弘和仁愛
HOSPITAL CORPORATION

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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3869)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Reference is made to the annual report of Hospital Corporation of China Limited (the "**Company**") for the year ended 31 December 2021 dated 29 March 2022 (which was published on the website of the Stock Exchange at www.hkexnews.hk on 28 April 2022) (the "**Annual Report**"). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the Annual Report.

In addition to the information provided in the Annual Report, the Board would like to provide further information to the Management Discussion and Analysis and the consolidated financial statements of the Group for the year ended 31 December 2021 therein pursuant to paragraph 45(3) and (4) of Appendix 16 to the Listing Rules.

IMPAIRMENT LOSS FOR THE YEAR ENDED 31 DECEMBER 2021

As stated in the Annual Report, the Company recorded respective impairment loss on contractual rights to provide management services and goodwill of approximately RMB410.7 million and RMB141.3 million (2020: approximately RMB201.1 million and RMB467.1 million, respectively) for the year ended 31 December 2021 (collectively, the "**Impairment Loss**"). The impairment was supported by an independent valuation. Save as disclosed in the Annual Report, further information regarding the Impairment Loss is set out below:

Reasons for and the circumstances leading to the Impairment Loss

As stated in the Annual Report, the Group's business was further affected by the COVID-19 during the year ended 31 December 2021. In addition, due to the changes on local medical and healthcare policy (please refer to the section headed "**Management Discussion and Analysis**" in the Annual Report for details of the local medical and healthcare policy), the combined effect of the expected slow recovery from current market conditions influenced by the COVID-19, the operating results of certain subsidiaries historically acquired were below management's previous forecasts. The management of the Company estimated that the above-mentioned factors would have an adverse effect on the Group's financial results, and the Group had conducted interim and annual reviews on intangible assets and goodwill in 2021 to assess the expected recoverable amount of the above-mentioned intangible assets and goodwill. The Group involved an external valuer to perform assessment on the expected recoverable amount of intangible assets and goodwill based on the higher of fair value less costs of disposal and value in use calculation, the Group recorded impairment losses on intangible assets and goodwill, details of which are set out in Note 16 to the consolidated financial statements of the Annual Report.

KEY VALUE OF INPUTS USED AND ASSUMPTIONS ADOPTED IN THE VALUATION

As required under the Group's accounting policies on intangible assets and goodwill impairment, the Company's management is required to perform interim and annual impairment test if there is indication of such impairment existing as at the balance sheet date. The impairment assessment process involves Company's management estimation on the expected future cash flow, associated growth rates and discount rate that reflects current market assessments of the time value of money and the risks specific to the intangible assets and goodwill. The key value of inputs used in the valuations to determine the amount of the impairment on intangible assets and goodwill, the basis and assumptions adopted has been disclosed in the Annual Report, which are summarised and further elaborated as below:

(i) The Fair Value Less Costs of Disposal ("**FVLCOD**") calculation was based on the expected future cash flow projections prepared by the Company. The basis of cash flow projections of the cash-generating units was based on reasonable assumptions of financial performance projections that represent management's estimate.

(ii) The discount rate adopted was the post-tax discount rate at 14% for the goodwill and intangible assets, considering the current market situation, business risk and the expected return from the intangible asset related businesses.

(iii) In addition to the details of the assumptions on the growth in the Company's revenue, the existing management model, industry experience and other identifiable assets related to goodwill will continue to function and other assets can be extended through simple renewal or additions, and the group of assets containing goodwill is expected to stabilize and be maintained after eight years to achieve perpetual operation.

(iv) Certain major inputs and key assumptions adopted in the valuations are listed as follows:

a. *Cixi Honghe Medical Management Company Limited ("**Cixi Honghe**")*

Major inputs/ key assumptions	Value used in the valuation in 2021	Value used in the previous valuation	Reason(s) for the change
Revenue (% of compound growth rate)	For details of the value used in the valuation in 2021, please see note 16 to the consolidated financial statements of the Annual Report	For details of the value used in the previous valuation, please see note 16 to the consolidated financial statements of the Annual Report	1) The continuous penetration of the DRG policy has led to a decline in the prices of medical service terminals. As a result, the average inpatient expense of Cixi Honghe decreased by approximately 11% from 2020 to 2021. Cixi Honghe's actual revenue for the year ended 31 December 2021 was approximately 75% of the forecast revenue. The management of the Company is of the view that the continuous impact of changes in the DRG policy will be irreversible, gradual adjustment on the patient's average medical costs per visit in the future will be needed, and at the same time, the hospital's future revenue growth will also be affected by the domestic health insurance quota. Hence the management of the Company adjusted the revenue forecast for the coming years; and

Major inputs/ key assumptions	**Value used in the valuation in 2021**	**Value used in the previous valuation**	**Reason(s) for the change**
			2) The COVID-19 pandemic continued to surface in certain province and regions in 2021, resulting an increased demand for nucleic acid testing and increased number of outpatients. However, the number of inpatients in 2021 was decreased by more than 20% as compared with the same period in 2020, which has a combined impact on the income of Cixi Honghe of approximately 10%. The management of the Company is of the view that since the beginning of 2020, the global economy has experienced pronounced fluctuations due to the impact of the COVID-19 pandemic, and our hospital operations have been affected to a certain extent due to the delayed resumption of work and fluctuations in market demand for our services. Although the domestic epidemic is generally under control, there are still recurring situations in certain areas, and the management of the Company is of the view that this impact is most likely to continue in the coming years, and therefore adjusted the revenue forecast for the future years. The management of the Company has taken into account the historical operating results and its judgment on the future performance of the industry, and has prudently considered the relevant factors such as the COVID-19 pandemic over a certain period of time in the future which may impact the future profit forecast, and therefore adjusted the expected growth rate of future revenue.

