[redacted]

弘和仁愛

Annual Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

E ec e D ec

Mr. Chen Shuai (陳帥) *(Chairman and Acting Chief Executive Officer)*
Mr. Lu Wenzuo (陸文佐)

N -e ec e D ec

Mr. Su Zhiqiang (蘇志強)
Ms. Shi Wenting (石文婷)
Ms. Liu Lu (劉路)
Ms. Wang Nan (王楠)

I de e de N -e ec e D ec

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)*
Mr. Shi Luwen (史錄文)
Ms. Shi Wenting (石文婷)

REMUNERATION COMMITTEE

Mr. Dang Jinxue (党金雪) *(Chairman)*
Mr. Su Zhiqiang (蘇志強)
Mr. Zhou Xiangliang (周向亮)

NOMINATION COMMITTEE

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

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 "**S c E cha ge**")
Stock Code: 3869

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

Hospital Corporation of China Limited
(the "**C a** " and together with its subsidiaries, the "**G** ", " **e**", " " and "us")
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 PIE 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 SUMMARY

CONSOLIDATED RESULTS

	The ea e ded Dece be 31, 2020		The year ended December 31, 2019		The year ended December 31, 2018		The year ended December 31, 2017		The year ended December 31, 2016	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Re e e										

Dear Shareholders,

In June 2020, the Group successfully completed the transition of the Board and the management team. I was appointed as the Chairman and the acting CEO of the Group. Based on the full review, objective analysis and due consideration of the achievements and problems of the previous management during its term, the new management has formulated and defined the new "Three-step" strategy from the perspectives of rebuilding corporate culture, adjusting management and control model, as well as optimising institutional development. Since the new management came on board, the Group adopted the new decision-making process to support the stable operation of all the hospitals owned, managed and founded by the Group (the "**G H a ( )**") . Apart from consistently enhancing the quality of its assets, the Group has also been actively exploring innovative operating models to consistently strengthen the existing business portfolios, thereby striving to become a large technological medical service group.

I. Re e f Re f O e a

The outbreak of the COVID-19 pandemic marked the beginning of 2020. Strict pandemic prevention and control measures brought great shock and challenges to offline medical services. At the same time, more thorough medical reform policies in relation to DRGs and healthcare associations (醫聯體) also had a profound impact on the development trend and competitive landscape of the domestic medical industry. In the first half of 2020, the business results of Group Hospitals underperformed as compared to the corresponding period of the previous year due to the pandemic. As China gradually brought the outbreak under control in the second half of the year, each Group Hospital took initiative to adjust the business portfolios and actively implemented the management and control measures of the Group, which stabilized and improved their operating results.

Throughout 2020, the total revenue of Group Hospitals slightly decreased by only approximately 2% from last year. As compared to the decline of approximately 18% in revenue for the first quarter and approximately 8% in revenue for the first half of the year, the year-on-year contraction showed a steadily narrowing trend. The annual operating revenue of the Group has decreased by approximately 2.8% year-on-year, while the adjusted net profit has grown by approximately 10.4% year-on-year.

II. S a eg c P a a d Ach e e e f he Yea

In June 2020, the Group successfully completed the transition of the management team. Besides maintaining the stable operation of all Group Hospitals, the Group responded to the development of the medical service industry in the new era and adapted to the medical regulatory environment under new medical reform policies. Following the exploration and examination by the general manager’s office, the Group formulated 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”.

A he f e , he G e g he ed he a age e a d c e to further establish standards and rules, so as to optimize its management and control system and rebuild the corporate culture. Relevant tasks were largely completed within the year, which mainly included:

1. **F he c a f g he a age e a d c de .** 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. **O g he a age e ea .** On the group level, the Group successively introduced several senior management members including the Group’s Chief Technology Officer, the Development Director and the Supply Chain Director of the Company. In addition, it assigned two Medical Directors to set up the medical management department, which took charge of managing medical quality and standardizing the diagnosis and treatment system at hospitals. On the hospital level, the Group appointed Mr. Zhang Jiamin and Mr. Wang Jianping as the hospital administrator of Zhejiang Jinhua Guangfu Oncological Hospital (“**J h a H a**”) and Jiande Hospital of Traditional Chinese Medicine Co., Ltd. (“**J a de H a**”) , respectively;

3. **E ab h g he ce e a d b d g echa f h a ad a .** 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 in 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 binding principles for hospital administrators;

4. **B d g a fe a a g e .** Leveraging on external resources from the medical management consultancy industry, the Group successfully organized three advanced training sessions for the hospital operation team 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; and

5. **La ch g he aff ce e che e.** To facilitate team building and motivate the workforce, the Group approved the staff incentive scheme and completed the establishment of trusts thereof in January 2021.

A he ec d e , he G e ha ced he a f a e . Its key tasks included building its own supply chain system and information system and giving full support to the development of the medical service network with Jinhua Hospital as the regional center. Details of the progress are as follows:

1. **B d g he f a e f he G .** Apart from leading the restructuring of the information & technology department, the Chief Technology Officer is also responsible for the overall IT infrastructure construction and digitalization of the Group and the Group Hospitals. While promoting hospital information infrastructure construction and application upgrade at Jinhua Hospital as a pilot project, 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. **E ab h g he cha e f he G .** The Supply Chain Director guided the development of the supply chain system of the Group. The Group has decided on the registered address of the supply chain company and applied for licenses to supply drugs. At the same time, it is planning to build a supply chain system that covers drug inventory management; and

3. **De e g J h a H a a he eg a ce e f he G .** The Group has offered maximum talent, financial and material resources to support Jinhua Hospital. Taking up frontline responsibility in hospital operation management, the medical management

A he h d e , he G e ed a e b e de . Based on the characteristics of medical service development in the new era, the Group will further enrich the existing business mix. It will gradually transform from a medical group that principally engaged in merger, acquisition and 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 and medical waste treatment. 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. **O g he ca a c e f he G .** Based on the review and analysis of the existing capital structure of the Group, the new management team has been actively engaging with, among others, external investment banks and commercial banks to explore possible optimization solutions for its capital structure ever since they took office. This laid a solid foundation for the Group to expand its innovative business; and

2. **Re ea ch g he d ec f b e de a .** The investment department of the Group played a leading role in the in-depth research of the latest development trend in the current medical service industry, thereby exploring potential opportunities for business model innovation in the future. This includes but is not limited to upstream and downstream medical services in the industry chain, internet healthcare, onsite intelligent healthcare, third-party cooperation and empowerment, and construction of the supply chain system for the Group.

III. Pa de c C

In view of the COVID-19 outbreak in early 2020, the Group promptly took responsive measures in a proactive manner and swiftly published the "Notice on Effective Prevention and Control of COVID-19 Pandemic and Proper Provision of Normal Diagnosis and Treatment Services ("關於做好新型冠狀病毒疫情防控，做好日常診療服務有關工作"的通知)". It also organized various pandemic prevention measures at Group Hospitals to keep them in order, which involved the operation of fever clinics, medical treatment, online consultation, promotion of pandemic prevention and supplies sourcing. In particular, a total of 144 employees at Jinhua Hospital volunteered to support the fight against pandemic in Wuhan. According to the requirements of relevant authorities in Jinhua, the hospital sent a number of medical staff to offer diagnosis and treatment in pandemic-stricken areas directly. This demonstrated our employees' willingness to take responsibility and to consider the overall situation. Meanwhile, the Group advocated the resumption of operation and production at Group Hospitals to be carried out in an orderly manner. Taking full precautions against the disease, our medical staff distributed medicines to enterprises, on the streets and in villages, so as to help implement pandemic prevention measures and reduce patients' chances of infection on their way to hospitals. This has gained wide recognition from local governments and the public.

In 2020, Jinhua Hospital was honored as the "Advanced Unit in combating COVID-19 pandemic in Zhejiang Province (浙江抗擊新冠疫情先進單位)". Shanghai Yangsi Hospital ("**Ya g H a**") was awarded "Advanced Socially-run Medical Institution in Pandemic Prevention in Shanghai (上海市社會醫療機構抗擊新冠疫情先進集體)". Many hospital staff also won the "Advanced Individual in COVID-19 Pandemic Prevention (抗擊新冠疫情先進個人)" award. These accolades not only showcased the commitment of the Group and its hospitals to their social reputation and corporate responsibility, but also illustrated the benevolence and professionalism of all our medical staff.

Despite the resurgence of the number of COVID-19 cases in early 2021, the Group and the Group Hospitals already had countermeasures in place. Guided by the pandemic prevention policies promulgated by the national and local governments, we responded to the situation properly with stringent but humane measures as we remained cautious yet optimistic. We have taken our corporate social responsibility as a medical group, and fully demonstrated the commitment of all our staff. I am proud to have them as my colleagues.

IV. O

The COVID-19 pandemic will continue to have an impact on the medical service industry. The

BUSINESS OVERVIEW

B e g

The Group adheres to the "Three-step" development strategy that centers on "strengthening the management and control system, enhancing the quality of assets and exploring new business models". It aims to gradually transform itself from a medical group that principally engaged in merger, acquisition and operation of hospitals into a large medical service technology group. Since the new management came into office, the Group has been adopting the following path of business development and management optimization measures to achieve its strategic goals:

- **S e g he g he a age e a d c e .** The Group's objectives were to further establish standards and rules, refine its management and control system, improve the corporate culture, set up a scientific training system and optimize the incentive and binding mechanism for hospital administrators of all Group Hospitals;

- **E ha c g he a f a e .** Apart from further upgrading the medical service quality of all hospitals, the Group also built the supply chain system, developed the management framework with the informatization system as the fundamental structure to support management, and established the regional medical service network; and

- **E g e b e de .** In the future, the Group will further enrich its business mix by expanding upstream and downstream services in the industry chain, such as ancillary services of the supply chain and medical waste treatment. With a focus on integrated medical services, it will also explore new 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.

B e a

Through new construction or investment and M&A, the Group has a number of medical institutions of different classes in densely populated and economically developed regions in China, which form Class III hospitals with comprehensive strength as regional medical centers, and radiate and drive a number of Class II or Class I hospitals, and each regional medical network further forms a group medical system;

Through the establishment of pharmaceutical distribution and medical device companies, the Group's "centralized procurement center (集中採購中心)" has been using informatization technology to continuously improve procurement efficiency, reduce procurement costs, boost inventory turnover and increase the efficiency of fund utilization, thereby fully realizing the intensive and large-scale advantages of the Group;

With its self-developed informatization system as the fundamental structure to support management, the Group carried out an in-depth study of the increasingly abundant data on its healthcare operations to analyze and explore clinical data, operational data and material data in order to continuously enhance the quality of diagnosis and treatment at hospitals, improve operating efficiency, reduce hospital operating costs and explore the application of big data in healthcare. Based on the advantageous brand disciplines of each Group Hospital, the Group built the "internet hospital (互聯網醫院)" in collaboration with major internet medical platforms for the joint development of offline medical assets. It integrated its internal and external medical resources, established a new online and offline integration model of inter-hospital collaboration, collaboration between doctors and doctor-patient communication, so as to continuously increase the service offering and extend the reach of services of the Group and the Group Hospitals, thereby enriching the business development paths.

INDUSTRY OVERVIEW

Throughout 2020, the COVID-19 pandemic had a great impact on China's medical service industry. Changes in patients' behaEr6.65 0Tr resultedtiena short-term declinstry 20,-ts

- **I e f g he cha ef .** In addition to the nation's bulk procurement of medicines, many provinces and cities procured drugs in bulk through "procurement alliances" or on a standalone basis. In September, the procurement of coronary stent marked the nation's first bulk purchase of high-value consumables. It is expected that the country will increase and expand its bulk procurement in the future. In terms of hospital revenue, the profit margins of medicines and consumables are on the decline, and medical institutions that rely on "supporting the medical industry by the pharmaceutical business (以藥養醫)" face challenges. On the other hand, medical expenses saved from bulk purchases are used to subsidize medical services. Thus, medical institutions with a focus on medical services and academic development will have greater competitive advantages and enjoy more rooms for development; and

- **M e h gh ef ed ca a ce a e .** In parallel to the orderly commencement of the DRGs payment pilot program, the National Healthcare Security Administration issued the Notice on the Publication of Budget for Total Regional Payment on Point-based System and Diagnosis-Intervention Packet Pilot Working Plan (《關於印發區域點數法總額預算和按病種分值付費試點工作方案的通知》) in October, which proposed Diagnosis-Intervention Packet model to be piloted in 71 cities. With its extensive coverage and high flexibility, this payment model will be integral to China's medical insurance audit. The intense development and implementation of the medical insurance payment policy indicate that the medical service industry shall continuously offer valid, reasonable and standardized treatment in compliance with relevant requirements.

As mentioned above, the promulgation of the Medical Promotion Law will offer policy support to and bring more room for the development of socially-run medical institutions. In 2020, the COVID-19 pandemic posed great challenges to the national medical and healthcare service system. As a key player of the industry, socially-run medical institutions overcame the difficulties by adapting to changes and some of the outstanding and leading ones showed strong resilience and vitality. At the same time, medical institutions with refined management capability and high-quality medical service offerings gained further market share as a result of the medical reform policies implemented by the state government, such as the bulk procurement and medical insurance payment policies. In 2021, we will continue to adopt a conscientious and pragmatic approach to develop the medical service market and boost the operating efficiency of existing hospitals. We will also explore medical technology and other emerging fields in search of new markets.

RECENT DEVELOPMENTS

T e	**E e**
May 19, 2020	On May 19, 2020, a loan agreement was entered into between Tibet Dazi Honghe Ruixin Business Management Co., Ltd.* (西藏達孜弘和瑞信企業管理有限公司, an indirect non wholly-owned subsidiary of the Company) (“**T be Da**”) as lender and Zhejiang Jinhua Guangfu Oncological Hospital* (浙江金華廣福腫瘤醫院) (“**J h a H a**”), a hospital managed by the Group, as borrower. Pursuant to the loan agreement, Tibet Dazi has conditionally agreed to grant a loan to Jinhua Hospital, for a term of 90 days from the date of the relevant drawdown of each installment of the loan. The loan amount was RMB45 million, and the loan interest rate is 4.79% per annum which is subject to adjustment according to the applicable benchmark interest rates as published by the People’s Bank of China from time to time. Please refer to the announcement of the Company dated May 19, 2020 for further details.
June 23, 2020	With effect from June 23, 2020, (i) Mr. Shan Guoxin has resigned as an executive Director, the chief executive officer of the Company (“**Ch ef E ec e Off ce**”) , a member of the remuneration committee of the Company (“**Re e a C ee**”) and an authorised representative of the Company (“**A h ed Re e e a e**”) under Rule 3.05 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**L g R e**”) for personal development reasons; (ii) Mr. Zhao John Huan has resigned as a non-executive Director, the chairman of the Board and the chairman of the nomination committee of the Company (“**N a C ee**”) due to work arrangements; and (iii) Mr. Li Peng has resigned as a non-executive Director and a member of the audit committee of the Company (“**A d C ee**”) due to work arrangements. Further, with effect from June 23, 2020, (i) Mr. Su Zhiqiang has been appointed as an executive Director, a member of the Remuneration Committee and an Authorised Representative; (ii) Mr. Chen Shuai has been appointed as a non-executive Director, the chairman of the Board, the acting Chief Executive Officer and the chairman of the Nomination Committee; and (iii) Ms. Shi Wenting has been appointed as a non-executive Director and a member of the Audit Committee.

* *For identification purposes only*

T e	**E e**
November 20, 2020	On November 20, 2020, a loan agreement was entered into between Tibet Honghe Zhiyuan Business Management Co., Ltd.* (西藏弘和志遠企業管理有限公司, a wholly-owned subsidiary of the Company) (“**T be H ghe Zh a**”) as lender and Jinhua Hospital, as borrower. Pursuant to the loan agreement, Tibet Honghe Zhiyuan has conditionally agreed to grant a loan to Jinhua Hospital, for an availability period of three years from the date of the loan agreement and a term of one year from the date of the relevant drawdown of each installment of the loan. The loan amount was RMB100 million, and the loan interest rate is 4.79% per annum which is subject to adjustment according to the applicable benchmark interest rates as published by the People’s Bank of China from time to time. With effect from November 20, 2020, (i) Mr. Chen Shuai, a non-executive Director, has been re-designated as an executive Director; (ii) Mr. Su Zhiqiang, an executive Director, has been re-designated as a non-executive Director; (iii) Mr. Su Zhiqiang has resigned as an Authorised Representative under the Listing Rules due to work arrangements; and (iv) Mr. Chen Shuai has been appointed as an Authorised Representative. Please refer to the announcements of the Company both dated November 20, 2020 for further details.
December 17, 2020	On December 17, 2020, in accordance with the terms and conditions of the convertible bonds with an aggregate principal amount of HK$468,000,000 issued by the Company on March 5, 2018 (the “**Va g a d C e be B d**”), the Company and Vanguard Glory Limited (“**Va g a d G**”) 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 “**A e a f Te**”). 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.

