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Hospital Corporation of China Limited

弘和仁愛醫療集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3869)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2024

The board (the “**Board**”) of directors (the “**Directors**”) of Hospital Corporation of China Limited (the “**Company**”) is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”, “**we**” or “**our**”) for the six months ended 30 June 2024 (the “**Reporting Period**”), together with the comparative figures for the six months ended 30 June 2023 (the “**Corresponding Period of Previous Year**”).

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Revenue	719,503	717,831
– Hospital management services	62,025	36,852
– General hospital services	651,702	674,192
– Sales of pharmaceutical products	4,427	6,787
– Other	1,349	–
Adjusted gross profit ⁽¹⁾	161,804	131,568
Adjusted net profit ⁽²⁾	87,334	60,893
Adjusted gross profit margin	22.5%	18.3%
Adjusted net profit margin	12.1%	8.5%
Adjusted items		
Expenses of share-based awards ⁽²⁾⁽ⁱ⁾	(370)	270
Net fair value losses and extension gains on convertible bonds and foreign exchange losses ⁽²⁾⁽ⁱⁱ⁾	52,657	(128,438)

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Depreciation and amortisation of identifiable assets identified in acquisitions ⁽²⁾⁽ⁱⁱⁱ⁾	9,550	11,145
Revenue	719,503	717,831
Gross profit ⁽¹⁾	152,624	120,153
Net profit ⁽²⁾	25,497	177,916
Basic (losses) /earnings per share (in RMB)	(0.14)	0.91

Notes:

- (1) The gross profit of the Group for the Reporting Period amounted to approximately RMB152.6 million. Adjusted gross profit is calculated as the gross profit for the Reporting Period, excluding the impact from the expenses of share-based awards and depreciation and amortisation of identifiable assets identified in acquisitions.
- (2) The Group recorded a net profit of approximately RMB25.5 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 reversal of the relevant expenses of share-based awards of approximately RMB0.4 million; (ii) the fair value losses on convertible bonds of approximately RMB51.5 million, and foreign exchange losses of approximately RMB1.1 million mainly arising from cash and cash equivalents and other foreign currency assets and liabilities; (iii) depreciation and amortisation of identifiable assets identified in acquisitions of approximately RMB9.6 million. For the calculation of the Adjusted Net Profit, tax impacts of the adjusted items were not considered.

FINANCIAL INFORMATION

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2024 – unaudited

(Expressed in Renminbi (“**RMB**”))

		Six months ended 30 June	
		2024	2023
	Notes	RMB’000	RMB’000
Revenue	4	719,503	717,831
Cost of revenue		<u>(566,879)</u>	<u>(597,678)</u>
Gross profit		152,624	120,153
Selling expenses		(160)	(631)
Administrative expenses		(49,638)	(49,200)
Other gains and losses, net	5	<u>10,979</u>	<u>1,856</u>
Operating profit		113,805	72,178
Finance income, net		<u>(52,360)</u>	<u>128,794</u>
Profit before taxation		61,445	200,972
Income tax	6	<u>(35,948)</u>	<u>(23,056)</u>
Profit for the period		<u>25,497</u>	<u>177,916</u>
Attributable to:			
Owners of the Company		(18,718)	126,218
Non-controlling interests		<u>44,215</u>	<u>51,698</u>
Profit for the period		<u>25,497</u>	<u>177,916</u>
(Losses)/earnings per share:			
– Basic (losses)/earnings per share (in RMB)	7	<u>(0.14)</u>	<u>0.91</u>
– Diluted losses per share (in RMB)	7	<u>(0.14)</u>	<u>(0.02)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2024 – unaudited

(Expressed in RMB)

	Six months ended 30 June	
	2024	2023
Notes	RMB'000	RMB'000
Profit for the period	25,497	177,916
Other comprehensive income		
Item that will not be subsequently reclassified to profit or loss		
– Remeasurement of defined benefit plan obligation, net of tax	(4,227)	7,358
Total comprehensive income for the period	21,270	185,274
Attributable to:		
Owners of the Company	(18,718)	126,218
Non-controlling interests	39,988	59,056
Total comprehensive income for the period	21,270	185,274

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2024 – unaudited

(Expressed in RMB)

