balance as at June 30, 2021	(1,576,400)
* Includes unrealised losses recognised in profit or loss attributable to balances held at the end of the reporting period	(18,155)

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

4.3 Fair value estimation – *continued*

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

(a) Convertible bonds

Management has reviewed and assessed the valuation reports issued by an independent valuer and noticed the fair value of the convertible bonds as of June 30, 2021 was mainly impacted by the bond yield, which was determined by factors including market interest rates, the convertible bonds' risky rate, the convertible bonds' expiration dates and the volatility of the Company' stock price.

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

4.4 Fair value of financial assets and liabilities measured at amortized cost

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

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

5 SEGMENT INFORMATION

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

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

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

(a) General hospital services

Revenue from this segment is generated in the PRC and derived from hospital services provided by Jiande Hospital of Traditional Chinese Medicine Co., Ltd. ('Jiande Hospital'), Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd. ('DJ Pharmaceutical Technology') and Jiande Xinlin Pharmacy Co., Ltd. ('Xinlin Pharmacy') for the six months ended June 30, 2021.

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, 2021 and 2020, respectively.

(b) Hospital management services

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

(c) Sale of pharmaceutical products

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

5 SEGMENT INFORMATION – *continued*

(d) Unallocated

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

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

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

5 SEGMENT INFORMATION – *continued*

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

	General hospital services RMB'000	Hospital management services RMB'000	Wholesale of pharmaceutical products RMB'000	Unallocated RMB'000	Total RMB'000
(Unaudited)					
Six months ended June 30, 2020					
Segment revenue	79,568	100,988	123	–	180,679
Revenue from external customers	79,568	100,988	123	–	180,679
Timing of revenue recognition					
– At a point in time	43,580	–	123	–	43,703
– Over time	35,988	100,988	–	–	136,976
	79,568	100,988	123	–	180,679
EBITDA	(238,327)	(342,178)	(316)	–	(580,821)
Depreciation	(4,347)	(935)	(291)	(974)	(6,547)
Amortization	(3,787)	(11,830)	(191)	(52)	(15,860)
Finance (costs)/income	(947)	183	–	10,792	10,028
Unallocated expense – net				(8,714)	(8,714)
(Loss)/profit before tax	(247,408)	(354,760)	(798)	1,052	(601,914)
(Unaudited)					
As at June 30, 2020					
Segment assets	391,924	1,313,079	4,024	970,098	2,679,125
Goodwill	58,495	1,082,923	9,266	–	1,150,684
Total assets	450,419	2,396,002	13,290	970,098	3,829,809
Total liabilities	134,710	286,370	2,270	2,157,104	2,580,454

6 OTHER (LOSSES)/GAINS – NET

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fair value (losses)/gains and other changes on convertible bonds	**(18,155)**	5,687
Net fair value gains on financial assets at FVPL	**1,762**	781
Others	**1,208**	(1,124)
	(15,185)	5,344

7 FINANCE INCOME AND COSTS

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income		
Interest income on loan to a related party	**1,941**	1,941
Interest income on bank deposits	**1,755**	7,974
Foreign exchange gains – net	**–**	11,207
	3,696	21,122
Finance costs		
Foreign exchange losses – net	**(7,005)**	–
Interest expense on bank borrowings	**(4,584)**	(6,253)
Finance expense on financial liability at amortized cost	**(1,100)**	(4,751)
Others	**(175)**	(90)
	(12,864)	(11,094)
Finance (cost)/income – net	**(9,168)**	10,028

8 INCOME TAX CREDIT

Subsidiaries established and operating in Mainland China are subject to the PRC corporate income tax at the rates of 25% or 15% for the six months ended June 30, 2021 (six months ended June 30, 2020: 25% or 15%).

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax:		
– PRC corporate income tax	**(18,057)**	(15,653)
Deferred income tax (Note 20)	**100,636**	50,575
	82,579	34,922

(a) Cayman Islands Income Tax

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

(b) Hong Kong Profits Tax

Hong Kong profits tax rate was 16.5% for the period ended June 30, 2021 (six months ended June 30, 2020: 16.5%). No Hong Kong profit tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for the period ended June 30, 2021 and 2020.

(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% for the period ended June 30, 2021 (six months ended June 30, 2020: 15%). The income tax rate of other subsidiaries was 25% for the period ended June 30, 2021 (six months ended June 30, 2020: 25%).

(d) Withholding Tax

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

9 LOSS PER SHARE

(a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended June 30, 2021 and 2020.