* *For identification purposes only*

Time	**Event**
	The Alteration of Terms was approved by the shareholders of the Company 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.
January 15, 2021	Ms. Kwong Yin Ping Yvonne has tendered her resignation as (i) the company secretary of the Company (the "**Company Secretary**"), (ii) an Authorised Representative; and (iii) a process agent of the Company for accepting on its behalf service of process or notices to be served on the Company in Hong Kong under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and Rule 19.05(2) of the Listing Rules (the "**Process Agent**") with effect from January 15, 2021. Ms. Ho Wing Yan has been appointed as the Company Secretary, the Authorised Representative and the Process Agent with effect from January 15, 2021.
January 18, 2021	The Board has approved the adoption of the share award scheme (the "**Share Award Scheme**") on January 18, 2021. The purposes of the Share Award Scheme are (i) to encourage or facilitate the holding of shares of the Company by the selected eligible participants of the Share Award Scheme (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 Company's shareholders through ownership of shares of the Company. Please refer to the announcement of the Company dated January 18, 2021 for further details.

EVENTS AFTER THE YEAR UNDER REVIEW

Ms. Kwong Yin Ping Yvonne has tendered her resignation as (i) the Company Secretary, (ii) the Authorised Representative under Rule 3.05 of the Listing Rules and (iii) the Process Agent for accepting on the Company's behalf service of process or notices to be served on the Company in Hong Kong under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and Rule 19.05(2) of the Listing Rules with effect from January 15, 2021. Ms. Ho Wing Yan has been appointed as the Company Secretary, the Authorised Representative and the Process Agent with effect from January 15, 2021.

The Board has approved the adoption of the Share Award Scheme on January 18, 2021. Details of the principal terms of the Share Award Scheme are set out in the announcement of the Company dated January 18, 2021.

Save as disclosed above, the Group had no significant events after December 31, 2020 and up to the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Sa e f ha ace ca d c

Revenue from sale of pharmaceutical products was derived from the business of Zhejiang Dajia Medicines Co., Ltd. (“**Da a Med c e**”) and its subsidiary, Honghe (Jinhua) Pharmaceutical Co., Ltd. (“**H ghe J h a**”) , which are indirectly owned as to 70% by Jiande Hexu Enterprise Management Co., Ltd. and are principally engaged in the supply of pharmaceutical products to customers. Revenue from sale of pharmaceutical products decreased by approximately 52.0% from approximately RMB2.2 million in 2019 to approximately RMB1.1 million in 2020, mainly due to a decrease in Dajia Medicines’ and Honghe Jinhua’s income from the supply of pharmaceutical products to customers.

C f e e e

Our cost of revenue decreased by approximately 13.6% from approximately RMB237.0 million in 2019 to approximately RMB204.9 million in 2020. The decrease in costs was mainly attributable to (i) a decrease of approximately RMB24.4 million in cost of inventories; and (ii) a decrease of approximately RMB6.4 million in employee benefit expenses.

Adnclllion iaximatedy eMB1.1 million in 25120. The decrease in costs was mainapenses

O he c e

We recorded other income of approximately RMB3.5 million and approximately RMB4.8 million for the years ended December 31, 2019 and 2020, respectively, representing a year-on-year increase of approximately 39.1%. The increase was mainly attributable to the annual grant of approximately RMB1.9 million received by Jiande Hospital from the People's Government of Jiande city, to support the development of private medical institutions established through social capital contribution.

F a ce c e a d f a ce c

Our finance income decreased by approximately RMB23.7 million from approximately RMB42.1 million in 2019 to approximately RMB18.4 million in 2020, and such decrease was mainly attributable to (i) a decrease of approximately RMB31.5 million in foreign exchange gains in relation to cash and cash equivalents, which was offset by an increase of approximately RMB7.8 million in interest income from demand deposit, term deposit, deposit held at call and loan to a related party, etc.

Our finance costs increased by approximately RMB30.8 million from approximately RMB23.6 million in 2019 to approximately RMB54.4 million in 2020, mainly due to an increase of approximately RMB34.8 million in foreign exchange losses in relation to cash and cash equivalents, which was offset by the decrease in finance expenses in relation to other financial liability at amortized cost of approximately RMB2.3 million and the decrease of approximately RMB1.7 million in interest expenses on bank borrowings.

I c e a c ed / (e e e)

We recorded income tax credit of approximately RMB14.8 million for the year ended December 31, 2020, and income tax expense of approximately RMB26.1 million for the year ended December 31, 2019. The changes of approximately RMB40.9 million was mainly attributable to the decrease of approximately RMB49.3 million in deferred income tax expenses, which was offset by the increase in current income tax expenses of approximately RMB8.4 million.

L f he ea

We recorded a net loss of approximately RMB421.1 million for the year ended December 31, 2020, representing a decrease of approximately RMB590.5 million from the net profit of approximately RMB169.4 million for the corresponding period. Such decrease was mainly due to the impairment losses on goodwill and relevant intangible assets of approximately RMB668.2 million, which was offset by the increase of approximately RMB10.4 million in gains on changes of fair value of convertible bonds in 2020 and the increase of approximately RMB62.2 million in net gains resulting from the extension of convertible bonds.

D c f ce a e f he c da ed ba a ce hee

Cash and cash equivalents

We had cash and cash equivalents of approximately RMB836.6 million and approximately RMB860.7 million as at December 31, 2019 and 2020, respectively. Other than cash flows from operating activities, the increase of approximately RMB24.1 million in 2020 was primarily attributable to (i) proceeds from the redemption of financial assets at fair value through profit or loss of approximately RMB449.2 million; (ii) proceeds from redemption of term deposits over three months of approximately RMB134.4 million; (iii) proceeds from borrowings of approximately RMB57.2 million; and (iv) recovery of approximately RMB15.0 million of receivables for monetary funds with floating rates, offset by (i) payment for the purchase of financial assets at fair value through profit or loss of approximately RMB502.3 million; (ii) repayment of bank loans of approximately RMB129.7 million; and (iii) payments of interests, dividends and withholding tax of approximately RMB43.9 million.

Other receivables, deposits and prepayments

Our other receivables, deposits and prepayments decreased by approximately RMB13.7 million from approximately RMB18.4 million as at December 31, 2019 to approximately RMB4.7 million as at December 31, 2020, primarily due to a decrease of approximately RMB15.0 million in receivables for monetary funds with floating rates.

Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss as at December 31, 2020 amounted to approximately RMB90.7 million, mainly representing monetary funds with floating rates. The monetary funds held by us are low-risk products.

The following table sets out the changes in the monetary funds with floating rates for the year ended December 31, 2020.

	Yea e ded Dece be 31, 2020 *RMB'000*
Opening balance	36,229
Additions	502,320
Settlements	(450,365)
Gains recognised in other gains – net	2,553
C g ba a ce	90,737

The details of monetary funds that we acquired from 10 financial institutions during the year under review are set out below:

F a c a a e a fa a e h gh f	Na e f ea f d	Ba a ce a a Dece be 31, 2020 (c d g d de d c e) *RMB*
Monetary Fund	MinSheng Royal Cash Profit Increase Money Market Fund A (民生加銀現金增利貨幣A)	3,453,211
Monetary Fund	Yinhua Duolibao Money Market Fund B (銀華多利寶B)	22,575,844
Monetary Fund	Southern RiTian Yi Money Market Fund A (南方日添益A)	1,006,246
Monetary Fund	HSBC Jintrust Money Market Fund Class A (滙豐晉信貨幣A)	18,933
Monetary Fund	Franklin Templeton Sealand Daily Income Money Market Fund B (國富日日收益貨幣B)	384,470
Monetary Fund	MANULIFE TEDA Money Market Fund (泰達宏利貨幣市場基金)	5,027,068
Monetary Fund	Aegon-Industrial Monetary Market Securities Investment Fund (興全貨幣市場證券投資基金)	21,775,427
Monetary Fund	Huaan Fuli Cash Fund (華安現金富利投資基金)	25,327,017
Monetary Fund	HSBC Jintrust Money Market Fund Class B (滙豐晉信貨幣基金B類)	7,001,807
Monetary Fund	MANULIFE TEDA Money Market Fund (泰達宏利貨幣市場基金)	1,937,688
Monetary Fund	Agricultural Bank of China Cash Fund B (農業銀行現金寶B)	2,229,004

The financial assets that the Company invested in during the year ended December 31, 2020 are monetary funds with floating rates, which carry lower expected return of principal and risk as compared to stocks or corporate debt issues. These monetary funds focus on short-term securities in the capital markets, and invest in financial instruments such as certificates of deposit and short-term commercial papers with maturities not exceeding one year.

The fundamental objectives of our financial management are safety, liquidity and profitability. In particular, we endeavor to maintain appropriate levels of risk and liquidity while satisfying the capital needs of the Group's operations and strategic developments, with the goal of enhancing the efficiency and profitability on the use of capital. These monetary funds offer liquidity, stable returns and low cost and fees, which allow the Company to meet the redemption needs from time to time in compliance with our financial management principles in managing the Company's idle funds.

Going forward, the Directors consider that it is in the Company's best interest to continue to invest in monetary funds based on our business and operational needs. The Company may deposit the unutilized amount of the net proceeds from the Listing and full exercise of the over-allotment option into short-term demand deposits and money market instruments, as disclosed in the prospectus of the Company dated February 28, 2017 (the "**P ec**").

Accruals, other payables and provisions

Our accruals, other payables and provisions were approximately RMB79.2 million and approximately RMB85.9 million as at December 31, 2019 and 2020, respectively. The accruals, other payables and provisions increased by approximately RMB6.7 million, mainly due to the increase in (i) engineering equipment payables of approximately RMB2.2 million, (ii) medical insurance settlement payables of approximately RMB3.4 million, and (iii) medical insurance turnover fund payables of approximately RMB2.2 million.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2020, our total equity was approximately RMB1,367.2 million (2019: approximately RMB1,817.8 million). As at December 31, 2020, we had current assets of approximately RMB1,265.9 million (2019: approximately RMB1,277.5 million) and current liabilities of approximately RMB481.1 million (2019: approximately RMB492.9 million). As at December 31, 2020, our current ratio was approximately 2.63, as compared with approximately 2.59 as at December 31, 2019.

Our current assets decreased by approximately RMB11.6 million from approximately RMB1,277.5 million as at December 31, 2019 to approximately RMB1,265.9 million as at December 31, 2020, primarily due to a decrease in other receivables, deposits and prepayments of approximately RMB13.6 million. Our current liabilities decreased by approximately RMB11.8 million from approximately RMB492.9 million as at December 31, 2019 to approximately RMB481.1 million as at December 31, 2020, primarily due to a decrease of approximately RMB17.4 million in bank borrowings due within one year.

Our primary uses of cash in 2020 were for working capital, 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. In the year under review, we had net cash generated from operating activities of approximately RMB83.5 million, consisting of approximately RMB191.8 million in net cash inflows generated from our operations before changes in working capital, net cash outflows of approximately RMB64.7 million relating to changes in working capital, cash outflows on income tax paid of approximately RMB43.9 million and interests received of approximately RMB0.3 million. Our net cash inflows generated from operating activities before changes in working capital were primarily attributable to our loss before income tax of approximately RMB435.8 million, adjusted for non-cash and non-operating items, mainly including impairment losses on intangible assets of approximately RMB668.2 million, gains on fair value change arising from the change in value of convertible bonds of approximately RMB73.0 million, net gains on the extension of convertible bonds of approximately RMB62.2 million, foreign exchange losses of approximately RMB34.8 million arising from cash and cash equivalents, financial expenses in relation to other financial liability at amortized cost of approximately RMB6.5 million, impairment losses on financial assets of approximately RMB15.1 million and depreciation of property, plant and equipment, and amortization of intangible assets of approximately RMB42.9 million. Our net cash outflows relating to changes in working capital were primarily attributable to the increase in receivables from related parties of approximately RMB62.7 million and the increase in trade receivables of approximately RMB9.3 million, which were offset by the increase in accruals, other payables and provisions of approximately RMB7.1 million and the increase of trade payables of approximately RMB3.4 million.

In the year under review, we had net cash inflows from investing activities of approximately RMB104.8 million, which primarily comprised proceeds from the redemption of financial assets at fair value through profit or loss of approximately RMB449.2 million, proceeds from redemption of fixed deposits with a term of over three months of approximately RMB134.4 million and recovery of receivables for monetary funds with floating rates of approximately RMB15.0 million, which were offset by payments for financial assets at fair value through profit or loss of approximately RMB502.3 million and payment for property, plant and equipment of approximately RMB9.0 million.

Ca h a d B g

We had cash and cash equivalents of approximately RMB836.6 million and approximately RMB860.7 million as at December 31, 2019 and 2020, respectively. Our borrowings amounted to approximately RMB131.7 million as at December 31, 2020 (as at December 31, 2019: approximately RMB214.4 million). Of our borrowings, approximately RMB91.7 million bear interest at a floating rate with reference to HIBOR plus 360 basic points, approximately RMB3.0 million bear interest at a fixed rate of 4.437%, approximately RMB9.9 million bear interest at a fixed rate of 4.35% and approximately RMB27.1 million bear interest at a fixed rate of 4.30%. The table below sets forth the maturity profile of our borrowings in the years indicated:

	Ba b g	
	2020	**2019**
	RMB'000	*RMB'000*
Within 1 year	**97,309**	114,744
Between 1 and 2 years	**34,386**	62,286
Between 2 and 5 years	**–**	37,372
	131,695	214,402

As at December 31, 2020, the net gearing ratio of the Company was approximately 3.5% (net gearing ratio equals borrowing balance divided by total assets). Our Directors believe that, after taking into account the financial resources available to us, including internally generated funds and the net proceeds from the Listing, we have sufficient working capital for our requirements. As at December 31, 2020, the Group did not have any material contingent liabilities or guarantees.

FUTURE PROSPECTS

In 2021, the top priority of the Group remains to be sustaining the recovery and the steady growth of the businesses of the Group Hospitals while maintaining the management of pandemic prevention and control measures. The Group will fully support the talent recruitment and academic development at its Group Hospitals, push forward the establishment of informatization system and group supply chain system, promote synergy of resources within the systems, and build a preliminary medical service network with Jinhua Hospital as the regional center. Focusing on general medical services, the Group will also continue to explore medical technology and innovative business transformation to roll out businesses in the fields of biotechnology, big data in healthcare and online medical services.

In view of the changes in the medical service industry and the increasingly in-depth medical reform policies on DRGs and healthcare associations (醫聯體), the Group will continue its thorough and systematic research and propose effective response plans to identify the right development pattern and path. The Group will comprehensively upgrade its brand strategy and raise brand awareness through innovative marketing solutions. Targeting the core audience, it will strengthen its reputation in the industry and establish a moat against threats to the brand. It will build an overall brand control system to better support future development strategy of the Company and its participation in brand competition in the industry, thereby gaining key competitive edges of the Company from the brand.

With the "Three-step" development strategy as the guiding framework, the Group will implement operational management and control based on the characteristics of the medical industry. It will enhance the quality of assets and the comprehensive value of the Group Hospitals while providing safe, convenient and dignified medical services to the public, so as to meet their healthcare needs at different stages and levels. By exploring innovative business models and enriching the business mix, the Group aims to transform from a medical group that principally engaged in merger, acquisition and operation of hospitals into a large technological medical service group that is reliable, respectable and excellence-pursuing.

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, 2020 until December 31, 2020.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As of December 31, 2020, 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 December 31, 2020, 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 December 31, 2020, the Group has pledged its assets as security for the Group's and a related party's bank borrowings, details of which are set out in Note 30 and Note 38 to the consolidated financial statements.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended December 31, 2020.

HUMAN RESOURCES

As at December 31, 2020, we had a total of 473 employees (December 31, 2019: 489). 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 year ended December 31, 2020, the total employee benefits expenses (including Directors' remuneration) were approximately RMB110.4 million (2019: approximately RMB122.1 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.