		30 June 2024	31 December 2023 (restated)
	<i>Notes</i>	RMB'000	RMB'000
Non-current assets			
Property and equipment		173,581	183,004
Right-of-use assets		44,225	43,433
Intangible assets		1,144,941	1,152,245
Amounts due from related parties		160,944	160,944
Deferred income tax assets		10,410	8,165
		<u>1,534,101</u>	<u>1,547,791</u>
Current assets			
Inventories		55,134	51,425
Trade receivables	8	111,395	133,652
Other receivables, deposits and prepayments		9,361	13,581
Amounts due from related parties		102,435	80,932
Financial assets at fair value through profit or loss		82,576	94,156
Term deposits		50,713	50,708
Restricted bank deposits		2,849	2,828
Cash and cash equivalents		545,053	523,027
		<u>959,516</u>	<u>950,309</u>
Current liabilities			
Trade payables	9	129,002	150,543
Contract liabilities		–	4,570
Accruals, other payables and provisions		374,472	441,062
Amounts due to related parties		7,701	7,690
Borrowings		82,100	82,100
Convertible bonds	10	989,673	938,149
Lease liabilities		2,655	1,783
Current income tax liabilities		43,322	36,662
		<u>1,628,925</u>	<u>1,662,559</u>
Net current liabilities		<u>(669,409)</u>	<u>(712,250)</u>
Total assets less current liabilities		<u>864,692</u>	<u>835,541</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*as at 30 June 2024 – unaudited**(Expressed in RMB)*

	30 June 2024	31 December 2023 (restated)
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities		
Lease liabilities	7,991	7,237
Accruals, other payables and provisions	45,632	45,310
Defined benefit plan obligation	50,878	44,649
Deferred income tax liabilities	147,718	147,142
	<u>252,219</u>	<u>244,338</u>
NET ASSETS	<u>612,473</u>	<u>591,203</u>
CAPITAL AND RESERVES		
Share capital	123	123
Reserves	360,253	378,971
Total equity attributable to equity shareholders of the Company	360,376	379,094
Non-controlling interests	252,097	212,109
TOTAL EQUITY	<u>612,473</u>	<u>591,203</u>

NOTES

(Expressed in RMB unless otherwise indicated)

1 GENERAL INFORMATION

Hospital Corporation of China Limited (the “**Company**”) was incorporated in the Cayman Islands on 21 February 2014 as an exempted company with limited liability under the Companies Law (Cap.22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands.

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

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

2 BASIS OF PREPARATION

This interim financial information for the six months ended 30 June 2024 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“**IAS**”) 34, Interim financial reporting, issued by the International Accounting Standards Board (the “**IASB**”). It was authorised for issue on 26 March 2024.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2023 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2024 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of an interim financial information in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

As at 30 June 2024, the Group’s current liabilities exceeded its current assets by RMB669,409,000, including convertible bonds of RMB989,673,000 reclassified from non-current to current as disclosed in Note 3. The bondholders are Vanguard Glory Limited (“**Vanguard Glory**”), a substantial shareholder holding 70.19% of the Company’s issued share capital, and Hony Capital Fund VIII (Cayman), L.P. (“**Hony Fund VIII**”), an affiliate fund managed by the parent fund of Vanguard Glory. The directors of the Company are of the opinion that the bondholders intend to hold the bonds to maturity. The directors of the Company have reviewed the Group’s cash flow forecast for the next twelve months and are of the opinion that the Group will generate sufficient cash inflows from its operations and will have access to credit facilities from financial institutions, if requires, to meet its obligations. Accordingly, the directors of the Company consider it is appropriate to prepare the interim consolidated financial statements on a going concern basis.

3 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to IFRS Accounting Standards issued by the IASB to this interim financial report for the current accounting period:

- Amendments to IAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current* (“**2020 amendments**”)
- Amendments to IAS 1, *Presentation of financial statements: Non-current liabilities with covenants* (“**2022 amendments**”)
- Amendments to IFRS 16, *Leases: Lease liability in a sale and leaseback*
- Amendments to IAS 7, *Statement of cash flows and IFRS 7, Financial instruments: Disclosures – Supplier finance arrangements*

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

Amendments to IAS 1, *Presentation of financial statements* (“2020 and 2022 amendments”, or collectively the “IAS 1 amendments”)

The IAS 1 amendments impact the classification of a liability as current or non-current, and are applied retrospectively as a package.

The 2020 amendments primarily clarify the classification of a liability that can be settled in its own equity instruments. If the terms of a liability could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments and that conversion option is accounted for as an equity instrument, these terms do not affect the classification of the liability as current or non-current. Otherwise, the transfer of equity instruments would constitute settlement of the liability and impact classification.