Major inputs/ key assumptions	Value used in the valuation in 2021	Value used in the previous valuation	Reason(s) for the change
Recoverable amount	For details of the value used in the valuation in 2021, please see note 16 to the consolidated financial statements of the Annual Report	For details of the value used in the previous valuation, please see note 16 to the consolidated financial statements of the Annual Report	The decrease in projected recoverable amount was due to the adjustment on the projected revenue for the reasons as stated above.

b. *Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd. ("**Zhejiang Honghe Zhiyuan**")*

Major inputs/ key assumptions	Value used in the valuation in 2021	Value used in the previous valuation	Reason(s) for the change
Revenue (% of compound growth rate)	For details of the value used in the valuation in 2021, please see note 16 to the consolidated financial statements of the Annual Report	For details of the value used in the previous valuation, please see note 16 to the consolidated financial statements of the Annual Report	1) The continuous penetration of the DRG policy has led to a decline in the prices of medical service terminals. As a result, the average inpatient expense of Zhejiang Honghe Zhiyuan decreased by approximately 5% in 2021 and the actual revenue for the year ended 31 December 2021 was approximately 88% of the forecast revenue at the end of 2020. The management of the Company is of the view that the continuous impact of changes in the DRG policy will be irreversible, gradual adjustment on the patient's average medical costs per visit in the future will be needed, and at the same time, the hospital's future revenue growth will also be affected by the domestic health insurance quota. Hence the management of the Company adjusted the revenue forecast for the coming years; and

Major inputs/ key assumptions	Value used in the valuation in 2021	Value used in the previous valuation	Reason(s) for the change
			2) The COVID-19 pandemic continued to surface in certain provinces and regions in 2021, resulting an increased demand for nucleic acid testing and increased number of outpatients. However, the number of inpatients in 2021 remained stable as compared with the same period in 2020, which went against the management's expected annual growth rate of 4% to 11% for the future years. The management of the Company is of the view that since the beginning of 2020, the global economy has experienced pronounced fluctuations due to the impact of the COVID-19 pandemic, and our hospital operations have been affected to a certain extent due to the delayed resumption of work and fluctuations in market demand for our services. Although the domestic epidemic is generally under control, there are still recurring situations in certain areas, and the management of the Company is of the view that this impact is most likely to continue in the coming years, and therefore adjusted the revenue forecast for the future years. The management of the Company has taken into account the historical operating results and its judgment on the future performance of the industry, and has prudently considered the relevant factors such as the COVID-19 pandemic over a certain period of time in the future which may impact the future profit forecast, and therefore adjusted the expected growth rate of future revenue.

Major inputs/ key assumptions	Value used in the valuation in 2021	Value used in the previous valuation	Reason(s) for the change
Recoverable amount	For details of the value used in the valuation in 2021, please see note 16 to the consolidated financial statements of the Annual Report	For details of the value used in the previous valuation, please see note 16 to the consolidated financial statements of the Annual Report	The decrease in recoverable amount was due to the adjustment on the projected revenue for the reasons as stated above.

UNDERLYING VALUATION METHODOLOGY

Shanghai Orient Appraisal Company (the "**Valuers**"), the engaged independent professional valuer adopted income approach known as the discounted cash flow method to perform value in use analysis in accordance with the requirement of Hong Kong Accounting Standard 36. As the intangible assets and goodwill had no stand-alone selling price and active market, the Valuers adopted the cash flow estimates covering an eight-year period based on reasonable and supportable assumptions as stated above, and assessed the expected recoverable amounts through income approach, which was the same assessment method used in the previous period.

As at December 31, 2021, the management of the Company had set up a cash flow forecasts including future investments covering an eight-year period based on reasonable and supportable assumptions. These assumptions and estimates are considered reliable and are supported by management's research and analysis based on industry information and data specific to the industry in which each CGU or a group of CGUs operates. Management reviews business performance of each CGU or a group of CGUs. The recoverable amount of each CGU or a group of CGUs is determined based on the higher of fair value less costs of disposal and value-in-use calculations of the underlying assets with reference to valuation reports issued by an independent valuer. The valuation is considered to be level 3 in fair value hierarchy due to unobservable inputs used in the valuation. These calculations use cash flow projections based on forecasts approved by management covering an eight-year-forecast-period since July 1, 2021.

The management considers that the eight-year-cash flow forecast period 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 terminal growth rate of 3% by reference to the long-term inflation rate of China as at December 31, 2021 and December 31, 2020.

During the interim and final assessments in 2021, changes in the inputs and key assumptions were attributable to the change in cash flow estimates caused by the change in financial performance and business relationship adjustment of the relevant CGUs. Please refer to Note 16 to the consolidated financial statements of the Annual Report for details of the changes in the inputs and key assumptions.

There were no significant changes in the value of the inputs and assumptions from those previously adopted, other than the updates in Company's management estimate of the future revenue growth, including the recoverable amount valued and the associated growth rate. As at the date of this announcement, there are no subsequent changes to the valuation methods as referred to above following their adoption.

The Company would continue to comply with the accounting standards and accounting policies to perform impairment reviews so as to ensure the financial statements are true and fairly stated.

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

Beijing, the PRC, September 27, 2022

As at the date of this announcement, the Directors of the Company are Mr. Chen Shuai, Mr. Lu Wenzuo, Mr. Pu Chengchuan and Ms. Pan Jianli being the executive Directors; Ms. Liu Lu and Ms. Wang Nan being the non-executive Directors; Mr. Dang Jinxue, Mr. Shi Luwen and Mr. Zhou Xiangliang being the independent non-executive Directors.