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.

The Board is pleased to present the report of the Directors together with the audited consolidated financial statements of the Group for the year ended December 31, 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The Group is a hospital operation and management company in China, led by a professional team with extensive hospital management experience. The Group is principally engaged in (i) the operation and management of its privately owned hospitals; (ii) the provision of management and consultancy services to three not-for-profit hospitals, i.e. Yangsi Hospital, Cixi Hospital and Jinhua Hospital; and (iii) the wholesale of pharmaceutical products in China.

Segment analysis of the Company for the year ended December 31, 2020 is set out in Note 5 to the consolidated financial statements. A list of the Company's subsidiaries, together with their places of incorporation, principal activities and particulars of their issued shares/registered share capital, is set out in Note 11 to the consolidated financial statements.

A discussion and analysis of the activities as required by Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), including a fair review of the business, particulars of important events affecting the Group that have occurred since the end of the year ended December 31, 2020, and an indication of likely future developments in the Group's business, can be found in the "CEO's Statement", "Management Discussion and Analysis" and "Environmental, Social and Governance Report" sections in this annual report. These discussions form part of this report of the Directors. Further discussions on the principal risks and uncertainties facing the Company, the Company's environmental policies and performance and compliance with relevant laws and regulation are set out on pages 59 to 61 of this report.

Save as disclosed on page 18 of this annual report, there is no significant subsequent event undertaken by the Company or by the Group from January 1, 2021 to the date of this report.

FINANCIAL RESULTS

The results of the Group for the year ended December 31, 2020 are set out in the consolidated statement of comprehensive income on page 112 of this annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the years ended December 31, 2016, 2017, 2018, 2019 and 2020, as set out on page 4 of this annual report, is extracted from the audited consolidated financial statements.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year ended December 31, 2020 are set out in Note 25 to the consolidated financial statements. As of the date of this report, the total share capital of the Company was HK$138,194 divided into 138,194,000 Shares of HK$0.001 each.

FINAL DIVIDEND

As a Cayman Islands company, any dividend recommendation will be at the absolute discretion of the Directors. The Company may declare dividends after taking into account its results of operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, and other factors as the Directors may deem relevant at such time.

PRC laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which may differ from generally accepted accounting principles in other jurisdictions, including IFRS. Some of the Company's subsidiaries in China that are foreign-invested enterprises have set aside part of their net profit as statutory reserves, in accordance with the requirements of relevant PRC laws and the provisions of their respective articles of association. These portions of net profit of the Company's subsidiaries are not available for distribution as cash dividends. Distributions from the Company's subsidiaries may also be restricted if they incur debt or losses, or are subject to any restrictive covenants in bank credit facilities or other agreements that the Company or its subsidiaries may enter into. Since we rely on dividends from our PRC subsidiaries as a source of funding for the payment of dividends, these restrictions may limit or completely prevent us from paying dividends.

Any declaration and payment of dividends, as well as the amount thereof, will be subject to the articles of association of the Company (the “**A c e**”) and the Companies Law of the Cayman Islands (the “**Ca a C a e La**”). Shareholders of the Company may, at general meetings, approve and make any declaration of dividends, which must not exceed the amount recommended by the Directors. No dividend may be declared or paid except out of our profits or reserves set aside from profits at the Directors’

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 December 31, 2020 is set out below:

	Percentage of the total amount	Net proceeds	Utilized as at December 31, 2019	Utilized amount between December 31, 2019 and December 31, 2020	Unutilized amount as at December 31, 2020	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	41.59	9.63	–	–
– 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	17.96	5.32	–	–
– Conducting academic research activities and developing employee training programs with a focus on management training and professional training	4%	18.62	8.75	3.48	6.39	The balance is expected to be fully utilized by the end of 2023
Upgrading and improving our information technology system	7%	32.59	24.02	4.30	4.27	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	432.21	22.73	10.66	

CONVERTIBLE BONDS

Va g a d C e b e B d

In view of the Group's substantial need to fund our future acquisitions, the Company and Vanguard Glory Limited ("**Va g a d G**"), 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 ("**Va g a d C e b e B d**") 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 "**A e a f Te**").

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

H C e b e B d

On May 29, 2018, the Company and Hony Capital Fund VIII (Cayman), L.P. ("**H F d VIII**") entered into a share purchase agreement (the "**Sha e P cha e Ag ee e**") in relation to the sale and purchase of the entire equity interest in Oriental Ally Holdings Limited ("**O e a A**"), 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 ("**I eccab e S cce**"), which in turn directly owns 75% of the equity interest in Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd. ("**Zhe a g H ghe Zh a**") (collectively referred to as the "**Ta ge G**"). 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 "**H C e b e B d**") in the aggregate principal amount

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The unutilized portion of the net proceeds of approximately HK$800 million as at December 31, 2020 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 – Future Prospects" in this annual 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 December 31, 2020 is set out below:

	Pe ce age he a a	**Ne ceed** *HK$ million*	**U ed a** *HK$ million*	**U ed a** *HK$ million*	**E ec ed e e d**
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 December 31, 2020, 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

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D Effec f he C e f he Va g a d C e b e B d , he H C e b e B d a d he LW C e b e B d

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.

S b a a Sha eh de	**A a Dece be 31, 2020**		**I ed a e f c e f he Va g a d C e b e B d , he H C e b e B d a d he LW C e b e B d**	
	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

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

During the year ended December 31, 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

During the year and up to the date of this report, the Directors were:

Executive Directors:

Mr. Shan Guoxin *(Chief Executive Officer) (Note 1)*
Mr. Chen Shuai *(Chairman and Acting Chief Executive Officer) (Note 2)*
Mr. Lu Wenzuo

Non-executive Directors:

Mr. Zhao John Huan *(Chairman) (Note 3)*
Mr. Li Peng *(Note 4)*
Mr. Su Zhiqiang *(Note 5)*
Ms. Shi Wenting *(Note 6)*
Ms. Liu Lu
Ms. Wang Nan

Independent non-executive Directors:

Ms. Chen Xiaohong *(Note 7)*
Mr. Dang Jinxue *(Note 8)*
Mr. Shi Luwen
Mr. Zhou Xiangliang

Notes:

1. Mr. Shan Guoxin resigned as an executive Director and the chief executive officer of the Company (the "**Chief Executive Officer**") on June 23, 2020 due to personal development reasons.

2. Mr. Chen Shuai was appointed as a non-executive Director, the chairman of the Board (the "**Chairman**") and the acting Chief Executive Officer on June 23, 2020 and was re-designated as an executive Director on November 20, 2020.

3. Mr. Zhao John Huan resigned as the Chairman and a non-executive Director on June 23, 2020 due to work arrangements.

4. Mr. Li Peng resigned as a non-executive Director on June 23, 2020 due to work arrangements.

5. Mr. Su Zhiqiang was appointed as an executive Director on June 23, 2020 and was re-designated as a non-executive Director on November 20, 2020.

6. Ms. Shi Wenting was appointed as a non-executive Director on June 23, 2020.

7. Ms. Chen Xiaohong resigned as an independent non-executive Director on March 9, 2020 due to personal health reasons.

8. Mr. Dang Jinxue was appointed as an independent non-executive Director on March 9, 2020.

Biographical details of the Directors are set out in the section headed “Biographies of Directors and Senior Management” on pages 62 to 72 of this annual report.

Mr. Chen Shuai, Mr. Su Zhiqiang and Ms. Shi Wenting shall retire at the forthcoming annual general meeting of the Company (the “**AGM**”) pursuant to the Articles.

Mr. Shi Luwen shall also retire by rotation at the AGM. Ms. Liu Lu and Ms. Wang Nan shall also voluntarily retire at the AGM. Save as Mr. Su Zhiqiang who will not offer himself for re-election at the AGM due to other business commitments, all of the aforementioned retiring Directors, being eligible, will offer themselves for re-election at the AGM.

DISCLOSURE OF DIRECTORS’ INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Changes in the information of Directors required to be disclosed under Rule 13.51B(1) of the Listing Rules are set out below:

Na e f D ec	**De a f cha ge**
Mr. Chen Shuai	Re-designated as an executive Director on November 20, 2020.
Mr. Su Zhiqiang	Re-designated as a non-executive Director on November 20, 2020.
	Resigned as the investment director of the private equity investment department of Hony Capital in November 2020.
	Appointed as the investment director of the strategic investment department of the Alibaba Group Holding Limited (HKEX Stock Code: 9988) in November 2020.
Ms. Liu Lu	Resigned as a director of the Shanghai Huilun Life Sciences & Technology Co., Ltd. in September 2020.

DIRECTORS’ SERVICE CONTRACTS

None of the Directors offering themselves for re-election at the AGM has a service contract with the Company which is not determinable within one year without payment of compensation other than statutory compensation.

DIRECTORS’ INTERESTS IN CONTRACTS OF SIGNIFICANCE AND COMPE 7(M 5 T 0

As of December 31, 2020, none of the Directors was interested in any businesses other than our business which competes or is likely to compete with our business, either directly or indirectly or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in this report, at no time during the year ended December 31, 2020 did the Company or any of its subsidiaries enter into any contract of significance with a controlling shareholder of the Company or any of its subsidiaries, or any contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries.

CONTINUING CONNECTED TRANSACTIONS

On June 3, 2019, Jiande Hospital, an indirect non-wholly owned subsidiary of the Company, entered into the following agreements which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules:

(i) a medicine procurement agreement (“**Med c e P c e e Ag ee e**”) with Zhejiang Zhongyouli Medicines Co., Ltd. (浙江中友力醫藥有限公司) (“

Zhejiang Xinxiangli Investment Co., Ltd. (浙江新祥利投資有限公司) ("**X ag l e e**") is a substantial shareholder of Jiande Hospital, which is an indirect non-wholly owned subsidiary of the Company. Hence, Xinxiangli Investment is a connected person of the Company. Zhejiang Zhongyouli and Zhejiang Dajia are subsidiaries of Xinxiangli Investment and are therefore connected persons of the Company under the Listing Rules. Therefore the transactions contemplated under the Medicine Procurement Agreement and the Medical Consumables and Equipment Procurement Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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Annual caps for the Medicine Procurement Agreement

The annual caps in respect of the transactions contemplated under the Medicine Procurement Agreement for each of the three financial years ending December 31, 2019, 2020 and 2021 are expected to be RMB50 million for each year.

Annual caps for the Medical Consumables and Equipment Procurement Agreement

The annual caps in respect of the transactions contemplated under the Medical Consumables and Equipment Procurement Agreement for each of the three financial years ending December 31, 2021 are expected to be RMB7 million, RMB8 million and RMB9 million, respectively.

Historical transaction amounts

During the year ended December 31, 2020, the cost of purchasing medicines, medical consumables and medical equipment incurred by the Group pursuant to the Medicine Procurement Agreement and the Medical Consumables and Equipment Procurement Agreement amounted to RMB23,165,000, comprising (i) approximately RMB17,510,000 paid to Zhejiang Zhongyouli for the purchase of medicines; and (ii) approximately RMB5,655,000 paid to Zhejiang Dajia for the purchase of medical consumables and equipment. The actual amounts paid by the Group to Zhejiang Zhongyouli and Zhejiang Dajia under the Medicine Procurement Agreement and the Medical Consumables and Equipment Procurement Agreement, respectively, did not exceed the above-mentioned annual caps approved by the Board.

I e a c ced e

For the above continuing connected transactions, the procurement department of the Group has in place the following internal control procedures to ensure that the pricing terms offered by Zhejiang Zhongyouli and Zhejiang Dajia reflect the fair market prices of similar or related products:

(i) conducting quarterly reviews of the guidance or reference prices available on purchasing platforms in Zhejiang province;

(ii) comparing, on a quarterly basis, procurement prices of medicines and medical consumables or equipment offered to Jiande Hospital by Zhejiang Zhongyouli and Zhejiang Dajia, against the procurement prices of similar or related products offered to other hospitals managed or founded by the Group; and

(iii) seeking quotations for similar medicines and medical consumables or equipment offered by independent third party suppliers from time to time depending on market price adjustments and anticipated changes in pricing terms within the industry.

C f a f D ec e ec f c g c ec ed a ac

The independent non-executive Directors have reviewed the continuing connected transactions of the Company and confirmed that the transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company confirms that it has complied with the reporting and annual review requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions set out above.

The Directors, including the independent non-executive Directors, consider that the continuing connected transactions and the annual caps set out above are fair and reasonable, and that such transactions have been entered into and will be carried out in the ordinary and usual course of business of the Group, are on normal or better commercial terms, and are in the interests of the shareholders of the Company as a whole.

A d ’ e c g c ec ed a ac

The Company’s auditor was engaged to report on the Group’s continuing connected transactions as disclosed above in accordance with the Hong Kong Standard on Assurance Engagement 3000 (Revised) and the Assurance Engagements other than Audits or Reviews of Historical Financial Information, and with reference to Practice Note 740, Auditor’s Letter on Continuing Connected

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

As at December 31, 2020, the interests or short positions of the 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 (“**SFO**”)) (i) which were required 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) which were required, under section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (iii) which were required under the Model Code for Securities Transactions by Directors of Listed Issuers (the “**M de C de**”) as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

L g he ha e a d de g ha e f he C a

Na e f D ec	**Ca ac /Na e f e e**	**N be f ha e de g ha e f he C a**	**A ^ a e e ce age f ha eh d g e e** (2)
Ms. Liu Lu	Interest of 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) (“**A h Zh g’a** ”). Anhui Zhong

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

As of December 31, 2020, 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 underlying shares of the Company which were required 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:

Na e f ha eh de	Ca ac /Na e f e e	N be f ha e de g ha e f he C a	A a e e ce age f ha eh d g e e[7]
Vanguard Glory[1]	Beneficial owner	123,000,000	89.01%
Hony Capital Fund V, L.P.[2]	Interest of controlled corporation	123,000,000	89.01%
Hony Capital Fund V GP, L.P.[2]	Interest of controlled corporation	123,000,000	89.01%
Hony Capital Fund V GP Limited[2]	Interest of 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%

Notes:

(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 December 31, 2020. 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 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 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 December 31, 2020. For further details, please refer to the section headed "Convertible Bonds" in this report.

(7) As of December 31, 2020, the total number of issued shares of the Company was 138,194,000.

SHARE-BASED PAYMENT SCHEMES

Save as disclosed below and under Note 26 to the consolidated financial statements, the Company does not have any other share option schemes.

(a) **Sha e S b c Ag ee e**

For the benefit and long-term development of the Group, on March 31, 2016, the Company entered into a share subscription agreement (the "**Sha e S b c Ag ee e**") with certain members of the management (collectively, the "**Ma age e S b c be**" and each a "**Ma age e S b c be**"), 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 "**A e d e Ag ee e**").

Pursuant to the Share Subscription Agreement, the Company allotted and issued 300 new shares ("**S b c Sha e**") 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 "**P Bac C de a**"). 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 "**F Ba ch Sha e O**") or 24 months (the "**Sec d Ba ch Sha e O**") 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 year ended December 31, 2020 (2019: RMB311,000).

(b) P e-IPO Sha e A ec a R gh Sche e

On November 28, 2016, the Board approved a share appreciation rights scheme prior to the initial public offering of the Company (the "**P e-IPO SAR Sche e**") which enables the Company to grant share appreciation rights to certain members of management (collectively referred to as the "**P e-IPO SAR G a ee** "). 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.

The share-based compensation expense related to the Pre-IPO SARs Scheme of RMB990,000 were derecognized as "cost of revenue" for the year ended December 31, 2020 (2019: RMB2,862,000 were derecognized as "cost of revenue").

(c) Se ce C ac h M . L We

Pursuant to a service contract entered into between New Pride Holdings Limited ("**Ne P de**") and Mr. Lu Wenzuo (the "**Se ce C ac** "), New Pride conditionally granted the following awards to Mr. Lu Wenzuo if he could work for Weikang Investment Management Co., Ltd. ("**We a g I e e** ") and provide hospital management services to Yangsi Hospital as the hospital administrator until December 31, 2017:

(i) Certain share awards (the "**Sha e A a d** ") to acquire 1% of the equity interest in each of Weikang Investment and Tibet Dazi Honghe Ruixin Business Management Co., Ltd. ("**H ghe R** ") 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 ("**M . L ' SAR** ") 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 year ended December 31, 2020 (2019: RMB277,000 were derecognized as "cost of revenue").