The 2022 amendments specify that conditions with which an entity must comply after the reporting date do not affect the classification of a liability as current or non-current. However, the entity is required to disclose information about non-current liabilities subject to such conditions in a full set of financial statements.

Upon the adoption of the amendments, the Group has reassessed the classification of its liabilities as current or non-current. The Group, to conform to the revised policy, has reclassified the non-derivative liabilities arising from convertible bonds with a maturity date of 30 September 2025 from non-current to current, as the related conversion features of these convertible bonds do not meet the definition of an equity instrument and are exercisable at any time at the bondholders’ option, thus the liabilities are settled on demand.

The following table summarises the impact of the adoption of the IAS 1 amendments on the comparatives presented in the Group's consolidated statement of financial position:

	As previously reported <i>RMB'000</i>	Effect of adopting the IAS 1 amendments <i>RMB'000</i>	As restated <i>RMB'000</i>
Consolidated statement of financial position as at			
31 December 2023:			
Convertible bonds	–	938,149	938,149
Total current liabilities	724,410	938,149	1,662,559
Net current assets/(liabilities)	225,899	(938,149)	(712,250)
Total assets less current liabilities	1,773,690	(938,149)	835,541
Convertible bonds	938,149	(938,149)	–
Total non-current liabilities	1,182,487	(938,149)	244,338

The following table illustrates the amounts that would have been in the Group's consolidated statement of financial position as at 30 June 2024 if the IAS 1 amendments had not been adopted:

	As reported <i>RMB'000</i>	Backing out effect of adopting the IAS 1 amendments <i>RMB'000</i>	If accounting policy had not been changed <i>RMB'000</i>
Consolidated statement of financial position as at			
30 June 2024:			
Convertible bonds	989,673	(989,673)	–
Total current liabilities	1,628,925	(989,673)	639,252
Net current (liabilities)/assets	(669,409)	989,673	320,264
Total assets less current liabilities	864,692	989,673	1,854,365
Convertible bonds	–	989,673	989,673
Total non-current liabilities	252,219	989,673	1,241,892

The amendments have no effect on the Group's consolidated statement of profit or loss, cash flows and earning/loss per share.

Other than the IAS 1 amendments stated above, none of other developments have had a material effect on how the Group's results and financial position for the amount on prior periods have been prepared or presented in this interim financial report.

4 REVENUE AND SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by business lines (services and products). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments.

(a) General hospital services

Revenue from this segment is generated in the PRC and derived from the provision of hospital services, including outpatient and inpatient services.

(b) Hospital management services

Revenue from this segment is generated in the PRC and derived from provision of comprehensive management services, including operation management services, supply chain services and other ancillary services.

(c) Sales of pharmaceutical products

Revenue from this segment is generated in the PRC and is mainly derived from the sales of pharmaceutical products by the Group's retail pharmacies.

The Group assesses the performance of the operating segments based on a measure of earnings before interests, income tax, depreciation and amortisation (“**EBITDA**”), which is measured consistently with the Group's profit/loss before tax except that depreciation, amortisation, finance income and costs and other unallocated expenses and losses are excluded from such measurement.

Segment assets exclude goodwill, financial assets at fair value through profit or loss (“**FVPL**”) and other unallocated head office and corporate assets as these assets are managed on a group basis. Segment liabilities exclude borrowings and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following is an analysis of the Group's revenue and results, and assets and liabilities by reportable segments.