	Six months ended June 30,	
	2021	2020
	(Unaudited)	(Unaudited)
Total loss attributable to owners of the Company (RMB'000)	**(341,104)**	(535,403)
Weighted average number of ordinary shares in issue (in thousands)	**138,194**	138,194
Basic loss per share (in RMB)	**(2.47)**	(3.87)

(b) Diluted loss per share

The Group had potential dilutive shares during the six months ended June 30, 2021 and 2020 related to the convertible bonds. Mainly due to the Group's negative financial results during the six months ended June 30, 2021 and 2020, relative convertible bonds have anti-dilutive effect on the Group's loss per share. Thus, diluted loss per share is equivalent to the basic loss per share at June 30, 2021 and 2020.

10 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
(Unaudited)						
Six months ended June 30, 2021						
Net book value						
Opening amount as at January 1, 2021	108,330	2,358	27,457	4,685	2,295	145,125
Additions	–	273	2,619	481	2,258	5,631
Disposals	(922)	–	–	(17)	–	(939)
Transfer upon completion	2,707	–	–	28	(2,735)	-
Depreciation	(3,263)	(275)	(2,695)	(798)	–	(7,031)
Closing amount as at June 30, 2021	106,852	2,356	27,381	4,379	1,818	142,786
(Unaudited)						
Six months ended June 30, 2020						
Net book value						
Opening amount as at January 1, 2020	111,317	430	24,149	5,738	4,542	146,176
Additions	–	1,550	1,480	198	598	3,826
Disposals	(1,498)	–	–	–	–	(1,498)
Transfer upon completion	3,600	320	–	–	(3,920)	–
Depreciation	(2,145)	(68)	(2,339)	(784)	–	(5,336)
Closing amount as at June 30, 2020	111,274	2,232	23,290	5,152	1,220	143,168

11 LEASES

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

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Right-of-use assets		
Land use right	37,127	37,599
Properties	11,831	1,276
	48,958	38,875
Lease Liabilities		
Current	2,819	266
Non-current	8,788	692
	11,607	958

Additions to the right-of-use assets for the six months ended June 30, 2021 were RMB11,546,000 (2020: RMB739,000).

(b) Amounts recognised in the statement of comprehensive income

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

	Six months ended June 30,	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Depreciation charge of right-of-use assets – properties	903	1,211
Amortisation charge of right-of-use assets – land use right	472	472
Interest expense (included in finance cost)	148	40
Expense relating to short-term leases (included in cost of revenue and administrative expenses)	170	147
Expense relating to leases of low-value assets (included in administrative expenses)	295	2

The total cash outflow for leases for the six months ended June 30, 2021 was RMB1,417,000 (six months ended June 30, 2020: RMB1,097,000).

12 INTANGIBLE ASSETS

	Goodwill RMB'000	Contractual rights to provide management services RMB'000	Licenses RMB'000	Software RMB'000	Total RMB'000
(Unaudited)					
Six months ended June 30, 2021					
Net book value					
Opening amount as at January 1, 2021	**1,150,684**	**890,411**	**166,379**	**1,083**	**2,208,557**
Additions	**–**	**–**	**–**	**196**	**196**
Amortisation	**–**	**(10,135)**	**(3,237)**	**(172)**	**(13,544)**
Impairment charge	**(132,008)**	**(410,707)**	**–**	**–**	**(542,715)**
Closing amount as at June 30, 2021	**1,018,676**	**469,569**	**163,142**	**1,107**	**1,652,494**
(Unaudited)					
Six months ended June 30, 2020					
Net book value					
Opening amount as at January 1, 2020	1,617,767	1,113,506	173,194	1,362	2,905,829
Amortisation	–	(11,821)	(3,427)	(140)	(15,388)
Impairment charge	(467,083)	(201,136)	–	–	(668,219)
Closing amount as at June 30, 2020	1,150,684	900,549	169,767	1,222	2,222,222

(a) Goodwill impairment

Management reviews business performance of each cash-generating unit ('CGU'). The recoverable amount of each CGU is determined based on higher of fair value less cost of disposal (FVLCOD) and value in use(VIU). These calculations use cash flow projections based on financial budgets approved by management covering an eight-year-forecast-period since January 1, 2021. The management considers that the eight-year-forecast-period financial budget that has been used in the goodwill impairment test is appropriate because the investment cycle in the healthcare industry is longer than other industries, and the useful lives of the licenses of related subsidiaries are longer than eight years. Cash flows beyond the eight-year period are extrapolated using the estimated long-term growth rate of 3% by reference to the long-term inflation rate of China as at June 30, 2021 and December 31, 2020.