(d) **Sha e I ce e Sche e**

On October 24, 2017, Vanguard Glory entered into a share incentive scheme (the "**Sha e I ce e Sche e**") with certain members of management (collectively referred to as the "**Sha e I ce e G a ee** and each a "**Sha e I ce e G a ee**"). 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 RMB1,392,000 were recognized as 'cost of revenue' for the year ended December 31, 2020 (2019: RMB5,182,000).

(e) **P -IPO Sha e A ec a R gh Sche e**

We adopted a post-IPO share appreciation rights scheme (the "**P -IPO SAR Sche e**") on December 13, 2016 to enable the Company to grant post-IPO share appreciation rights (the "**P -IPO SAR** ") 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 "**P -IPO SAR E g b e**

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.

EQUITY-LINKED AGREEMENTS

Save for the share-based payment schemes as set out above and the convertible bonds issued by the Company as disclosed in the section headed "Convertible Bonds" in this report, no equity-linked agreement that would or might result in the Company issuing shares, or requiring the Company to enter into an agreement that would or might result in the Company issuing shares, was entered into by the Company during the year ended December 31, 2020 or subsisted at the end of 2020.

DONATIONS

During the year ended December 31, 2020, donations for charity or other purposes made by the Group amounted to RMB0.00 million (2019: approximately RMB2.0 million).

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

Details of compliance by the controlling shareholders of the Company with the deed of non-competition entered into with the Company on December 13, 2016 is set out in the "Corporate Governance Report" of this annual report.

MINIMUM PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors, as of the date of this report, the Company has maintained the prescribed public float as approved by the Stock Exchange since the Listing Date.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the laws of the Cayman Islands (being the place of incorporation of the Company) or under the Articles which would require the Company to offer new shares on a pro-rata basis to its existing shareholders.

EMOLUMENT POLICY AND SENIOR MANAGEMENT'S EMOLUMENTS

The Directors' fees are subject to approval by the shareholders of the Company at general meetings. Their emoluments are determined by the Board with reference to factors such as Directors' duties, responsibilities and performance and the results of the Group.

The five individuals whose remuneration was the highest in the Group for the year ended December 31, 2020 included two Directors and three members of the senior management.

Details of the remuneration of the five highest paid individuals and each of the Directors for the year ended December 31, 2020 are set out in Note 9 and Note 41 to the consolidated financial statements, respectively. None of the Directors has agreed to waive any emoluments for the year ended December 31, 2020.

The Group has adopted certain share-based payment schemes for the purpose of, among others, providing additional incentive for the employees of the Group to achieve performance goals. Details have been set out in the section headed "SHARE-BASED PAYMENT SCHEMES" in the Report of the Directors.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or a substantial part of the business of the Company were entered into or existed during the year ended December 31, 2020.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in his/her favor, or in which he/she is acquitted. Such permitted indemnity provision was in force throughout the year ended December 31, 2020 and up to the date of this report.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognizes the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents occurred during the Reporting Period under review.

The Group maintains cooperation relationships with suppliers to meet our customers' needs in an efficient and effective manner. The departments work closely to make sure the tendering and procurement process is conducted in an open, fair and just manner.

Our major suppliers are generally manufacturers of pharmaceutical products, and had business relationship with the Group for over five years on average. Our largest supplier is headquartered in Zhejiang province, China and engaged in the wholesale and retail of pharmaceuticals and medical devices. The credit period from the major suppliers is 90 to 365 days. The payables were usually settled within the credit period.

Details of the trade and bills payables of the Group as at December 31, 2020 are set out in note 29 to the financial statements. Up to the date of this report, approximately 84% of the trade and bills payable to the major suppliers has been settled.

The principal activities of the Group are provision of hospital management services and general hospital services and wholesale of pharmaceutical products which rely on, among other things, sufficient supply of the pharmaceutical products. The Company is subject to price fluctuation of the pharmaceutical products and could face shortage in supply of pharmaceutical products. To mitigate the risk, the Company has estimated certain periods of the material usages and maintained a safe inventory level. The Company has also developed business relationships with more suppliers for specific pharmaceutical products in order to diversify the risk of relying on single supplier.

During the Reporting Period, the Group did not have any significant disputes with our major suppliers.

Our major customers include the Group Hospitals. The years of business relationship of these major customers with the Group ranged between nil and six years and the credit terms granted to them ranged from 90 to 365 days. Details of the trade and bills receivables of the Group as at December 31, 2020 are set out in note 18 to the financial statements. Up to the date of this report, approximately 78% of the trade and bills receivables from the major customers has been settled.

Our service focuses on improving patients' health condition, and patients have varying expectations on the magnitude of improvement that may result from our services. If we fail to properly manage patients' expectations of the results from the services provided by the Group Hospitals, patients may in turn be dissatisfied with the results of the service provided by the Group Hospitals, and a disappointed client may, among others, complain to the media and file legal claims against the Group Hospitals. Such actions from patients may have a material adverse effect on our reputation, business, and results of operations, financial condition and prospects.

During the Reporting Period, the Group has not experienced any major disruption of business due to material delay or default of payment by our customers due to their financial difficulties. The Group did not have any material dispute with our customers.

MAJOR CUSTOMERS AND SUPPLIERS

In 2020, Yangsi Hospital, Cixi Hospital and Jinhua Hospital were our largest customers, and the Group received management service fees from Yangsi Hospital, Cixi Hospital and Jinhua Hospital in respect of the provision of management and consultancy services to them. In 2020, the management service fees recognised from them (net of value-added tax) were approximately RMB226.9 million (2019: approximately RMB212.2 million), accounting for approximately 56.8% (2019: approximately 51.6%) of our revenue, and the management service fees recognised from the largest customer accounted for

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year ended December 31, 2020 was the Company or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

RISK MANAGEMENT

Ma e R

We conduct our business in China, from where we derive our revenue. The functional currency for all of our operating subsidiaries is RMB. In Hong Kong, where the currency is HKD, we accept certain exchange rate risks to meet investment and financing business needs. We are not exposed to significant commodity price risk. The wealth management products we held in 2020 were classified as financial assets at fair value through profit and loss. In view of the short maturity and relatively stable prices of those wealth management products, we assess its price risk to be low. Borrowings obtained at variable rates expose us to cash flow interest rate risk, which may be offset in part by cash and wealth management products held at variable rates, and also expose us to fair value interest rate risk. As of December 31, 2020, our borrowings amounted to approximately RMB131.7 million. The interest rates of our loans which bear floating rates are linked to HIBOR. In order to meet daily business capital requirements, we accept the interest rate risk within HIBOR's fluctuation.

C ed

Credit risk mainly arises from cash and cash equivalents, term deposit, financial assets at fair value through profit or loss ("**FVPL**"), amounts due from related parties, and trade and other receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets.

The credit risk of cash and cash equivalents, term deposit, financial assets at FVPL of the Company is limited because the counterparties are mainly state-owned or public listed commercial banks which are high-credit-quality financial institutions in the PRC.

The trade receivables of the Group are subject to the expected credit loss model. While financial assets at FVPL are also subject to the impairment requirements of IFRS 9, no impairment was identified. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

ENVIRONMENTAL POLICIES AND PERFORMANCE

It is our corporate and social responsibility to promote sustainable development and foster an environmentally-friendly environment. The Group has implemented internal policies and procedures with respect to environmental protection at the Group Hospitals and has engaged qualified service providers to dispose of our Group Hospitals' medical waste. The Group has established a hospital infection management committee that sets out annual work plans and carries out supervision on preventing hospital infections. For the year ended December 31, 2020, the Group incurred approximately RMB335,160 (2019: approximately RMB425,248) in environmental compliance costs. The Group integrates international standards, national regulations and industry standards into its medical services, and procurement and business management activities. The specific tasks are performed by the Group's subsidiaries and medical institutions. The Group's functional departments are connected to ensure that daily operations are in line with the environmental, social and governance regulations. During the year ended December 31, 2020 and up to the date of this report, none of our management received reports concerning environmental claims, lawsuits, penalties or administrative sanctions.

COMPLIANCE WITH LAWS AND REGULATIONS

Our operations are mainly carried out by the Company's subsidiaries in China while the Company's shares are listed on the Stock Exchange. Our operations shall comply with relevant laws and regulations in China, Hong Kong and the Cayman Islands. During the year ended December 31, 2020 and up to the date of this report, the Group has complied with all the relevant laws and regulations in China, Hong Kong and the Cayman Islands in all material respects.

AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2020 have been audited by PricewaterhouseCoopers, who will retire at the conclusion of the AGM and offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the AGM. The Company has not changed its auditor during any of the past three years.

On behalf of the Board

Che Sh a
Chairman and Acting Chief Executive Officer

Hong Kong
March 30, 2021

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Che Sh a (陳帥)

Chairman and Acting Chief Executive Officer

Mr. Chen, aged 47, was appointed as a non-executive Director, the Chairman of the Board and the acting Chief Executive Officer of the Company in June 2020 and was re-designated as an executive Director on November 20, 2020. Mr. Chen has extensive experience in investment management, supplier management and retail business. He joined Hony Capital (a series of private equity investment funds, together with their respective management companies/general partners, "**H Ca a**") in 2003 and has served as a managing director of Hony Capital since 2011. Mr. Chen also currently serves as the deputy general manager of the private equity investment department and a member of the private equity business steering committee of Hony Capital, as well as general manager of Hony Capital's Shanghai platform. Prior to joining Hony Capital, Mr. Chen was the senior financial manager of Wumart Stores, Inc., general manager of the vendor management department of Beijing Jiahe Group (北京家和集團), and senior investment manager of the investment management department and urban strategic circulation department of D'Long International Strategic Investment Company.

Mr. Chen is currently a non-executive director of China Rongzhong Financial Holdings Company Limited (HKEX Stock Code: 3963), a non-executive director of Century Ginwa Retail Holdings Limited (HKEX Stock Code: 162) and a director of Shanghai Chengtou Holding Co., Ltd. (Shanghai Stock Exchange Stock Code: 600649). He was a director of Shanghai Environment Group Co., Ltd. (Shanghai Stock Exchange Stock Code: 601200) from February 2017 to September 2019. Mr. Chen is also a member of the 11th Finance Sector Youth Union (青聯金融界別) of Shanghai and the 7th Merger, Acquisition and Reorganization Committee (併購重組委) of the China Securities Regulatory Commission.

Mr. Chen obtained his bachelor's degree in economics from Beijing Forestry University in 1997, and a Master of Business Administration from the China Europe International Business School in 2010.

L We (陸文佐)

Executive Director

Mr. Lu, aged 75, is an executive Director of the Company and was appointed as a Director on December 16, 2015. Mr. Lu is responsible for the overall hospital operation and management of Yangsi Hospital. He joined our Group in December 2003. He currently serves as a director of Weikang Investment and also held the position of hospital administrator of Yangsi Hospital upon its establishment. As the hospital administrator of Yangsi Hospital, Mr. Lu is primarily responsible for the overall management and operations of Yangsi Hospital. Mr. Lu has significant decision-making authority in the administrative matters of Yangsi Hospital, including decision-making authority in daily operations, hiring and promotion of personnel and remuneration. Mr. Lu is also responsible for the implementation of plans and the financial auditing of Yangsi Hospital. Furthermore, Mr. Lu is

S Zh a g (蘇志強)

Non-executive Director

Mr. Su, aged 37, is an executive Director of the Company since June 2020 and was re-designated as a non-executive Director on November 20, 2020. Mr. Su currently serves as the investment director of the strategic investment department of the Alibaba Group Holding Limited (HKEX Stock Code: 9988), with a focus on investment in medical and healthcare related fields. Prior to joining the Alibaba Group, Mr. Su worked in the investment management department of China Minmetals Corporation from 2009 to 2011 and in the investment department of CITIC Private Equity Funds Management Co., Ltd. from 2011 to 2013. Mr. Su subsequently served as an investment director at Sino-Rock Investment Management Company Limited, which is affiliated to China Cinda Asset Management Co., Ltd. (HKEX Stock Code: 1359), from 2014 to 2017. Mr. Su subsequently worked in Hony Capital from 2017 to 2020 and served as the investment director of the private equity investment department.

Mr. Su obtained his bachelor's degree in financial engineering from Shandong University in June 2006, and a master's degree in finance from the Central University of Finance and Economics in June 2009.

Sh We g (石文婷)

Non-executive Director

Ms. Shi, aged 32, was appointed as a non-executive Director of the Company on June 23, 2020. Ms. Shi is currently the senior investment manager in the consumption and advanced manufacturing investment department of Legend Holdings Corporation (HKEX Stock Code: 3396) ("**Lege d H d g**"). Ms. Shi joined Legend Holdings in 2016 and has served as the investment manager of the healthcare service investment department, investment manager and senior investment manager of the innovative consumption and services investment department, and senior investment manager of the consumption and advanced manufacturing investment department. Prior to joining Legend Holdings, Ms. Shi served as an analyst of the investment banking department of First Capital Investment Banking Co., Ltd. (formerly known as J.P. Morgan First Capital Securities Co., Ltd.).

Ms. Shi obtained her bachelor's degree in business administration and master's degree in accounting from Tsinghua University in 2011 and 2013, respectively.

L L (劉路)

Non-executive Director

Ms. Liu Lu (劉路), aged 47, was appointed as a non-executive Director of the Company on May 26, 2017. Ms. Liu is mainly responsible for overseeing the corporate development and strategic planning of our Group. From November 2008 to March 2015, Ms. Liu served as an assistant to the general manager and subsequently a deputy general manager at Anhui Venture Capital Investment Co., Ltd. (安徽省創業投資有限公司). From March 2015 to February 2016, Ms. Liu was a deputy general manager at Anhui Hi-Tech Industry Investment Co., Ltd. (安徽省高新技術產業投資公司). Since December 2015, Ms. Liu has been the general manager of Anhui Zhong'an Health Investment Management Co., Ltd. (安徽中安健康投資管理有限公司). She currently serves as a director of multiple companies, including Anhui Fengshou Investment Co., Ltd. (安徽豐收投資有限公司) and Anhui Sunhere Pharmaceutical Excipients Co., Ltd. (安徽山河藥用輔料股份有限公司), a company listed on the Shenzhen Stock Exchange (Shenzhen Stock Exchange Stock Code: 300452). For directorships held by Ms. Liu in substantial shareholders of the Company within the meaning of Part XV of the SFO, please refer to the section headed "Report of the Directors – Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company" in this annual report.

Ms. Liu obtained her bachelor's degree and master's degree in biology from Hebei University (河北大學) in June 1994 and from Nankai University (南開大學) in June 1997, respectively.

Wa g Na (王楠)

Non-executive Director

Ms. Wang Nan (王楠), aged 44, was appointed as a non-executive Director of the Company on May 26, 2017. Ms. Wang is mainly responsible for overseeing the corporate development and strategic planning of our Group. Since August 1995, Ms. Wang has been serving in Neusoft Corporation (東軟集團股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code 600718), where she holds various positions, including the head of the mobile internet division, a deputy director of the advanced automotive electronic technology research center and the general manager of the strategic alliance and international business development division. Ms. Wang has been serving as a senior vice president and the secretary to the board of directors at Neusoft Corporation since May 2011 and December 2011, respectively.

Ms. Wang obtained her Doctor of Philosophy degree in computer applications from Northeastern University (東北大學) in China in July 2009.

Da g J e (党金雪)

Independent non-executive Director

Mr. Dang Jinxue (党金雪), aged 66, was appointed as an independent non-executive Director on March 9, 2020. He has extensive experience as a hospital director, has outstanding ability in handling all aspects of hospital development and management, and also has in-depth knowledge of the medical capital market. Mr. Dang served as the dean of sales of Xijing Hospital (西京醫院) from December 2003 to 2010, and the dean of Weinan Economic Development Zone People's Hospital (private) (渭南經開區人民醫院(民營)) from 2011 to 2014. He served as the dean of Xi'an Chang'an Hospital (private) (西安長安醫院(民營)) from July 2013 to December 2016 and the medical director of Xi'an Xin Chang'an Medical Investment Company Limited (西安新長安醫療投資有限公司) from January 2017 to January 2018. Since March 2018 and up to the date of this report, Mr. Dang has been serving as the deputy general manager of Beijing Kangjia Yongjian Medical Investment Management Company Limited (北京康嘉永健醫療投資管理有限公司) and since August 2019, he has been serving as the dean of preparation of Yulin Rehabilitation Hospital (Youfang Hospital) (榆林康復醫院(友芳醫院)).