	General hospital services <i>RMB'000</i>	Hospital management services <i>RMB'000</i>	Sales of pharmaceutical products <i>RMB'000</i>	Elimination <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2024						
Segment revenue	651,702	190,080	4,427	(128,055)	1,349	719,503
Inter-segment revenue	—	(128,055)	—	128,055	—	—
Revenue from external customers	<u>651,702</u>	<u>62,025</u>	<u>4,427</u>	<u>—</u>	<u>1,349</u>	<u>719,503</u>
Timing of revenue recognition						
– At a point in time	286,057	54,449	4,427	—	—	344,933
– Over time	365,645	7,576	—	—	1,349	374,570
	<u>651,702</u>	<u>62,025</u>	<u>4,427</u>	<u>—</u>	<u>1,349</u>	<u>719,503</u>
EBITDA	73,841	79,819	498	(3,446)	—	150,712
Depreciation	(20,138)	(1,920)	(18)	—	(377)	(22,453)
Amortisation	(4,681)	(3,895)	—	—	(418)	(8,994)
Finance income, net	(832)	329	(11)	—	(51,846)	(52,360)
Unallocated losses, net					(5,460)	(5,460)
Profit/(loss) before income tax	<u>48,190</u>	<u>74,333</u>	<u>469</u>	<u>(3,446)</u>	<u>(58,101)</u>	<u>61,445</u>
As at 30 June 2024						
Segment assets	839,375	593,877	6,408	(163,523)	471,612	1,747,749
Goodwill	58,495	687,373	—	—	—	745,868
Total assets	<u>897,870</u>	<u>1,281,250</u>	<u>6,408</u>	<u>(163,523)</u>	<u>471,612</u>	<u>2,493,617</u>
Total liabilities	<u>372,159</u>	<u>179,158</u>	<u>2,817</u>	<u>(159,712)</u>	<u>1,486,722</u>	<u>1,881,144</u>

	General hospital services <i>RMB'000</i>	Hospital management services <i>RMB'000</i>	Sales of pharmaceutical products <i>RMB'000</i>	Elimination <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2023						
Segment revenue	676,192	82,945	6,787	(48,093)	–	717,831
Inter-segment revenue	<u>(2,000)</u>	<u>(46,093)</u>	<u>–</u>	<u>48,093</u>	<u>–</u>	<u>–</u>
Revenue from external customers	<u>674,192</u>	<u>36,852</u>	<u>6,787</u>	<u>–</u>	<u>–</u>	<u>717,831</u>
Timing of revenue recognition						
– At a point in time	298,022	27,229	6,787	–	–	332,038
– Over time	<u>376,170</u>	<u>9,623</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>385,793</u>
	<u>674,192</u>	<u>36,852</u>	<u>6,787</u>	<u>–</u>	<u>–</u>	<u>717,831</u>
EBITDA	69,883	44,709	533	(2,130)	–	112,995
Depreciation	(22,873)	(1,601)	(31)	–	(316)	(24,821)
Amortisation	(4,414)	(3,767)	–	–	–	(8,181)
Finance income, net	<u>(434)</u>	<u>159</u>	<u>(10)</u>	<u>–</u>	<u>129,079</u>	<u>128,794</u>
Unallocated losses, net					<u>(7,815)</u>	<u>(7,815)</u>
Profit/(loss) before income tax	<u>42,162</u>	<u>39,500</u>	<u>492</u>	<u>(2,130)</u>	<u>120,948</u>	<u>200,972</u>
As at 31 December 2023						
Segment assets	811,188	588,770	16,236	(134,474)	470,512	1,752,232
Goodwill	<u>58,495</u>	<u>687,373</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>745,868</u>
Total assets	<u>869,683</u>	<u>1,276,143</u>	<u>16,236</u>	<u>(134,474)</u>	<u>470,512</u>	<u>2,498,100</u>
Total liabilities	<u>526,095</u>	<u>189,412</u>	<u>3,222</u>	<u>(134,474)</u>	<u>1,322,642</u>	<u>1,906,897</u>

5 OTHER GAINS AND LOSSES, NET

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants and subsidies	10,179	–
Net fair value gain on financial assets at FVPL	683	1,980
Others	117	(124)
	<u>10,979</u>	<u>1,856</u>

6 INCOME TAX

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax:		
– PRC corporate income tax	37,617	24,666
Deferred income tax	(1,669)	(1,610)
	<u>35,948</u>	<u>23,056</u>

(a) Cayman Islands Income Tax

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

(b) Hong Kong Profits Tax

Hong Kong Profits Tax rate was 16.5% for the period ended 30 June 2024 (six months ended 30 June 2023: 16.5%). No Hong Kong profit tax was provided for as there was no estimated assessable profit that was subject to Hong Kong Profits Tax for the period ended 30 June 2024 and 2023.

(c) PRC Corporate Income Tax (“CIT”)

Subsidiaries established and operating in the PRC are subject to the PRC Corporate Income Tax at the rate of 25% for the six months ended 30 June 2024 (six months ended 30 June 2023: 25%), except for Dazi Honghe Ruixin Medical Technology Co., Ltd. (達孜弘和瑞信醫療科技有限公司) (“**Honghe Ruixin**”) which was subject to a tax rate of 15% for the period ended 30 June 2024 (six months ended 30 June 2023: 15%).