Due to the changes on local medical and healthcare policy and the combined effect of the expected slow recovery from current market conditions influenced by the Coronavirus Disease 2019 ('the COVID-19'), the operation of hospital management services provided by Cixi Honghe operating CGU and Zhejiang Honghe Zhiyuan operating CGU for the six months ended June 30, 2021 was below the management's forecast.

12 INTANGIBLE ASSETS – *continued*

(a) Goodwill impairment – *continued*

Based on the impairment assessment performed by management, the goodwill of Cixi Honghe and Zhejiang Honghe Zhiyuan operating CGU ('the two CGUs') amounting to RMB36,460,000 and RMB95,548,000 were fully impaired as at June 30, 2021.

The recoverable amounts of the two CGUs as at June 30, 2021 and December 31, 2020 were determined by assessing the higher of FVLCOD and VIU of the underlying assets with reference to valuation reports issued by an independent valuer. The valuation is considered to be level 3 in the fair value hierarchy due to unobservable inputs used in the valuation.

The following tables set out the key assumptions for the two CGUs where the impairment calculations were updated as at June 30, 2021:

	Cixi Honghe operating CGU	
	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Revenue (% compound growth rate)	**5.14%**	11.77%
Post-tax discount rate	**14.00%**	14.00%
Recoverable amount of operating CGU (RMB'000)	**60,900**	255,000

	Zhejiang Honghe Zhiyuan operating CGU	
	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Revenue (% compound growth rate)	**11.07%**	18.42%
Post-tax discount rate	**14.00%**	14.00%
Recoverable amount of operating CGU (RMB'000)	**369,300**	706,000

The recoverable amount of Jiande Hospital operating CGU, Weikang Investment and Honghe Ruixin operating CGU and DJ Medicine operating CGU ('the three CGUs') were estimated to be RMB376,800,000, RMB1,498,000,000 and RMB13,900,000 as at June 30, 2021 which exceeded the carrying amount of the three CGUs by RMB32,531,000, RMB161,235,000 and RMB2,052,000. No impairment was therefore required for the three CGUs.

12 INTANGIBLE ASSETS – *continued*

(a) Goodwill impairment – *continued*

The following tables set out the key assumptions for the three CGUs where the impairment calculations were updated as at June 30, 2021:

	Jiande Hospital operating CGU	
	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Revenue (% compound growth rate)	**11.10%**	11.98%
Post-tax discount rate	**15.00%**	15.00%
Recoverable amount of operating CGU (RMB'000)	**376,800**	372,000

	Weikang Investment and Honghe Ruixin operating CGU	
	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Revenue (% compound growth rate)	**8.12%**	9.36%
Post-tax discount rate	**13.50%**	13.50%
Recoverable amount of operating CGU (RMB'000)	**1,498,000**	1,592,000

	DJ Medicine operating CGU	
	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
Revenue (% compound growth rate)	**11.16%**	19.95%
Post-tax discount rate	**15.00%**	15.00%
Recoverable amount of operating CGU (RMB'000)	**13,900**	19,000

12 INTANGIBLE ASSETS – *continued*

(a) Goodwill impairment – *continued*

The following tables set out the key assumptions for Jiande Hospital operating CGU, Weikang Investment and Honghe Ruixin operating CGU and DJ Medicine operating CGU as of each period end (estimates based on the operations for the periods indicated) used in goodwill impairment testing and the breakeven point of such key assumptions:

	Jiande Hospital operating CGU			
	Six months ended June 30, 2021		Year ended December 31, 2020	
	Key assumption	**Breakeven Point**	Key assumption	Breakeven Point
Percentage of the compound growth rate of revenue	**11.10%**	**9.07%**	11.98%	9.48%
Percentage of the post-tax discount rate	**15.00%**	**16.06%**	15.00%	16.28%

	Weikang Investment and Honghe Ruixin operating CGU			
	Six months ended June 30, 2021		Year ended December 31, 2020	
	Key assumption	**Breakeven Point**	Key assumption	Breakeven Point
Percentage of the compound growth rate of revenue	**8.12%**	**5.75%**	9.36%	7.80%
Percentage of the post-tax discount rate	**13.50%**	**14.69%**	13.50%	14.55%

	DJ Medicine operating CGU			
	Six months ended June 30, 2021		Year ended December 31, 2020	
	Key assumption	**Breakeven Point**	Key assumption	Breakeven Point
Percentage of the compound growth rate of revenue	**11.16%**	**10.77%**	19.95%	19.29%
Percentage of the post-tax discount rate	**15.00%**	**17.03%**	15.00%	17.50%

12 INTANGIBLE ASSETS – *continued*

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

Contractual rights to provide management services are the rights to provide management services to Yangsi hospital, Jinhua hospital and Cixi hospital with finite useful life. These contractual rights acquired in business combinations are recognised at fair value as at the acquisition date.