Mr. Dang graduated from the military medical department of the Fourth Military Medical University (第四軍醫大學軍醫系) in 1984 and joined the Department of Psychology of Shaanxi Normal University (陝西師範大學) as a guest researcher in 2002. Mr. Dang previously served as the leader of the rating review team of Shaanxi Provincial Hospital (陝西省醫院) and an expert of the Shaanxi Provincial Rural Cooperative Medical Technical Guidance Group (陝西省農村合作醫療技術指導組) from 2006 to 2010. He is currently a registered medical practitioner.

Sh L e (史錄文)

Independent non-executive Director

Mr. Shi Luwen (史錄文), aged 57, was appointed as an independent non-executive Director on December 13, 2016 with effect from the Listing Date. Mr. Shi has served as a professor of the Department of Pharmacy Administration and Clinical Pharmacy of Peking University School of Pharmaceutical Sciences (北京大學藥學院) since 2000 and as the director of the International Research Center for Medical Administration of Peking University (北京大學醫藥管理國際研究中心) since 2002. Mr. Shi currently holds positions in various organizations, including those set out below:

Na e f ga a	**P**
Medicine Policy Professional Committee of China Pharmaceutical Industry Research and Development Association (中國藥促會藥物政策專委會)	Vice chairman
Pharmaceutical Affairs Management Commission of Chinese Pharmaceutical Association (中國藥學會藥事管理專委會)	Committee member
Pharmacoeconomics Expert Committee of Chinese Research Hospital Association (中國研究型醫院學會藥物經濟學專業委員會)	Chairman
Rare Disease Branch of Beijing Medical Association (北京醫學會罕見病分會)	Vice chairman
Paediatrics Committee of Chinese Research Hospital Association (中國研究型醫院學會兒科專業委會)	Vice chairman
Pharmaceuticals Price and Tender Procurement Guidance Center of National Healthcare Security Administration (國家醫療保障局醫藥價格和招標採購指導中心)	Member of the expert panel
Expert Committee of National Food and Drug Administration for Consistency Evaluation on Quality and Efficacy of Generic Drugs (國家食品藥品監督總局仿製藥質量和療效一致性評價專家委員會)	Committee member
Medical and Health System Reform Intensifying Expert Advisory Panel of the Ministry of Health of the PRC (中國衛生部深化醫藥衛生體制改革專家諮詢組)	

Zh X a g a g (周向亮)

Independent non-executive Director

Mr. Zhou Xiangliang (周向亮), aged 40, was appointed as an independent non-executive Director on December 13, 2016 with effect from the Listing Date. Mr. Zhou has served as the chief financial officer of Beijing Science Technology Co., Ltd. (北京中環信科科技股份有限公司) since July 2010 and has also held the position of board secretary since August 2011. Prior to working in Beijing Science Technology Co., Ltd., Mr. Zhou worked as a consultant in KPMG Huazhen LLP.

Mr. Zhou obtained his bachelor's degree in management from the Central University of Finance and Economics (中央財經大學) in China in June 2003. He was qualified as a Chinese Certified Public Accountant (中國註冊會計師) by the Beijing Institute of Certified Public Accountants (北京註冊會計師協會) in July 2007 and as a board secretary by the Shenzhen Stock Exchange in November 2012. He has served as the manager of Tianjin Hexinyuan Investment Company (天津和信源投資公司) since July 2018.

SENIOR MANAGEMENT

H a g Me a g (黃美良)

Deputy managing director of the Company

Mr. Huang Meiliang (黃美良), aged 55, was appointed as a deputy managing director of the Company in January 2021. He is primarily responsible for supervising the Personnel and Administration Department, supply chain management and information construction of the Group. Mr. Huang has more than 26 years of experience in medical administration. He joined the Group in December 2017 and served as the chief medical officer and was later promoted to be a deputy managing director of the Group. Prior to joining the Group, Mr. Huang served as the director of healthcare office since March 2000, the director of medical affairs department since March 2007, and an executive vice hospital administrator since March 2012 of Chinese People's Liberation Army Air Force General Hospital (中國人民解放軍空軍總醫院). From 1992 to February 2000, Mr. Huang was an orthopedist at the Air Force Beijing Hospital (空軍北京醫院), where he later served as medical assistant and deputy director of the medical affairs department.

Mr. Huang obtained his master's degree in public health from the Third Military Medical University (第三軍醫大學) in December 2010.

Zha g R (章睿)

Deputy general manager

Ms. Zhang Rui (章睿), aged 44, was appointed as a deputy general manager of the Company in December 2020. She is primarily responsible for industry policy research and analysis, and disease cost digitalization research and application. She joined the Group as the Chief Financial Officer of the Company in September 2019. Prior to joining the Group, Ms. Zhang was an audit manager at Deloitte Touche Tohmatsu, where she accumulated nearly 8 years of experience and was mainly responsible for the overseas listing audit of domestic companies in the medical industry. Ms. Zhang Rui has been the financial controller and the compliance application and full-time director of Gem Flower Healthcare Investment Holdings Group Co., Ltd. since 2017. She has extensive practical experience in the reformation, mergers and acquisitions, reorganisation and listings of medical institutions.

Ms. Zhang obtained her master's degree in applied finance from Macquarie University in Australia in 2016. She has been a member of the Chinese Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants and the Institute of Certified Management Accountants since 2004, and holds a senior accountant qualification certificate of the PRC.

W Y a h (吳遠志)

Deputy general manager of the Company

Mr. Wu Yuanzhi (吳遠志), aged 61, was appointed as deputy general manager of the Company in January 2021. He is primarily responsible for supervising the healthcare quality management of our Company. He joined our Group in September 2019 and served as the healthcare director of the Group and was later promoted to be the deputy general manager. Prior to joining the Group, Mr. Wu successively served as the head of the surgical department, vice hospital administrator and hospital administrator and secretary of the party committee of Wugang No.2 Hospital (武鋼二醫院), vice hospital administrator of Wugang General Hospital (武鋼總醫院), deputy general manager of the China Resources Wugang Hospital Management Co., Ltd. (華潤武鋼醫院管理公司) and etc. under China Resources Healthcare Group Limited (華潤醫療集團有限公司) from 1982 to 2019.

Mr. Wu graduated from the Medical School of Hubei Minzu University (湖北民族大學醫學院) in March 1982.

La g X a fe g (郎曉峰)

Chief company development officer of the Company

Mr. Lang Xiaofeng (郎曉峰), aged 38, was appointed as the assistant to the Chairman and the chief company development officer (公司發展部總監) of the Company in September 2020. He is primarily responsible for strategic research, branding affairs, public relations and government affairs of the Company. Prior to joining our Group, Mr. Lang served as a senior manager of Hony Capital from 2014 to September 2020; and a sales manager of China Railway Investment Co., Ltd. from 2009 to 2014.

Mr. Lang obtained his master's degree in business and information technology from University of Melbourne (墨爾本大學), Australia in December 2007, and his bachelor's degree in information management and information systems from Dalian University of Technology (大連理工大學) in July 2005.

D g Y e (丁玥)

Chief quality management/nursing officer of the Company

Ms. Ding Yue (丁玥), aged 48, was appointed as the chief quality management/nursing officer (品質管理／護理總監) of our Company in March 2014. She is primarily responsible for supervising the healthcare quality management of our Company. She is currently an executive council member of Beijing Nursing Association (北京護理學會) and a member of administration committee of the Chinese Nursing Association (中華護理學會). She joined our Group in March 2014. Prior to joining our Group, Ms. Ding served as nursing supervisor (護理主管) of the hospital management office in Peking University Health Science Center (北京大學醫學部醫院管理處) from July 2012 to February 2014. From August 1996 to June 2012, Ms. Ding worked at Beijing Cancer Hospital as the head of the nursing department and the deputy head of the nursing department.

Ms. Ding obtained her bachelor's degree in medicine in July 1996 from the School of Nursing of Peking University in China.

Zha g L (張立新)

Chief supply chain management officer of the Company

Mr. Zhang Lixin (張立新), aged 47, was appointed as the chief supply chain management officer (供應鏈管理部總監) of the Company in December 2020. He is primarily responsible for the strategic research and operation management of supply chain. Prior to joining the Group, Mr. Zhang served as a senior consultant and a senior investment management manager of Hony Capital from 2010 to 2020, respectively. He was also the chief logistic management officer of Greater China in Lenovo Group (聯想集團) from 1997 to 2010.

Mr. Zhang obtained his master's degree of business administration from the Business School Netherlands (荷蘭商學院) in September 2015 and his bachelor's degree of management of agricultural economy in Huazhong Agricultural University (華中農業大學) in June 1997.

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 C de**") contained in Appendix 14 to the Listing Rules. Save as disclosed herein, the Board considered that, during the year under review, 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.

CODE PROVISION A.2.1

Code provision A.2.1 of the CG Code stipulates that the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual. Please refer to the paragraph under "Chairman and Chief Executive Officer" below for details.

COMPLIANCE WITH THE 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 "**Sec e Dea g C de**") 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 throughout the year ended December 31, 2020.

BOARD OF DIRECTORS

As at the date of this report, the Board of the Company comprises the following directors:

E ec e D ec :
Mr. Chen Shuai *(Chairman and Acting Chief Executive Officer)*
Me. Lu Wenzuo

N -e ec e D ec :
Mr. Su Zhiqiang
Ms. Shi Wenting
Ms. Liu Lu
Ms. Wang Nan

I de e de N -e ec e D ec :
Mr. Dang Jinxue
Mr. Shi Luwen
Mr. Zhou Xiangliang

The biographical information of the Directors is set out in the section headed "Biographies of Directors and Senior Management" on pages 62 to 72 of this annual report.

I a ce f D ec

Code provision A.1.8 of the CG Code stipulates that an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Company has arranged for appropriate insurance cover to protect Directors from possible legal action against them.

Cha a a d Ch ef Eˣec e Off ce

Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Shan Guoxin resigned as the chief executive officer of the Company ("**Ch ef Eˣec e Off cer**") and Mr. Zhao John Huan resigned as the chairman of the Board with effect from June 23, 2020. On the same day, Mr. Chen Shuai ("**M . Che**") 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 seek to comply with provision A.2.1 of the CG Code again, and believes that Mr. Chen serving concurrently as the acting Chief Executive Officer can ensure the normal operation of the Company in the meantime and is in the interests of the Company and its shareholders as a whole.

I de e de N -eˣec e D ec

During the year under review, the Board has complied with the requirements of the Listing Rules to appoint at least three independent non-executive Directors, representing at least one-third of the Board, with one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

D ec ’ Re-e ec

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Save for two of the non-executive Directors who are engaged on an appointment letter for a term of 1 year, each of the Directors is engaged on a service contract or appointment letter (as the case may be) for a term of 3 years.

In accordance with the Articles, all Directors are subject to retirement by rotation and re-election at an annual general meeting of the Company at least once every three years and any Director appointed by the Board or elected by the shareholders to fill a casual vacancy or as an addition to the Board shall hold office until the next following general meeting, as the case may be, of the Company after his/her appointment and be subject to re-election at such meeting.

Re b e , Acc ab e a d C b f he B a d a d Ma age e

The Board is responsible for the leadership and control of the Company and oversees the businesses, strategic decisions and performance of the Group, and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company’s expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

A summary of the Directors' participation in training and continuous professional development during the year ended December 31, 2020 according to the records provided by the Directors is as follows:

Na e f d ec	A e d g a g ga ed b fe a ga a a d/ ead g a e a a e e a d eg a
E ec e D ec	
Mr. Shan Guoxin *(Note 1)*	✓
Mr. Chen Shuai *(Note 2)*	✓
Mr. Lu Wenzuo	✓
N -e ec e D ec	
Mr. Zhao John Huan *(Note 3)*	✓
Mr. Li Peng *(Note 4)*	✓
Mr. Su Zhiqiang *(Note 5)*	✓
Ms. Shi Wenting *(Note 6)*	✓
Ms. Liu Lu	✓
Ms. Wang Nan	✓
I de e de -e ec e D ec	
Ms. Chen Xiaohong *(Note 7)*	✓
Mr. Dang Jinxue *(Note 8)*	✓
Mr. Shi Luwen	✓
Mr. Zhou Xiangliang	✓

Notes:

1. Mr. Shan Guoxin resigned as an executive Director and the Chief Executive Officer on June 23, 2020 due to personal development reasons.

2. Mr. Chen Shuai was appointed as a non-executive Director, the Chairman and the acting Chief Executive Officer on June 23, 2020 and was re-designated as an executive Director on November 20, 2020.

3. Mr. Zhao John Huan resigned as the Chairman and a non-executive Director on June 23, 2020 due to work arrangements.

4. Mr. Li Peng resigned as a non-executive Director on June 23, 2020 due to work arrangements.

5. Mr. Su Zhiqiang was appointed as an executive Director on June 23, 2020 and was re-designated as a non-executive Director on November 20, 2020.

6. Ms. Shi Wenting was appointed as a non-executive Director on June 23, 2020.

7. Ms. Chen Xiaohong resigned as an independent non-executive Director on March 9, 2020 due to personal health reasons.

8. Mr. Dang Jinxue was appointed as an independent non-executive Director on March 9, 2020.

ATTENDANCE RECORD OF BOARD AND BOARD COMMITTEE MEETINGS AND GENERAL MEETINGS

Code provision A.1.1 of the CG Code requires that at least four regular Board meetings should be held each year at approximate quarterly intervals, with active participation of a majority of directors, either in person or through other electronic means of communication.

The attendance records of each Director while holding such offices at Board and Board committee meetings and general meetings of the Company held during the year ended December 31, 2020 are set out in the table below:

	N be f ee g a e ded/he d				
	B a d Mee g( )	A d C ee Mee g( )	Re e a C ee Mee g( )	N a C ee Mee g( )	Ge e a Mee g( )
E ec e D ec					
Mr. Shan Guoxin *(Note 1)*	3/3	–	1/1	–	1/1
Mr. Chen Shuai *(Note 2)*	3/3*	–	–	N/A*	–
Mr. Lu Wenzuo	6/6	–	–	–	1/1
N -e ec e D ec					
Mr. Zhao John Huan *(Note 3)*	3/3*	–	–	2/2*	1/1
Mr. Li Peng *(Note 4)*	2/4	1/1	–	–	0/1
Mr. Su Zhiqiang *(Note 5)*	3/3	–	–	–	–
Ms. Shi Wenting *(Note 6)*	3/3	1/1	–	–	–
Ms. Liu Lu	6/6	–	–	–	1/1
Ms. Wang Nan	6/6	–	–	–	1/1
I de e de -e ec e D ec					
Ms. Chen Xiaohong *(Note 7)*	0/1	–	N/A*	–	–
Mr. Dang Jinxue *(Note 8)*	5/5	–	1/1*	1/1	1/1
Mr. Shi Luwen	6/6	2/2	–	2/2	1/1
Mr. Zhou Xiangliang	5/6	2/2*	1/1	–	1/1

* *6/6 chairman of the Board or the n3/5*

Notes:

The Audit Committee held 2 meetings during the year. The following matters have been discussed and considered:

(a) the audit related matters for 2020 (including but not limited to the Group's financial accounting policies and practices, and the work performed by the external auditor of the Company);

(b) the annual results announcement and annual report of the Company for the year ended December 31, 2019, and the interim results announcement and interim report of the Company for the six months ended June 30, 2020;

(c) the independent auditor's report prepared by the external auditor of the Company;

(d) the Company's risk management and internal control system and the effectiveness thereof, and discussed the same with management;

(e) the re-appointment of the external auditor of the Company for 2021; and

(f) the Company's continuing connected transactions in 2020.

Re e a C ee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors, non-executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee held 1 meeting during the year and considered and recommended the following matters to the Board:

(a) remuneration and other benefits paid by the Company to the Directors and senior management of the Company; and

(b) terms of service and remuneration plan for newly appointed Directors.

The annual remuneration of the members of the senior management by band for the year ended December 31, 2020 is set out below:

Remuneration band	**Number of individuals**
Nil to HK$1,499,999	6
HK$1,500,000 to HK$1,999,999	2
HK$2,000,000 to HK$2,499,999	1

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning for directors, and assessing the independence of independent non-executive Directors.