7 (LOSSES)/EARNINGS PER SHARE

(a) Basic (losses)/earnings per share

Basic (losses)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2024 and 2023.

	Six months ended 30 June	
	2024	2023
Total (loss)/profit attributable to owners of the Company (RMB'000)	(18,718)	126,218
Weighted average number of ordinary shares in issue (in '000)	<u>137,115</u>	<u>138,194</u>
Basic (losses)/earnings per share (in RMB)	<u><u>(0.14)</u></u>	<u><u>0.91</u></u>

(b) Diluted losses per share

Diluted losses per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the six months ended 30 June 2024, the Group's potential dilutive ordinary shares are from convertible bonds issued at 5 March 2018 and 7 August 2018. The potential dilutive ordinary shares were not included in the calculation of diluted losses per share as their inclusion would be anti-dilutive. Accordingly, diluted losses per share for the period ended 30 June 2024 is the same as basic losses per share. The calculation of diluted losses per share for the six months ended 30 June 2023 is set out below.

	Six months ended 30 June 2023 <i>RMB'000</i>
Total profit attributable to owners of the Company	126,218
less:	
Net gain on the extension of convertible bonds	222,920
Net fair value losses on convertible bonds	<u>(91,772)</u>
Total loss used to determine diluted losses per share	<u>(4,930)</u>
Weighted average number of ordinary shares in issue (in '000)	138,194
Adjustment for calculation of diluted earnings per share – Convertible bonds (in '000)	<u>64,694</u>
Weighted average number of ordinary shares in issue and potential ordinary shares (in '000)	<u>202,888</u>
Diluted losses per share (in RMB)	<u>(0.02)</u>

8 TRADE RECEIVABLES

	As at 30 June 2024 <i>RMB'000</i>	As at 31 December 2023 <i>RMB'000</i>
Trade receivables	111,893	134,436
Less: loss allowance	<u>(498)</u>	<u>(784)</u>
Trade receivables, net of loss allowance	<u>111,395</u>	<u>133,652</u>

As at 30 June 2024 and 31 December 2023, the ageing analysis, based on invoice date of the trade receivables and net of loss allowance, was as follows:

	As at 30 June 2024 RMB'000	As at 31 December 2023 RMB'000
Within 90 days	109,043	129,112
91 to 180 days	1,506	3,871
181 days to 1 year	846	669
	111,395	133,652

The Group, being a provider of healthcare service to patients, has a highly diversified customer base, without any single customer contributing material revenue. However, the Group has concentrated debtor's portfolio, as majority patients will claim their medical bill from public medical insurance program. The reimbursement from these organisations may take one to twelve months.

9 TRADE PAYABLES

As of the end of the reporting period, the ageing analysis of trade payables, based on invoice date, is as follows:

	As at 30 June 2024 RMB'000	As at 31 December 2023 RMB'000
Within 90 days	110,994	127,353
91 to 180 days	10,008	14,236
181 days to 1 year	4,003	82
Over 1 year	3,997	8,872
	129,002	150,543

10 CONVERTIBLE BONDS

The movements of the convertible bonds are as follows:

	Convertible Bonds <i>RMB'000</i>
As at 1 January 2023	1,026,407
Fair value change	<u>(131,148)</u>
As at 30 June 2023 and 1 July 2023	895,259
Fair value change	<u>42,890</u>
As at 31 December 2023 and 1 January 2024	938,149
Fair value change	<u>51,524</u>
As at 30 June 2024	<u><u>989,673</u></u>

None of convertible bonds was converted into ordinary shares of the Company during the six months ended 30 June 2024.

11 DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: Nil).

BUSINESS REVIEW AND PROSPECTS

In recent years, the Chinese government has vigorously implemented the Healthy China Strategy, promoted the construction of a Healthy China, and introduced a number of industry policies and special implementation plans. In the first half of 2024, the reform of China’s medical and health service system showed a trend of comprehensive intensification. The regulatory documents issued by the National Health Commission were no longer the programmatic guidance documents or medium and long-term initiative plans, but specific measures such as various health industry standards, performance assessment manuals for public hospitals, and construction requirements for Compact County Medical and Health Alliances (緊密型縣域醫療衛生共同體), et cetera. The National Health Commission also emphasised on the promotion of the transformation of medical and health work from “treatment-centered” to “health-centered”, and improved people’s health literacy in a more comprehensive and systematic manner.