Management engaged an independent valuer in determining the recoverable amount of contractual rights to provide management services to Jinhua hospital and Cixi hospital as of June 30, 2021. Impairment losses of RMB233,455,000 and RMB177,252,000 were recognised, reducing the carrying amount of the contractual rights to provide management services to Jinhua hospital and Cixi hospital to RMB312,226,000 and RMB57,100,000, respectively.

No impairment was charged for contractual rights to provide management services to Yangsi hospital during the six months ended June 30, 2021 and 2020.

13 TRADE RECEIVABLES

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Trade receivables	33,163	36,945
Less: provision for impairment of trade receivables	(1,500)	(3,000)
Trade receivables – net	31,663	33,945

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

As at June 30, 2021 and December 31, 2020, the ageing analysis based on invoice date of the trade receivables was as follows:

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
1 – 90 days	27,542	33,058
91 – 180 days	840	1,465
181 days – 1 year	4,733	2,338
Over 1 year	48	84
	33,163	36,945

14 BALANCES WITH RELATED PARTIES

As at June 30, 2021 and December 31, 2020, the balances with related parties are unsecured, receivable/payable on demand and are denominated in RMB.

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Amounts due from related parties		
– Trade in nature		
Jinhua Hospital	147,145	150,573
Yangsi Hospital	95,516	116,308
Cixi Hospital	20,340	12,822
– Others		
Jinhua Hospital	80,000	80,000
Zhejiang Zhongyouli Medicines Co., Ltd	8,620	–
Yangsi Hospital	396	414
Vanguard Glory Limited	339	342
Han Prestige Limited	6	6
Total	352,362	360,465
Less: provision for impairment of amounts due from related parties	(12,287)	(9,345)
Amounts due from related parties – net	340,075	351,120
Less: non-current portion	(80,000)	(80,000)
Current portion	260,075	271,120

14 BALANCES WITH RELATED PARTIES – *continued*

As at June 30, 2021 and December 31, 2020, the ageing analysis based on trading date of the amounts due from related parties was as follows:

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Within 90 days	55,750	68,311
91 to 180 days	51,845	62,794
Over 180 days	155,406	148,598
	263,001	279,703

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Amounts due to related parties		
– Trade in nature		
Zhejiang Zhongyouli Medical Co., Ltd.	12,437	5,617
Dajia Medical Equipment Co., Ltd.	3,109	2,844
– Others		
Jinhua Hospital	5,991	5,975
Yangsi Hospital	6,180	6,968
Vanguard Glory Limited	1,405	1,419
Cixi Hospital	13	13
Midpoint Honour Ltd.	6	7
Total	29,141	22,843

Their carrying values due as at June 30, 2021 and December 31, 2020 approximate their fair values.

14 BALANCES WITH RELATED PARTIES – *continued*

As at June 30, 2021 and December 31, 2020, the ageing analysis based on trading date of the amounts due to related parties was as follows:

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Within 90 days	8,559	7,031
91 to 180 days	6,590	1,260
Over 180 days	397	170
	15,546	8,461

15 TERM DEPOSITS

	As at 30 June, 2021 RMB'000 (Unaudited)	As at 31 December, 2020 RMB'000 (Audited)
HKD term deposits	4,207	–
USD term deposits	646	–
Total	4,853	–

The effective interest rate for HKD term deposits of the Group with initial terms of six months during the period ended June 30, 2021 was 0.28% (2020: nil).

The effective interest rate for USD term deposits of the Group with initial terms of twelve months during the period ended June 30, 2021 was 2.25% (2020: nil).

Both term deposits were neither past due nor impaired. As at June 30, 2021, the carrying amounts of the term deposits approximated their fair values.