The Board has adopted a board diversity policy (the "**Board Diversity Policy**") to achieve and maintain diversity on the Board in order to strengthen the performance of the Board, promote effective decision-making and better corporate governance and monitoring. The Company considers that the Board Diversity Policy is beneficial for enhancing the Company's comprehensive performance and operating capability, and provides support for the Company in achieving strategic goals and maintaining sustainable and balanced development. According to the Board Diversity Policy, in selecting Director candidates, we will consider board diversity, including but not limited to skills, experience and cultural and educational background, geographical location, industry and professional experience, ethnicity, gender, age, knowledge and length of service.

Based on the business needs of the Group, the Nomination Committee has recommended and the Board has adopted the following measurable objectives:

(a) a prescribed proportion of Board members shall be non-executive Directors or independent non-executive Directors; and

(b) a prescribed proportion of Board members shall have obtained accounting or other professional qualifications.

The Nomination Committee shall monitor the implementation of the Board Diversity Policy and review the progress of its measurable objectives from time to time.

In evaluating and selecting any candidate for directorship, the following criteria are considered: (i) character and integrity; (ii) qualifications; (iii) the above-mentioned measurable objectives adopted for achieving diversity on the Board; (iv) requirement for the Board to have independent Directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the Listing Rules; (v) potential contributions; (vi) willingness and ability to devote adequate time to discharge duties; and (vii) such other perspectives that are appropriate to the Company's business and succession plan. Upon receipt of a proposal on appointment of a new Director and his/her biographical information, the Nomination Committee and the Board will evaluate such candidate based on the aforementioned criteria to determine whether he/she is qualified for directorship. The Nomination Committee will then recommend to the Board the candidate for are directorship, if appropriate.

The Board has also adopted the nomination policy (the "**N a P c**") which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board.

The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the efficiency of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

To nominate director candidates, candidates would be identified by various methods and evaluated based on the approved selection criteria. Shortlisted candidates would be interviewed and their profiles would be reviewed, before making recommendations to the Board on the selected candidates.

The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

The Nomination Committee held 2 meetings during the year and reviewed the structure, size and composition of the Board, assessed the independence of independent non-executive Directors, and considered and made recommendations to the Board on the appointment or re-appointment of Directors.

C a e G e a ce F c

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Securities Dealing Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2020.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 104 to 111 of this annual report.

AUDITORS' REMUNERATION

An analysis of the remuneration paid to the external auditors of the Company, PricewaterhouseCoopers, in respect of audit services and non-audit services for the year ended December 31, 2020 is set out below:

Se ce Ca eg	**Fee a d/ a ab e** *RMB'000*
Audit services for annual report	2,933
Non-audit services	1,912
Total	4,845

Note: Non-audit services include the review fee for interim report (approximately RMB1,912,000 was paid).

RISK MANAGEMENT, INTERNAL CONTROLS AND INTERNAL AUDIT

The Board is responsible for setting up and implementing an appropriate and effective risk management and internal control system, and ensuring the effectiveness thereof, including evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives. In addition, they provide only a reasonable but not an absolute assurance against material misstatement or loss.

A series of risk management and internal control policies and procedures are adopted both in the Group and the hospitals the Company manages, which includes risk management, internal control system and internal audit function. The risk management system contains identifying and categorizing current and emerging risks in our business operations, assessing and prioritizing risks, mitigating risks, and measuring our risk management. The internal control system includes employee code of conduct, internal audit, management report and internal control system in the hospitals the Company owns or manages. The internal audit function accesses and monitors key risks, controls and procedures to assure our management and the Directors that the internal control system is functioning as intended and is sound and effective. The Audit Committee is responsible for supervising our internal audit function and its effectiveness, and is supported by the legal and risk control department of the Company. In addition, a standardized internal control system has been adopted by the hospitals the Company owns or manages to improve their internal policies and procedures. Yangsi Hospital, Cixi Hospital, Jiande Hospital and Jinhua Hospital have improved their internal policies and procedures based on this standardized systems.

P ced e Ide f g, E a a g a d Ma ag g S g f ca R

Risk management is a continuous process and requires regular monitoring and review. The Company's procedures on identifying, evaluating and managing significant risks are as follows:

- Risk identification and assessment: Risks that may have a potential impact on the business and operations of the Group's various business units are identified, and a risk database is established and continuously updated; the assessment criteria that have been reviewed and approved by the management are used in the assessment of the identified risks, during which the likelihood of their occurrence and their impact on the business are taken into account;

- Risk-countering: Through comparison of risk assessment outcomes, risks are ranked by priority, and risk management strategies and internal control procedures are determined for preventing, avoiding or reducing risks; and

- Risk monitoring and reporting: Relevant risks are monitored on an ongoing and regular basis, and appropriate internal control procedures are guaranteed to be in place; in the event of any material change, the risk management policies and internal control procedures would be amended; and the risk monitoring results are reported to the Audit Committee and the management on a regular basis.

We strive to enhance the Company's risk management and internal control structure and capability to ensure long-term growth and sustainable development for the Company's business. In this regard, we are required to implement consistently an effective risk management and internal control structure. We will continue along the same direction, aiming to integrate risk management and internal control into our daily operations.

The Board of Directors reviews the effectiveness of the Group's risk management and internal control system once a year. During the reporting period ended December 31, 2020, the Company's risk management and internal control system was effective and sufficient, and there were no matters of major concerns relating to financial, operational or compliance controls.

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management, internal control system and internal audit function of the Company and considered the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function. The Company confirms that the above-mentioned risk management, internal control system and internal audit function are adequate and effective.

PROCEDURES ON AND INTERNAL CONTROLS FOR HANDLING AND DISSEMINATING INSIDE INFORMATION

In order to regulate information disclosure, strengthen management of information disclosure, and protect the rights and interests of the Company and its shareholders and other stakeholders, the Group has put in place procedures and internal controls for the handling and dissemination of inside information (the "**Procedures**") in accordance with the principles and requirements under laws and regulations such as the SFO and the Listing Rules. The Procedures are applicable to persons including the Directors, secretary to the Board, senior management, responsible person of each department and subsidiary, other persons having the duty for information disclosure, and staff who have access to inside information by virtue of his/her office or capacity. The Procedures provide detailed guidelines on the appropriate timing, contents, formats, internal vetting processes and disseminating procedures of information under different circumstances, the review and disclosure procedures of releasing results announcements, ad hoc announcements, inside information announcements, regular reports and circulars, duties of confidentiality and penalty provisions for all management staff who are responsible for information disclosure.

The Board is of the view that the Company's procedures on and internal controls for handling and disseminating inside information are effective.

COMPANY SECRETARY

Ms. Ho Wing Yan, an associate member of The Hong Kong Institute of Chartered Secretaries ("**HKICS**") and The Chartered Governance Institute and a holder of the Practitioner's Endorsement issued by HKICS, an external service provider, has been engaged by the Company as its company secretary. Ms. Ho has confirmed that she has complied with Rule 3.29 of the Listing Rules. The primary contact person at the Company is Mr. Huang Meiliang, the senior management of the human resources department.

DIVIDEND POLICY

The Board has adopted the dividend policy (the "**Dividend Policy**") which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Dividend Policy aims to allow the Shareholders to participate in the Company's profits whilst preserving the Company's liquidity to capture future growth opportunities. The dividend distribution decision of the Company will depend on, among others, the financial results, the cashflow, Shareholders' interests, the general business conditions and strategies, the current and future operations, the liquidity and capital requirements, taxation considerations, statutory and regulatory restrictions and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time.

The Dividend Policy will be reviewed on a regular basis.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of HKEX after each general meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 12.3 of the Articles, any two or more shareholders or any one shareholder which is a recognized clearing house (or its nominee(s)) (the "**Requisitionist(s)**") holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the Requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

P g F a d P a a Ge e a Mee g

There are no provisions in the Articles or the Cayman Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph.

P g F a d E e he B a d

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

C ac De a

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Suite 10, 70/F., Two International Finance Centre, No. 8 Finance Street, Hong Kong
(For the attention of the Company Secretary)

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Company's business performance and strategies. The Company endeavors to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

The Company maintains a website at www.hcclhealthcare.com as a communication platform with shareholders of the Company and investors, where the financial information and other relevant information of the Company are available for public access.

C a D c e

During the year ended December 31, 2020, the Company has not made any changes to the Articles. An up-to-date version of the Articles is also available on the Company's website and HKEX's website.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

Vanguard Glory Limited, Hony Capital Fund V, L.P., Hony Capital Fund V GP, L.P. and Hony Capital Fund V GP Limited are the controlling shareholders (as defined in the Listing Rules) of the Company (collectively, the "**C g Sha eh de**"). To ensure that direct and indirect competition does not develop between us and the Controlling Shareholders' other activities, our Controlling Shareholders have entered into a deed of non-competition (the "**Deed f N -C e**") as set out in section headed "Relationship with Our Controlling Shareholders—Non-Competition Undertaking" in the Prospectus. The Controlling Shareholders confirmed its compliance of all the undertakings provided under the Deed of Non-Competition. There are no matters which are required to be deliberated by the independent non-executive Directors in relation to the compliance and enforcement of the Deed of Non-Competition and it is considered that the terms of the Deed of Non-Competition have been complied by the Controlling Shareholders.

I. ABOUT THIS REPORT

This Environmental, Social and Governance Report was prepared in compliance with the disclosure requirements of the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules. It discloses the Group's performance on environmental, social and governance-related issues, with the view of summarizing its sustainability concept and its

The Group has formed the medical management department. Based on the current management needs of the Group and its hospitals, the Group has formulated and implemented various rules and systems such as the Administrative Measures of Hospital Management Reporting System of Hospital Corporation (《弘和仁愛醫療集團醫院管理報告體系管理辦法》), the Hospital Management Report (《醫院管理報表》), the Description of Indicators (《指標說明》), the Report on Material Adverse Events (《重大不良事件上報表》) and the Operation Compliance Self-inspection Report (《依法執業自查表》). It has also issued the Notice on Strengthening the Medical Service Quality and Safety Management of Group Hospitals (《關於加強體系醫院醫療質量與安全管理的通知》) and the Notice on Operation Compliance Inspection (《依法執業檢查通知》). The Group has established the regular reporting and management mechanism for material adverse events on medical safety between itself and the Group Hospitals. It has set up standards for the collection of hospital operating data and significant management information, which laid a sound foundation for further regulated management.

The medical management department fully adopts the hospital management strategy by supervising the development of hospital rules and systems, lean project management, hospital rating review and staff training. It assists and guides hospitals in handling adverse events and public opinion management, while collaborating with their management teams to jointly establish a cluster of general hospitals and specialty hospitals that have distinctive strengths in specialty disciplines.

Under the leadership of the Group and the supervision of the National Health Commission, the Group Hospitals set up strict standards for medical quality management within the system, formulate the quantitative standards and assessment criteria of medical quality, and oversee the implementation of quality control measures to prevent medical accidents. On September 3, 2020, the Medical Administration Bureau of the National Health Commission issued the Plan for Launching the “Private Hospital Management Year” Campaign (《關於開展“民營醫院管理年”活動方案》). In view of this, the Group published the Notice on Operation Compliance Self-inspection of Group Hospitals of Hospital Corporation (《關於弘和仁愛體系醫院依法執業自查的通知》) and included the Operation Compliance Self-inspection Report (《依法執業情況自查表》). In mid-October, the Group Hospitals completed the self-inspection and devised the rectification plan. Based on the actual situation, the medical management department of the Group has provided feedback and monitored the continuous improvement of hospitals.

(II) Med ca Safe Ma age e

The Group requires all Group Hospitals to formulate the medical risk management system for hospitals in accordance with laws, regulations, rules of local health administrative authorities and industry standards. Its objective is to enhance and safeguard medical safety and the handling of unexpected events at hospitals, thereby preventing and minimizing unforeseen incidents and the resulting damage. The Group Hospitals shall safeguard the legal rights of patients and medical staff and promote the comprehensive, coordinated and sustainable development of the Group and its hospitals.

Based on the Law on Practicing Doctors of the PRC (《中華人民共和國執業醫師法》), the Tort Law of the PRC (《中華人民共和國侵權責任法》), the Regulation on the Administration of Medical Institutions (《醫療機構管理條例》) and other relevant laws and regulations, and taking reference from the Administrative Regulation for Rules and Systems of Medical Institutions of Hospital Corporation (《弘和醫療集團所屬醫療機構規章制度管理規定》) published by the Group, the Group Hospitals have considered the actual situation of hospitals in establishing the medical risk management system and providing standards and guidelines for doctors' and patients' behaviors to prevent any hazards. At the same time, the Group Hospitals revise the emergency plan and procedure for unexpected events on an ongoing basis and conduct drills as required to ensure the feasibility of such plan. Material adverse events must be reported to the Group in time in accordance with the Administrative Measures of Hospital Management Reporting System of Hospital Corporation (《弘和仁愛醫療集團醫院管理報告體系管理辦法》) for proper handling, so that the damages arising from these events can

The Group Hospitals consider the product type, price, reputation, service quality and delivery time of suppliers. They require suppliers to obtain the licenses and permits necessary for operation, including the business licenses and Good Manufacturing Practice (GMP) and/or Good Storage Practice (GSP) certifications. The Group Hospitals give priority to suppliers with strong production, technical and quality assurance capabilities, normal production management, reasonable price and eco-friendly materials. When they enter into contracts with suppliers, they will explain the professional integrity of the Group to their counterparties and specify various requirements including regulatory compliance, anti-corruption and other business ethics, so as to ensure socially responsible supply chain management.

At the same time, the Group has further refined hospital management and pushed forward centralized purchase and supply chain integration, with the view of promoting large-scale operation capability, bargaining and pricing power and reducing operating costs. When purchasing pharmaceuticals and some of the medical consumables (i.e., diagnostic reagent), certain hospitals of the Group have introduced the group purchasing organization (GPO) model, which is a globally common procurement model. This has minimized the procurement costs of pharmaceuticals and medical consumables for hospitals.

(V) A -c

The Group upholds the ethical standards of business integrity and has zero tolerance to corruption. It strictly complies with all state and local laws and regulations related to anti-corruption, including Article 163 of the Criminal Law of the PRC (《中華人民共和國刑法》), the Anti-Money Laundering Law of the PRC (《中華人民共和國反洗錢法》), the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), the Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》), the Code of Conduct for the Practitioners of Medical Institutions (《醫療機構從業人員行為規範》), the Notice on Printing and Circulating of "Nine Prohibitions" for Strengthening Ethical Conduct in the Healthcare Industry (《關於印發加強醫療衛生行風建設"九不准"的通知》) and the Provisions on the Establishment of Commercial Bribery Records in the Purchase and Sale of Medicines (《關於建立醫藥購銷領域商業賄賂不良記錄的規定》). In order to build a corporate culture of anti-corruption, the Group has taken a number of measures to prevent improper activities including bribery and kickbacks by employees and the Group Hospitals, in connection with, among others, the provision of healthcare services and the procurement of pharmaceuticals, medical consumables and medical devices.

The aforementioned specific measures include the promotion of national policies and regulations, improvement of internal systems, provision of internal training and regulation of employee conduct. Besides, to strengthen the monitoring of medical staff, it also encourages its employees, the public, patients and their families to report non-compliance through means such as mail, telephone and the Internet. Apart from that, the Board has the right to review and discuss any suspicious incidents. It has adopted a zero-tolerance attitude to all forms of bribery, extortion, corruption and collusion.

During the reporting period, the Group did not receive or handle any report on crimes such as corruption, bribery and extortion within the Group, and there were no related litigation or legal cases regarding corruption, bribery and extortion brought against its employees.

III. EMPLOYMENT RESPONSIBILITY

The Group attaches great importance to its relationship with employees and cares about their interests, benefits and well-being. It strives to become their employer of choice.

(I) Rec e

Taking into account its strategic development and business needs, the Group streamlines its workforce, formulates the recruitment plan, and sets out recruitment requirements and standards to hire the right talents every year. As a responsible employer, we adhere to the principles of "openness, justice and fairness". In terms of open recruitment, we comprehensively review and select job applicants based on their knowledge, integrity, capability, experience and fitness to the position. At the same time, we strictly examine their certificates in the screening process. Before the formal appointment, we also conduct background checks on employees proposed to be recruited, so that we can ensure they meet the recruitment requirements.