In the first half of 2024, the Group aligned with the trend of China’s medical and health service system reform, and continuously improved the management program of medical institutions (the “**Group Hospital(s)**”) that owned, managed, or founded by the Group in a systematic and standardised manner, as well as enhanced business performance and asset quality.

Guiding the Group Hospitals towards standardised and high-quality development

According to the spirit of documents such as the Comprehensive Action Plan for Enhancing the Quality of Healthcare (2023-2025) (《全面提升醫療質量行動計劃(2023-2025年)》) issued by the National Health Commission and other departments, as well as local supporting documents, the Group has guided Group Hospitals to systematically carry out “dual improvement” activities in quality and service. By focusing on medical documentation, surgical quality and safety, and emergency drill plans, et cetera, the Group regularly supervised on-site at hospitals. Through educational training, we regularly conducted training for medical practitioners, and organised four sessions of medical quality and safety series training and the annual clinical comprehensive ability competition to enhance team collaboration and emergency response capabilities. Through a series of measures mentioned above, we aimed to enhance the quality and safety awareness of medical staff, improved the ability to identify and handle medical risks, strengthened the medical risk and patient safety management capabilities of Group Hospitals, and built a solid defence line for medical safety.

The Group has established a specific internal control department, which is responsible for internal audits and risk management, identifying and preventing key risks, and supervising the timely implementation of corrective actions. On 17 May 2024, the National Health Commission and other departments jointly issued the 2024 Key Points for Correcting Malpractices in Medical Purchase and Sales and Medical Services (《2024年糾正醫藥購銷領域和醫療服務中不正之風工作要點》). To prevent and address related risks, the Group continued to intensify the construction of anti-corruption systems and issue the “Anti-Corruption and Anti-Fraud Compliance Guidelines (《反腐敗、反舞弊合規指南》)”, and promoted compliance management against corruption and fraud in Group Hospitals and the Group’s subsidiary pharmaceutical companies through various means such as on-site guidance and online training.

Fully promoting the construction of the group's procurement platform

The group has built its own supply chain management system, integrated resources from advantageous suppliers and reduced procurement costs. Meanwhile, we provided medical equipment, Western medicine, Chinese medicine, Chinese Herbal Medicine and other various medical supplies to Group Hospitals. In the first half of 2024, the Group continued to improve the centralized procurement management system. On one hand, we valued quality control and refined the supplier management mechanism to ensure standardised business operations. On the other hand, we enhanced warehouse management and logistics distribution capabilities to ensure supply timeliness and turnover efficiency. The group's procurement platform has gradually established strategic cooperation relationships with several large domestic and international manufacturers and distributors, which has taken full responsibility for the procurement of major equipment for the Group Hospitals. This platform has achieved centralized supply of drugs and consumables for four Group Hospitals, improved the quality and efficiency of medical supplies management and at the same time, leveraged economies of scale to reduce costs.

Prospects in the second half of this year

In the second half of 2024, the Group will continue to adhere to the strategic approach of strengthening the management and control system, enhance the quality of assets, and explore innovative business models. We will closely monitor the national medical reform requirements and progress, proactively respond to the challenges posed by domestic policies and industry changes, standardise operations, and ensure the sustainable operation of Group Hospitals. We will seek progress while maintaining stability, promote the development of the Group Hospitals in the direction of specialisation and branding, continuously improve the quality and efficiency of medical management and services through informatization construction, and strive to enhance the group's core capabilities and operational efficiency, so as to create greater value returns for all shareholders.

FINANCIAL REVIEW

Results of Operations

During the Reporting Period, our revenue was approximately RMB719.5 million, representing an increase of approximately 0.2% when compared with approximately RMB717.8 million of the Corresponding Period of Previous Year, which was mainly attributable to the increase in the revenue of management services received from hospital.

Our adjusted gross profit was approximately RMB161.8 million for the Reporting Period, excluding the impacts of expenses of share-based awards and depreciation and amortisation of identifiable assets identified in acquisitions, representing an increase of approximately 23.0% when compared with approximately RMB131.6 million for the Corresponding Period of Previous Year. This was mainly attributable to the increase of the proportion of diagnosis and treatment services revenue arising from Yangsi Hospital's business structure adjustment, and the decrease in related cost.