16 TRADE PAYABLES

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

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Within 90 days	**9,080**	12,729
91 to 180 days	**4,124**	1,570
181 days to 1 year	**1,107**	1,219
Over 1 year	**1,992**	1,244
	16,303	16,762

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

17 ACCRUALS, OTHER PAYABLES AND PROVISIONS

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Accrued employee benefits	**35,970**	35,673
Share-based payments	**14,953**	15,081
Accrued professional service fee	**7,485**	5,508
Duty and tax payables other than corporate income tax	**5,499**	10,787
Other payables to suppliers for purchase of plant and equipment	**5,547**	8,331
Others	**10,146**	10,527
Total	**79,600**	85,907
Less: non-current portion	**(493)**	(196)
Current portion	**79,107**	85,711

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

18 BORROWINGS

	As at June 30, 2021			As at December 31, 2020		
	Current	Non-current	Total	Current	Non-current	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Bank borrowing						
Secured but unguaranteed (a)	15,983	15,983	31,966	57,309	34,386	91,695
Unsecured and unguaranteed (b)	40,000	–	40,000	40,000	–	40,000
	55,983	15,983	71,966	97,309	34,386	131,695

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

(b) Jiande Hospital entered into five one-year loan agreements with Agricultural Bank of China Jiande Branch in November and December 2020, and March 2021, respectively. The amount of these loans was RMB40,000,000, which consist of the loans amounting to RMB9,900,000, RMB9,000,000, RMB8,200,000, RMB3,000,000 and RMB9,900,000 bearing the same fixed interest rates of 4.300%.

As at June 30, 2021, the Group's borrowings were repayable as follows:

	Bank borrowings	
	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 RMB'000 (Audited)
Within 1 year	**55,983**	97,309
Between 1 and 2 years	**15,983**	34,386
	71,966	131,695

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

19 CONVERTIBLE BONDS

The movements of the convertible bonds are as follows:

	Convertible Bonds RMB'000
(Unaudited)	
As at January 1, 2021	**1,558,245**
Amortization of discount with principal amount at initial recognition	**(751)**
Fair value change	**18,906**
As at June 30, 2021	**1,576,400**
(Unaudited)	
As at January 1, 2020	1,693,430
Amortization of discount with principal amount at initial recognition	(364)
Fair value change	(5,323)
As at June 30, 2020	1,687,743

None of convertible bonds was converted into ordinary shares of the Company during the six months ended June 30, 2021.

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

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

	As at June 30, 2021	As at December 31, 2020
Volatility	**30.00%**	30.00%
Time to expiration (years)	**2.10~2.66**	2.60~3.16
Risk free rate of interest	**0.17%~0.21%**	0.21%~0.25%
Dividend yield	**0.00%**	0.00%

20 DEFERRED INCOME TAX

	As at June 30, 2021 RMB'000 (Unaudited)	As at December 31, 2020 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	3,936	3,835
	3,936	3,835
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	(163,037)	(265,302)
– Deferred income tax liabilities to be settled within 12 months	(38,729)	(36,999)
	(201,766)	(302,301)
Deferred income tax liabilities – net	(197,830)	(298,466)

Deferred income tax assets

	Provisions RMB'000	Changes in fair value RMB'000	Donation RMB'000	Total RMB'000
(Unaudited)				
Balance at January 1, 2021	3,418	48	369	3,835
Credited/(charged) to profit or loss	361	(48)	(212)	101
Balance at June 30, 2021	3,779	–	157	3,936
(Unaudited)				
Balance at January 1, 2020	605	323	485	1,413
Credited/(charged) to profit or loss	964	(323)	–	641
Balance at June 30, 2020	1,569	–	485	2,054

20 DEFERRED INCOME TAX – *continued*

Deferred income tax liabilities

	Buildings and Intangible assets RMB'000	Withholding tax RMB'000	Interest capitalization RMB'000	Total RMB'000
(Unaudited)				
Balance at January 1, 2021	(271,837)	(30,053)	(411)	(302,301)
Credited/(charged) to profit or loss	105,933	(5,410)	12	100,535
Balance at June 30, 2021	(165,904)	(35,463)	(399)	(201,766)
(Unaudited)				
Balance at January 1, 2020	(328,597)	(21,055)	(435)	(350,087)
Credited/(charged) to profit or loss	53,746	(3,824)	12	49,934
Balance at June 30, 2020	(274,851)	(24,879)	(423)	(300,153)

21 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, 2021 RMB'000 (Unaudited)	Year ended December 31, 2020 RMB'000 (Audited)
Property, plant and equipment	1,531	851
Intangible assets	1,960	1,960
	3,491	2,811

(b) Non-cancellable operating leases

The Group leases two warehouses, two retail stores, various equipment, offices, apartments and lands.