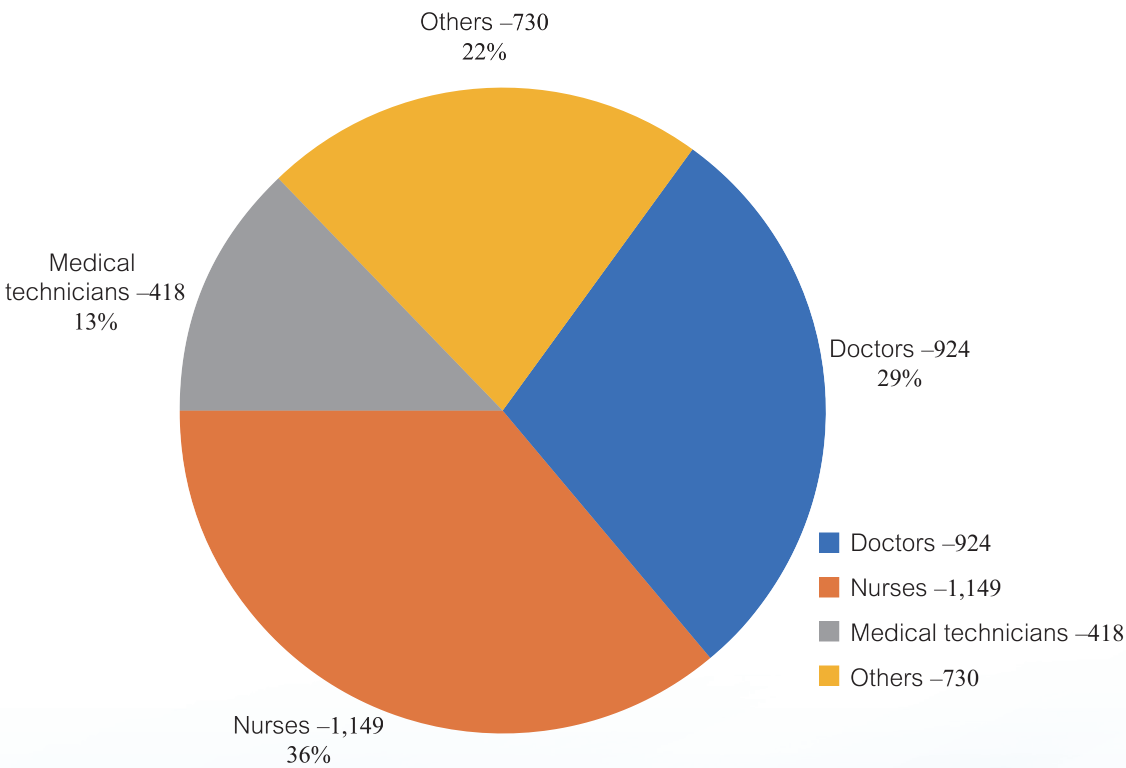
(II) E e Re b

We regard all employees, including medical staff, healthcare staff, technicians, back office and administrative staff, as our most important assets and the heroes behind the medical and healthcare industry. We commit ourselves to create an equal and diverse workplace free from discrimination on the grounds of gender, sexual orientation, disability or other factors. Apart from competitive remuneration and benefits, we also offer a safe and healthy working environment to our staff of whom the respective rights are respected. Meanwhile, we maintain strict compliance with the relevant laws and regulations in our place of business, including but not limited to, the Labor Law of the PRC (《中華人民共和國勞動法》), the Employment Contract Law of the PRC (《中華人民共和國勞動合同法》), the Law of the Prevention and Treatment of Occupational Diseases of the PRC (《中華人民共和國職業病防治法》) and the Provisions on the Prohibition of Using Child Labor (《禁止使用童工規定》).

As of December 31, 2020, the Group Hospitals had a total of 3,221 employees. Below sets forth the composition of employees by categories:

The Group conducts exit interviews with employees who are leaving, with the view of understanding their reason for resignation and identifying specific improvement measures. In case of termination of labor contracts, the Group will offer appropriate compensation as required by laws and regulations.

E ee c b ca eg e



(III) E ee e e a a d be ef

The Group upholds the people-oriented approach and respects its employees. It safeguards and protects their legal rights and adopts an equal and non-discriminatory employment policy. In order to create a fair and harmonious workplace, it has optimized the remuneration and benefit system. For employee remuneration and appraisal, we have developed a comprehensive remuneration management system to recognize and reward outstanding employees. We enhance staff management, incentives and supervision by evaluating their capabilities and achievements in a holistic, objective, fair and standardized manner.

The Group strictly complies with laws and regulations in respect of working hours and

(I) E a age e

Medical waste and sewage are the main waste generated and discharged by the Group in its daily operation. During the reporting period, the Group generated 562.8 tonnes of medical waste. The measures in respect of medical waste management and sewage treatment implemented by the Group include, but are not limited to:

1. formulating and strictly implementing the Medical Waste Management System (《醫療廢棄物管理制度》), the Emergency Plan for Unexpected Medical Waste Incident (《醫療廢物突發事故應急處理預案》) and other systems as appropriate at all Group Hospitals in accordance with the relevant hospital management requirements, and establishing the management standards for all aspects of medical waste sorting, collection, storage, transport and handover, so as to prevent the leakage and spreading of waste and protect the safety of patients and staff;

2. establishing and specifying the management duties of the leading group for medical waste management at all Group Hospitals, while ensuring the effectiveness of all measures;

3. categorizing medical wastes into infectious waste, sharps waste, pathological waste, pharmaceutical waste and chemical waste, which are collected separately and stored in corresponding special containers, and sterilizing the special containers and transportation tools upon disposal of medical waste;

4. delivering medical waste to specially designated sites for centralized disposal, in which highly hazardous waste is sterilized before being delivered to the specially designated sites;

5. cleaning and sterilizing the disposal site and the related surrounding facilities timely upon disposal of medical waste;

6. obtaining the Sewage Disposal Drainage License (污水排入排水管網許可證) before discharging sewage into urban drainage facilities;

7. engaging sewage experts in setting up and managing the sewage treatment system;

8. providing strict pre-job training and assessment to sewage treatment staff, who are required to hold the relevant certifications; and

9. sterilizing the sewage and conducting regular checks on certain indicators in the sewage in accordance with the relevant laws, rules and regulations.

(II) U e f Re ce

1. Energy

We continue to promote various energy-saving measures in the workplace including the installation of the energy-saving lighting system, setting the optimal temperature for air-conditioning, and switching off the lighting and air-conditioning after office hours. Meanwhile, we encourage our employees to switch off their computers and other office equipment when not in use. We regularly inspect and maintain the vehicles under the Group to ensure their normal operation, improve fuel efficiency and reduce fuel consumption.

In addition to the above energy-saving and consumption reduction measures, the Group also endeavors to promote environmental protection and energy-saving education, and publicizes the significance of energy saving and feasible energy-saving measures to employees through different promotion channels and forms.

During the reporting period, the Group consumed 16,674,131kWh of electricity and 378,129 m3 of natural gas in total. In the future, it will continue to monitor and control its electricity consumption and natural gas consumption in business operations.

2. Water resources

The Group always reviews its water consumption habits and adopts water-saving measures, including reminding users to turn off the tap properly and only use water when needed. At the same time, the Group focuses on the daily maintenance and management of water equipment, and regularly checks for leakages of water pipes to repair them promptly.

During the reporting period, the Group consumed approximately 421,261 m3 of water in total. In the future, it will continue to monitor and control its water consumption in business operations.

3. *Paper*

V. SOCIAL RESPONSIBILITY

The Group is always grateful and firmly believes in giving back to the society by actively fulfilling its social responsibilities. It carries out series of public welfare activities, improves community welfare, organizes social service activities, and promotes the harmonious progress of its various works.

The Group has developed and rolled out a series of community and charity activities which cover areas including public healthcare consultation, children healthcare services, nursing home care for the elderly, public health education and poverty alleviation. The goals of such community activities align with the value and mission of the Group. During the reporting period, the Group organized the following charity activities:

(I) Pa de c e e a d e ef

During the year, the Group led the Group Hospitals to complete various tasks for pandemic prevention in line with the local governments, which has won wide recognition of the public. These accolades demonstrate the social reputation and the commitment to the responsibilities of the Group and its hospitals, the benevolence and professionalism of our medical staff, and our dedication to social responsibility as a medical group.

In addition to the pledge of implementing effective pandemic prevention measures at hospitals, all Group hospitals participated in the inspection of pandemic prevention measures within their local areas to ensure the safety of the community. In particular, Yangsi Hospital was named as "Advanced Unit in Shanghai Non-government Medical Institutions in Fighting Against COVID-19 Pandemic (上海市社會醫療機構抗擊新冠肺炎疫情先進集體)" and two of its employees were honored as "Advanced Individual in Shanghai Non-government Medical Institutions in Fighting Against COVID-19 Pandemic (上海市社會醫療機構抗擊新冠肺炎疫情先進個人)". Furthermore, Jinhua Hospital was recognized as "Advanced Unit in Fighting Against COVID-19 Pandemic (抗擊新型冠狀病毒肺炎疫情先進單位)" by the Zhejiang Social Medical Group Association. To support pandemic prevention, it sent 4 medical personnel to Wuhan and 1 medical personnel to Xinjiang respectively, who completed their medical missions with great success and won the honor title of "Zhejiang Advanced Individual in Fighting Against COVID-19 Pandemic (浙江省抗疫先進個人)".

(IV) Cha a d d a

The Group regards public welfare and charitable activities as an important initiative to fulfill its social responsibilities, improve the social image of the hospitals continuously, and promote comprehensive, continuous and coordinated development of the Group Hospitals.

During the year, Yangsi Hospital, which is one of the Group Hospitals, provided free pneumonia vaccines to 833 elderly people aged over 60 with a Shanghai household registration. Apart from that, it established a children rehabilitation base with the Children's Hospital of Fudan University to treat 145 pediatric patients in 2020. At Jinhua Hospital, 315 employees participated in blood donation activities and donated over 9,000 ml of blood to help fight against the pandemic with love. Yongkang Hospital joined hands with Yongkang Red Cross to establish the "Yongkang Hospital Special Medical Assistance Fund", which

INDEPENDENT AUDITOR'S REPORT

T he Sha eh de f H a C a f Ch a L ed

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Hospital Corporation of China Limited (the "Company") and its subsidiaries (the "Group") set out on pages 112 to 220, which comprise:

- the consolidated balance sheet as at December 31, 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Assessment of goodwill impairment
- Fair value estimation of convertible bonds

Ke A d Ma e	H a d add e ed he Ke A d Ma e
A e e f g d a e Refer to note 2.7(i), 4(i) and 16 to the consolidated financial statements. Goodwill of RMB1,617,767,000 was resulted from acquisitions of subsidiaries in 2014 and 2018, among which RMB1,306,506,000, RMB301,995,000 and RMB9,266,000 were historically allocated to segments of hospital management services, general hospital services and sale of pharmaceutical products respectively. Management reviews the business performance and monitors goodwill on operating segment level. Michos resinvolvin ouragement	

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Ke A d Ma e

H a d add e ed he Ke A d Ma e

A e e fg d a e

Management assessed and determined the recoverable amount of each operating segment with the assistance from an independent valuer. The key assumptions used in the calculations were: compound growth rate of revenue within forecast period, long-term growth rate and post-tax discount rate.

Due to the drastic changes in macroeconomic

KEY AUDIT MATTERS – *continued*

Ke A d Ma e

Fa a ee a f c e beb d

Refer to notes 4(iv) and 33 to the consolidated financial statements.

The convertible bonds issued by the Company are designated as financial liabilities at fair value through profit or loss. The fair value of these convertible bonds was determined by management with reference to the valuation report issued by an independent professional valuer, using valuation techniques. Judgements and estimates were applied in determining valuation method and assumptions.

The key assumptions included risk-free rate of interest, volatility, dividend yield and time to expiration.

We focused on auditing the fair value of convertible bonds because the fair value determination of convertible bonds is subject to high degree of estimation uncertainty. The inherent risk in relation to the fair value estimation of convertible bonds is considered significant due to the relevant key assumptions applied in valuation involved significant judgements and estimates.

H a d add e ed he Ke A d Ma e

We obtained an understanding of the management's internal controls and assessment process of fair value estimation of convertible bonds. We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors.

We assessed the independence, competence, capabilities and objectivity of the external professional valuer.

We assessed the valuation methods applied and the relevant key assumptions with the assistance from internal valuation experts as follows:

- risk free rate of interest by reference to the market yield of Hong Kong government bond with a term close to time to maturity of the convertible bonds as of the valuation date;
- volatility by reference to the annualized standard deviation of the daily return embedded in historical stock prices of the Company with a time horizon close to the expected term;
- dividend yield by reference to the dividend policy of the Group;
- time to expiration by reference to the terms of convertible bond instruments.

We also checked the mathematical accuracy of the calculation of fair value of the convertible bonds with the assistance from our internal valuation experts.

We also considered whether the judgements made in selecting the significant assumptions and data would give rise to indicators of possible management bias.

KEY AUDIT MATTERS – *continued*

Ke A d Ma e	H a d add e ed he Ke A d Ma e
Fa a e e a f c e b e b d	We assessed the adequacy of the relevant disclosures in relation to the fair value estimation of convertible bonds in the context of the applicable financial reporting framework. In light of the above work conducted, we found the significant judgements and estimates made by management on relevant key assumptions were supported by the evidences we gathered.

OTHER INFORMATION

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – *continued*

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tsun NG.

P ce a e h eC e
Certified Public Accountants

Hong Kong, March 30, 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Yea e ded Dece be 31, 2020 RMB'000	2019 RMB'000
Revenue	5	**399,214**	410,883
Cost of revenue	6	**(204,885)**	(237,017)
G f		**194,329**	173,866
Selling expenses	6	**(4)**	(9)
Administrative expenses	6	**(51,899)**	(64,535)
Net impairment losses on financial assets		**(15,077)**	(1,581)
Impairment losses on intangible assets	16	**(668,219)**	–
Other income – net	7	**4,803**	3,453
Other gains – net	8	**136,226**	65,838
O e a g ( )/ f		**(399,841)**	177,032
Finance income	10	**18,420**	42,102
Finance costs	10	**(54,402)**	(23,568)
(L)/ f bef e c e a		**(435,823)**	195,566
Income tax credit/(expense)	12	**14,754**	(26,120)
(L)/ f f he ea		**(421,069)**	169,446
Other comprehensive income			–
T a c ehe e ( )/ c e f he ea		**(421,069)**	169,446
Attributable to:			
Owners of the Company		**(404,342)**	150,90015,077)

	Notes	As at December 31, 2020 RMB'000	2019 RMB'000
ASSETS			
N -c e a e			
Property, plant and equipment	14	145,125	146,176
Right-of-use assets	15	38,875	42,011
Intangible assets	16	2,208,557	2,905,829
Deferred income tax assets	32	3,835	1,413
Other receivables, deposits and prepayments	20	1,897	2,012
Amount due from a related party	21	80,000	80,000
T a -c e a e		2,478,289	3,177,441
C e a e			
Inventories	19	6,560	5,021
Trade receivables	18	33,945	30,332
Other receivables, deposits and prepayments	20	2,827	16,405
Amounts due from related parties	21	271,120	217,947
Financial assets at fair value through profit or loss	22	90,737	36,829
Term deposits	23	–	134,370
Cash and cash equivalents	24	860,726	836,624
T a c e a e		1,265,915	1,277,528
T a a e		3,744,204	4,454,969
EQUITY			
E a b ab e e f he C a			
Share capital	25	123	123
Share premium	25	435,304	435,304
Other reserves	27	928,111	924,231
(Accumulated losses)/retained earnings	28	(283,382)	123,448
		1,080,156	1,483,106
Non-controlling interests		287,084	334,734
T a e		1,367,240	1,817,840

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

CONSOLIDATED BALANCE SHEET

	Notes	A a Dece be 31, 2020 RMB'000	2019 RMB'000
LIABILITIES			
N -c e ab e			
Borrowings	30	**34,386**	99,658
Convertible bonds	33	**1,558,245**	1,693,430
Lease liabilities	15	**692**	650
Deferred income tax liabilities	32	**302,301**	350,087
Accruals, other payables and provisions	31	**196**	362
T a -c e ab e		**1,895,820**	2,144,187
C e ab e			
Trade payables	29	**16,762**	13,325
Accruals, other payables and provisions	31	**85,711**	78,860
Amounts due to related parties	21	**22,843**	23,749
Contract liabilities		**872**	539
Current income tax liabilities		**20,281**	28,713
Borrowings	30	**97,309**	114,744
Lease liabilities	15	**266**	2,412
Other financial liability at amortised cost	10(a)	**237,100**	230,600
T a c e ab e		**481,144**	492,942
T a ab e		**2,376,964**	2,637,129
T a e a d ab e		**3,744,204**	4,454,969

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

The financial statements on page 112 to page 220 were approved by the Board of Directors on March 30, 2021 and were signed on its behalf.