We recorded administrative expenses of approximately RMB49.6 million for the Reporting Period, representing an increase of approximately 0.9% when compared with approximately RMB49.2 million for the Corresponding Period of Previous Year, which was primarily due to an increase in employee benefit of the hospital expenses when compared with the Corresponding Period of Previous Year.

We recorded adjusted operating profit (excluding the impacts of expenses of share-based awards and depreciation and amortisation of identifiable assets identified in acquisitions) of approximately RMB123.0 million for the Reporting Period, representing an increase of approximately RMB39.4 million from approximately RMB83.6 million for the Corresponding Period of Previous Year. This is mainly attributable to the increase of the proportion of diagnosis and treatment services revenue arising from Yangsi Hospital's business and the increase of the government grants.

For the Reporting Period, we have recorded an adjusted net profit of approximately RMB87.3 million, representing an increase of approximately 43.4% when compared to the adjusted net profit of approximately RMB60.9 million of the Corresponding Period of Previous Year. Without taking into account the impact of the adjusted items, such an increase was mainly due to the increase of the proportion of diagnosis and treatment services revenue arising from Yangsi Hospital's business and the increase of the government grants.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2024, our total equity was approximately RMB612.5 million (as at 31 December 2023: approximately RMB591.2 million). As at 30 June 2024, we had current assets of approximately RMB959.5 million (as at 31 December 2023: approximately RMB950.3 million) and current liabilities of approximately RMB1,628.9 million (as at 31 December 2023: approximately RMB1,662.6 million). As at 30 June 2024, our current ratio was approximately 0.59, as compared with approximately 0.57 as at 31 December 2023.

Our current assets increased by approximately RMB9.2 million from approximately RMB950.3 million as at 31 December 2023 to approximately RMB959.5 million as at 30 June 2024, primarily due to an increase in cash and cash equivalents and amounts due from related parties. Our current liabilities decreased by approximately RMB33.7 million from approximately RMB1,662.6 million as at 31 December 2023 to approximately RMB1,628.9 million as at 30 June 2024, primarily due to the decrease in 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 30 June 2024, we had bank borrowings of approximately RMB82.1 million (as at 31 December 2023: approximately RMB82.1 million), and we had cash and cash equivalents of approximately RMB545.1 million (as at 31 December 2023: approximately RMB523.0 million).

As at 30 June 2024 and 31 December 2023, the Group's borrowings were repayable as follows:

	Bank borrowings	
	As at	As at
	30 June	31 December
	2024	2023
	RMB'000	RMB'000
Within 1 year	82,100	82,100

As at 30 June 2024, the net gearing ratio, calculated based on the borrowing balance divided by the total assets, of the Company is approximately 3.3%. The Directors believed that, after taking into account the financial resources available to us, we had sufficient working capital to meet our needs. Save as disclosed in this announcement, as at 30 June 2024, 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 1 January 2024 until 30 June 2024.

CONNECTED TRANSACTION ON EXTENSION OF MATURITY DATE OF CONVERTIBLE BONDS

On 6 June 2023, in accordance with the terms and conditions of the convertible bonds with an aggregate principal amount of HKD468.0 million issued by the Company to Vanguard Glory on 5 March 2018 (the “**Vanguard Glory Convertible Bonds**”), the Company and Vanguard Glory entered into the deed of amendment in relation to the alteration of certain terms of the Vanguard Glory Controvertible Bonds (the “**Vanguard Glory Deed of Amendment**”) (the “**Vanguard Glory Alteration of Terms**”), subject to and effective from fulfilment of the Vanguard Glory Conditions Precedent.

Pursuant to the Vanguard Glory Alteration of Terms, the maturity date of the Vanguard Glory Convertible Bonds shall be extended from 29 December 2023 to 30 September 2025.

Save as revised by the Vanguard Glory Alteration of Terms, all of the terms and conditions of the Vanguard Glory Convertible Bonds remain unchanged and in full force.

On 6 June 2023, in accordance with the terms and conditions of the convertible bonds with an aggregate principal amount of approximately HKD773.9 million issued by the Company to Hony Fund VIII on 7 August 2018 (the “**Hony Fund Convertible Bonds**“), the Company and Hony Fund VIII entered into the deed of amendment in relation to the alteration of certain terms of the Hony Fund Convertible Bonds (the “**Hony Fund Deed of Amendment**”) (the “**Hony Fund Alteration of Terms**”), subject to and effective from fulfilment of the Hony Fund Conditions Precedent.