From January 1, 2021, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, as described in Note 11.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Six months ended June 30, 2021 RMB'000 (Unaudited)	Year ended December 31, 2020 RMB'000 (Audited)
Within one year	22	252

22 SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. 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 parties if they are subject to common control, common significant influence or joint control. Members of key management and their close family members of the Group are also considered as related parties.

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

Name	Relationship with the Group
Vanguard Glory Limited	Parent company
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
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 controlled by Mr. Hong Jiangxin
Dajia Medical Equipment Co., Ltd.	Related party which controlled by Mr. Hong Jiangxin
Zhejiang Zhongyouli Medicines Co., Ltd.	Related party which is controlled by a close family member of Mr. Hong Jiangxin

The following significant transactions were carried out between the Group and its related parties for the periods ended June 30, 2021 and 2020. 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.

22 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(a) Significant transactions with related parties

	Six months ended June 30, 2021 RMB'000 (Unaudited)	Six months ended June 30, 2020 RMB'000 (Unaudited)
Management Service fee		
– Yangsi Hospital	86,656	72,758
– Jinhua Hospital	17,431	16,578
– Cixi Hospital	7,093	10,905
	111,180	100,241
Purchase of medical equipment and pharmaceuticals		
– Zhejiang Zhongyouli Medicines Co., Ltd.	7,473	10,881
– Dajia Medical Equipment Co., Ltd	3,080	2,981
	10,553	13,862

(b) Loans from related parties

	Six months ended June 30, 2021 RMB'000 (Unaudited)	Six months ended June 30, 2020 RMB'000 (Unaudited)
Beginning of the period	14,382	15,007
Loans advanced	15	478
Loan repaid	(802)	(944)
End of the period	13,595	14,541

22 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(c) Loans to related parties

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Beginning of the period	**80,762**	80,903
Loans advanced	**8,620**	25,465
Loan repayments received	**(21)**	(40)
Interest charged	**2,063**	2,159
Interest received	**(2,063)**	(2,486)
End of the period	**89,361**	106,001

(d) Key management compensation

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

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Wages, salaries and bonuses	**5,057**	9,937
Welfare and other expenses	**469**	2,123
Total	**5,526**	12,060

23 EVENTS OCCURRING AFTER THE REPORTING PERIOD

(a) Proposed alteration of terms of the convertible bonds

On August 12, 2021, the Company executed a deed of amendment to amend certain terms in relation to early redemption of the convertible bonds which was issued on February 27, 2019 with principal amount of HKD800,000,000. Subject to and effective from the fulfilment of certain conditions precedent, with prior written consent of the Company and the bondholder, the outstanding convertible bonds may be redeemed in whole by the Company.

(b) Exercise of the put option

As one of the conditions to the completion of the acquisition of Oriental Ally Holdings Limited ("Oriental Ally") contemplated under the share purchase agreement dated May 29, 2018, the Company granted a put option to Hony 2015 (Shenzhen) Equity Investment Funds Center (Limited Partnership) ("Hony 2015"), Hony Capital Management (Tianjin) (Limited Partnership) ("Hony Tianjin") and Hony Kangshou Management Consulting (Shanghai) Co., Ltd. ("Kangshou", a limited liability company held as to 99.9% by Hony 2015 and 0.1% by Hony Tianjin) (collectively, the "Guangsha Minority Shareholders") under an undertaking letter, pursuant to which the Company undertook to acquire the remaining 25% equity interests in Zhejiang Honghe Zhiyuan held by Kangshou, no later than the date falling on the third anniversary of the date of completion of the acquisition of Oriental Ally (i.e. on or before August 7, 2021) at the purchase price of not less than RMB210 million plus other reasonable expenses incurred by the Guangsha Minority Shareholders in connection with their investment in Zhejiang Honghe Zhiyuan.

Guangsha Minority Shareholders had informed the Company on August 5, 2021 that they intended to exercise the put option to require the Company to acquire the remaining interests in accordance with the terms and conditions of the undertaking letter.

After receipt of the exercise notice, the Company shall enter into definitive agreement(s) in respect of the subsequent acquisition with Kangshou, and the subsequent acquisition is expected to be effected by way of equity transfer or through alternative transaction structure permitted under the PRC laws and regulations.

The parties are in the process of negotiating the specific terms of the subsequent acquisition, including but not limited to, the actual purchase price for the remaining interests which shall be determined with reference to a valuation of the remaining interest to be conducted by an independent professional valuer appointed by the parties.

The Company currently expects that the above conditions will be fulfilled in the first quarter of 2022.