Pursuant to the Hony Fund Alteration of Terms, the maturity date of the Hony Fund Convertible Bonds shall be extended from 7 August 2023 to 30 September 2025.

Save as revised by the Hony Fund Alteration of Terms, all of the terms and conditions of the Hony Fund Convertible Bonds remain unchanged and in full force.

As at the date of this announcement, the respective principal amount of the Vanguard Glory Convertible Bonds and the Hony Fund Convertible Bonds remains outstanding in full, and Vanguard Glory and Hony Fund VIII has not exercised its respective conversion rights.

At the 2023 Extraordinary General Meeting of the Company convened on 31 July 2023, the Vanguard Glory Deed of Amendment, the Vanguard Glory Alteration of Terms contemplated thereunder, the Hony Fund Deed of Amendment, the Hony Fund Alteration of Terms contemplated thereunder, the Hony Fund Specific Mandate and the Vanguard Glory Specific Mandate have been approved.

Further details, please refer to the announcements of the Company dated 6 June 2023 and 31 July 2023 and the circular of the Company dated 7 July 2023.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As of 30 June 2024, the Group did not have any significant investments or future plans for material investments or capital assets.

EXPOSURE TO FOREIGN EXCHANGE RISK

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

As at 30 June 2024, the Group was exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to USD and HKD.

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

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

PLEDGE OF ASSETS

As at 30 June 2024 and 31 December 2023, Impeccable Success Limited (“**Impeccable Success**”) has pledged its paid-up 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**”) 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 30 June 2024 and 31 December 2023, 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 30 June 2024, the principal amount of the loan balance of Jinhua Hospital was RMB128.0 million.

As at 30 June 2024, the Company has provided a corporate guarantee in respect of the repayment obligation of the outstanding principal amount of up to RMB50.0 million between Jinhua Hospital and Nanyang Commercial Bank (China) Limited, Beijing Branch. As at 30 June 2024, the principal amount of the loan balance of Jinhua Hospital was RMB40.0 million.

Jiande Hospital of Traditional Chinese Medicine Co., Ltd.* (建德中醫院有限公司) (“**Jiande Hospital**”) entered into three one-year loan agreements with Agricultural Bank of China Jiande Branch. As at 30 June 2024, the outstanding amount of the loans was RMB62.1 million. These bank loans were secured by trade receivables held by Jiande Hospital.

On 17 April 2024, Jiande Hospital entered into a one-year loan agreement with Bank of Communications Jiande Branch. As at 30 June 2024, the outstanding amount of this loan was RMB20.0 million. This bank loan was guaranteed by Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd.* (建德大家中醫藥科技有限公司) (“**DJ Pharmaceutical Technology**”).

Save as disclosed herein, as at 30 June 2024, the Group did not have any other pledged assets.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2024.

HUMAN RESOURCES

As at 30 June 2024, we had a total of 1,491 employees (as at 30 June 2023: 1,437). 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 30 June 2024, the total employee benefits expenses (including Directors’ remuneration) were approximately RMB215.1 million (for the six months ended 30 June 2023: approximately RMB209.3 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. As required by PRC laws and regulations, our employees participate in several government-run benefit programs, including but not limited to retirement benefit programs, housing provident fund, medical insurance and other employee social insurance programs. The Company has adopted certain share-based payment schemes for the purpose of, among others, providing incentive and rewards to eligible persons with outstanding performance and contributions to the Group.

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

EVENTS AFTER THE REPORTING PERIOD

The Group had no significant events after 30 June 2024 and up to the date of this announcement.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions as set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix C1 to the Listing Rules. Except for as disclosed below, the Board considers that, during the Reporting Period, the Company has complied with the applicable code provisions set out in the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

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

AUDIT COMMITTEE

The unaudited results and the interim financial information of the Group for the Reporting Period have been reviewed by the Audit Committee. The Audit Committee consists of three independent non-executive Directors, namely Mr. ZHOU Xiangliang (Chairman) and Mr. SHI Luwen, and Mr. DANG Jinxue. The Audit Committee is of the opinion that such financial information complies with applicable accounting standards, the Listing Rules and all other applicable legal requirements.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Save as disclosed in this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

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

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

Hong Kong, 29 August 2024

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

* *For identification purposes only*

Certain figures set out in this announcement have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.