Chen Shuai

Lu Wenzuo

CONSOLIDATED STATEMENT OF CASH FLOWS

		Yea e ded Dece be 31,	
	Notes	**2020**	2019
		RMB'000	RMB'000

		Yea e ded Dece be 31,	
	Notes	**2020**	2019
		RMB'000	RMB'000

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 ('the Listing') on March 16, 2017.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Ba f e a a

(i) Compliance with IFRS and Hong Kong Companies Ordinance

The consolidated financial statements of Hospital Corporation of China Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Ba f e a a – *continued*

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments) – measured at fair value, and

- Convertible bonds – measured at fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 P c e f c da

(i) Subsidiaries

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.5 F eg c ec a a

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Since the majority of the operations of the Group are located in the PRC, the consolidated financial statements are presented in RMB, which is the Group's functional currency and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to cash and cash equivalents and borrowings are presented in the consolidated statement of comprehensive income within 'finance income and cost – net'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other gains/(losses) – net'.

2.6 P e , a a de e

Property, plant and equipment is stated at historical costs less accumulated depreciation and accumulated impairment charge. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replace. All other repairs and maintenance are

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.6 P e , a a d e e – *continued*

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate the cost or revalued amounts of the assets, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, as follows:

–	Buildings	20-50 years
–	Medical equipment	5-10 years
–	Vehicles	5 years
–	Office equipment and furniture	3-10 years
–	Leasehold improvements	Shorter of remaining lease term or estimated useful lives

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains/(losses)- net' in the consolidated statement of comprehensive income.

Construction-in-progress (the 'CIP') represents buildings under construction and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the cost are transferred to buildings and depreciated in accordance with the policy as stated above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.7 I a gbea e

(i) Goodwill

The excess of the consideration transferred, amount of any non-controlling interest and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired in business combination is recorded as goodwill. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 5).

(ii) Medical licences

Medical licences acquired in a business combination are recognised at fair value at the acquisition date. These medical licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives.

(iii) Contractual rights to provide management services

Contractual rights to provide management services are the rights to provide management services to three not-for-profit hospitals. These contractual rights acquired in a business combination are recognised at fair value at the acquisition date. These contractual rights have finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of contractual rights over their estimated useful lives.

(iv) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives of 5 or 10 years. Costs associated with maintaining computer software programmes are recognised as expense as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.8 R gh - f- e a e ‑ a d e gh

Right-of-use assets – land use right are up-front payments to acquire long-term interest in land. These payments are stated at cost and charged to the consolidated statement of comprehensive income on a straight-line basis over the remaining period of the lease.

2.9 I a e f -f a c a a e

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.10 I e e a d he f a c a a e

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income ('OCI') or through profit or loss), and

- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded either in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ('FVOCI').

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.10 I e e a d he f a c a a e – *continued*

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ('FVPL'), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.10 I e e a d he f a ca a e – *continued*

(iii) Measurement – continued

Debt instruments – *continued*

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and its receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and amounts due from related parties (trade in nature), the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(ii) for further details.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.11 Off e g f a ca e

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.12 I e e

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is determined on first-in-first-out method. Net realizable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale.

2.13 T ade a d he ece ab e

Trade receivables are amounts due from patients and customers for goods sold or services performed and governments' social insurance schemes rendered in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 18 for further information about the Group's accounting for trade receivables and Note 3.1(ii) for a description of the Group's impairment policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.14 Ca h a d ca h e a e

For the purpose of presentation in the consolidated statement of cash flows and consolidated balance sheet, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.15 Sha e ca a

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any entity within the Group purchases the Company's equity share capital (treasury shares), the considerations paid, including any directly attributable incremental costs, is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the owners of the Company.

2.16 T ade a d he a ab e

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.17 B g

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The convertible bonds were designated as financial liabilities at FVPL by management, the amount of change in fair value of the financial liabilities that is attributable to change in the credit risk of that liabilities shall be presented in other comprehensive income, the remaining amount of change in the fair value of liabilities shall be presented in profit or loss.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 B g c

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.19 C e a d defe ed c e a

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.20 E ee be ef

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.21 Sha e-ba ed a e

(i) Equity-settled share-based payment transactions

The Group operates a number of equity-settled share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (including shares or share options) of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions (for example, remaining an employee of the entity over a specified time period); and
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.21 Sha e-ba ed a e – *continued*

(i) Equity-settled share-based payment transactions – continued

At the end of each reporting period, the Group revises its estimates of the number of share options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

(ii) Cash-settled share-based payment transactions

The Group operates a number of cash-settled share-based compensation plans, under which the entity receives services from employees by incurring liabilities for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity (the share appreciation rights). The employee services received and the liability incurred is measured at the fair value of the liability.

The liability shall be measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date.

At the end of each reporting period and at the date of settlement, the Group re-measures the fair value of the liability, with any changes in fair value recognized in profit or loss for the period.

(iii) Share-based payment transactions among group entities

The Company settling a share-based payment transaction when another entity in the Group receives the goods or services shall recognize the transaction as an equity-settled share-based payment transaction only if it is settled in the Company's own equity instruments. Otherwise, the transaction shall be recognized as a cash settled share-based payment transaction. In its separate financial statements, the Company records a debit, recognizing an increase in the investment in subsidiaries as a capital contribution from the parent and a credit to equity as no goods or services are received by the Company.

(iv) Modification and cancellation

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.22 Re e e ec g

Revenues are recognised when or as the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- Provides all of the benefits received and consumed simultaneously by the customer;

- Creates and enhances an asset that the customer controls as the Group performs; or

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.22 Re e e ec g – *continued*

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

The following is a description of the accounting policy for the principal revenue streams of the Group.

(i) Hospital Management Services

Revenue from provision of hospital management services is recognised in the accounting period in which the services are rendered.

For the hospital management services in relation to various aspects of daily operations of not-for-profit hospitals, the contracts include multiple deliverables. Considering such services have the same pattern and are all highly relevant, it is therefore regarded as one performance obligation.

Relevant revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. The progress towards the complete satisfaction of performance obligation is measured by direct measurements of the value to the customer of service transferred by the Group.

The Group receives the payment according to the contracts. Any unconditional rights to

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.22 Re e e ec g – *continued*

(ii) General hospital services

Revenue from provision of general hospital services is recognised when the related services have been rendered to customers.

For inpatient service, the customers normally receive inpatient treatment which contains various treatment components that are all highly relevant and regarded as one performance obligation. The usual period of inpatient is within two weeks. Relevant revenue of inpatient treatment is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. The progress towards the complete satisfaction of performance obligation is measured by direct measurements of the value of individual services transferred by the Group to the customer.

Relevant revenue of outpatient services is recognized at a point in time.

The Group usually receives the payment from customers in advance before the hospital services are rendered. Customers normally do not ask for a refund of payment and the services not yet rendered are recorded as contract liability. The contract liability is recognised as revenue when the related services are rendered.

For the cost to be borne by the relevant social security authority, the Group usually receives the payment based on a payment schedule. If the services rendered by the Group exceed the payment, the trade receivable is recognised.

(iii) Sale of pharmaceutical products

Revenue from sale of pharmaceutical products is recognised when control of the products has transferred, being when the products are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.23 I e e c e

Interest income from financial assets at FVPL is included in the net fair value gains on these assets, see Note 8 below. Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other income.

2.24 Lea e

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

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

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Group under residual value guarantees
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.24 Lea e – *continued*

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.24 Lea e – *continued*

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.25 D de d d b

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.26 G e e g a

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate. Note 7 provides further information on how the Group accounts for government grants.

2.27 Ea g e ha e

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3 FINANCIAL RISK MANAGEMENT

3.1 F a c a fac

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cashflow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group and approved by the executive directors.

(i) Market risk

(a) Foreign exchange risk

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

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

As at December 31, 2020, the Group was exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US dollars (USD) and HK dollars (HKD).

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.

The amounts denominated in the currency other than the functional currency of the Group were as follows:

	A a Dece be 31, 2020		As at December 31, 2019	
	USD	**HKD**	USD	HKD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Amounts due from related parties	**—**	**348**	—	410
Cash and cash equivalents	**3,682**	**628,487**	5,447	614,650
Term deposits	**—**	**—**	—	134,370
Borrowings	**—**	**(91,695)**	—	(174,402)
Convertible bonds	**—**	**(1,558,245)**	—	(1,693,430)
Accruals, other payables and provisions	**(1,236)**	**(2,388)**	(1,543)	(2,541)
Amounts due to related parties	**(1,419)**	**(7)**	(1,517)	—
	1,027	**(1,023,500)**	2,387	(1,120,943)

As at December 31, 2020, if RMB had weakened/strengthened by 5% against USD, with all other variable held constant, post-tax profit for the year of the Group would have been RMB40,000 higher/lower (2019: RMB107,000 higher/lower).

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 F a c a fac – *continued*

(i) Market risk – continued

(a) Foreign exchange risk – *continued*

As at December 31, 2020, if RMB had weakened/strengthened by 5% against HKD, with all other variable held constant, post-tax profit for the year of the Group would have been RMB51,175,000 lower/higher (2019: RMB56,047,000 lower/higher).

(b) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from borrowings with variable rates, which expose the Group to cash flow interest rate risk.

The Group's borrowings and receivables are carried at amortised cost. The borrowings are periodically contractually repriced (see below) and to that extent are also exposed to the risk of future changes in market interest rates.

The exposure of the Group's borrowing to interest rate changes and the contractual re-pricing dates of the borrowings at the end of the reporting period are as follows:

	A a Dece be 31, 2020		As at December 31, 2019	
	RMB'000	**% f a a**	RMB'000	% of total loans
Fixed rate borrowings	**40,000**	**30%**	40,000	19%
Other borrowings				
– repricing dates:				
3 months or less	**91,695**	**70%**	174,402	81%
	131,695	**100%**	214,402	100%

An analysis by maturities is provided in Note 3.1(iii). The percentage of total loans shows the proportion of loans that are currently at fixed and variable rates in relation to the total amount of borrowings.

At December 31, 2020, if interest rates on borrowings with variable interest rates had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been RMB1,739,000 (2019: RMB2,246,000) lower/higher.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 F a c a fac – *continued*

(ii) Credit risk

Credit risk mainly arises from cash and cash equivalents, term deposit, financial assets at FVPL, amounts due from related parties and trade and other receivables. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

The credit risk of cash and cash equivalents, term deposit, financial assets at FVPL is limited because the counterparties are mainly state-owned or public listed commercial banks which are high-credit-quality financial institutions in the PRC.

(a) Impairment of financial assets

The Group has three types of financial assets that are subject to the expected credit loss model:

- Trade receivables from the provision of general hospital services and sales of pharmaceutical products and amounts due from related parties (trade in nature);
- Debt investments carried at amortised cost; and
- Debt investments carried at FVPL.

While cash and cash equivalents and term deposit are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables and amounts due from related parties (trade in nature)

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and amounts due from related parties (trade in nature).

To measure the expected credit losses, trade receivables and amounts due from related parties (trade in nature) have been grouped based on shared credit risk characteristics and the days past due.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 F a c a fac – *continued*

(ii) Credit risk – continued

(a) Impairment of financial assets – *continued*

Trade receivables and amounts due from related parties (trade in nature) – continued

The expected loss rates are based on the payment profiles of sales over a period of 24 month before December 31, 2020 or December 31, 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the Gross Domestic Product (GDP), Consumer Price Index (CPI) and Producer Price Index (PPI) of the countries in which it sells its goods and services to be the most r*(1w11 Saandtors),d se

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 F a c a fac – *continued*

(ii) Credit risk – continued

(a) Impairment of financial assets – *continued*

Trade receivables and amounts due from related parties (trade in nature) – continued

The loss allowances for trade receivables and amounts due from related parties (trade in nature) as at December 31, 2020 and 2019 reconcile to the opening loss allowances as follows:

	T ade ece ab e	
	2020 RMB'000	2019 RMB'000
O e g a a ce a a Ja a 1	**1,000**	1,000
Increase in trade receivables loss allowance recognised in profit or loss during the year	**5,732**	1,581
Receivables written off during the year as uncollectible	**(3,732)**	(1,581)
C g a a ce a a Dece be 31	**3,000**	1,000

	A d e f e a ed a e (ade a e)	
	2020 RMB'000	2019 RMB'000
O e g a a ce a a Ja a 1	◥	–
Increase in amounts due from related parties (trade in nature) loss allowance recognised in profit or loss during the year	**9,345**	–
Receivables written off during the year as uncollectible	◥	–
C g a a ce a a Dece be 31	**9,345**	–

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 F a c a fac – *continued*

(ii) Credit risk – continued

(a) Impairment of financial assets – *continued*

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables, deposits and prepayment and amounts due from related parties (others).

Debt investments carried at FVPL

Debt investments carried at FVPL include investment in monetary funds and call option to acquire subsidiaries' remaining interests. The directors of the Group do not expect any losses from non-performance by the counterparties of the debt investments carried at FVPL. Thus no loss allowance provision was recognised.

The directors of the Group do not expect any losses from non-performance by the counterparties of the debt investment. Thus no loss allowance provision was recognised.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 F a c a fac – *continued*

(iii) 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.

	Le ha 1 ea RMB'000	Be ee 1 a d 2 ea RMB'000	Be ee 2 a d 5 ea RMB'000	O e 5 ea RMB'000	T a RMB'000
A Dece be 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
A Dece be 31, 2019					
Borrowing and interests	126,028	68,201	39,590	—	233,819
Lease liabilities	2,507	691	—	—	3,198
Trade payables	13,325	—	—	—	13,325
Accruals, other payables and provisions (excluding accrued employee benefits, share-based payments and other tax liabilities)	15,440	—	—	—	15,440
Amounts due to related parties	23,749	—	—	—	23,749
Convertible bonds	—	392,174	1,301,256		

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 F a c a fac – *continued*

(iv) Price risk

The Group is mainly exposed to price risk in respect of convertible bonds held by the Group. The significant inputs in the valuation model related to convertible bonds were listed in Note 33.

The sensitivity analysis is performed by the management. If the fair values of convertible bonds held by the Group had been 5% higher/lower, the profit before income tax for the year ended December 31, 2020 would have been approximately RMB77,912,000 lower/higher.

Fair value of convertible bonds is affected by changes in share price of the Company. If the Company's share price had increased/decreased by 5% with all other variables held constant, the profit before income tax for the year ended December 31, 2020 would have been approximately RMB12,121,000 lower or 13,546,000 higher.

3.2 Ca a R Ma age e

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Group as at December 31, 2020 was 63% (2019: 59%).

There were no changes in the Group's approach to capital management for the years ended December 31, 2020 and 2019.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fa a e e a

(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 that are measured at fair value at December 31, 2020 and 2019.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fa a e e a – *continued*

(i) Fair value hierarchy – continued

There were no transfers between level 1, 2 and 3 for recurring fair value measurements during the year.

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

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

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

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

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments, and

- for call option and convertible bonds – option pricing models (e.g. binomial model).

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fa a ee a – *continued*

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

The following table presents the changes in level 2 instruments for the years ended December 31, 2020 and 2019, respectively.

	M ea f d h f a g a e RMB'000
O e g ba a ce a a Ja a 1, 2019	248,567
Additions	103,000
Settlements	(320,964)
Gains recognised in other gains/(losses) – net*	5,626
C g ba a ce a a Dece be 31, 2019	36,229
O e g ba a ce a a Ja a 1, 2020	**36,229**
Additions	**502,320**
Settlements	**(450,365)**
Gains recognised in other gains/(losses) – net*	**2,553**
C g ba a ce a a Dece be 31, 2020	**90,737**

* Includes unrealised gains recognised in profit or loss attributable to balance held at the end of the reporting period

2020	**1,403**
2019	648

Financial instruments in level 2 were monetary funds with floating rates treated as financial assets at FVPL held by the Group. The fair value changes resulting from the change of the monetary funds' value held by the Group is RMB2,553,000 during the year ended December 31, 2020 and was recognised in other gains/(losses) – net (2019: RMB5,626,000).

3 FINANCIAL RISK MANAGEMENT – *continued*

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

( ) E a f g d a e

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a CGU or a group of CGU is determined based on fair value less costs of disposal

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

( ) E a f g d a e – *continued*

(d) Discount rates

The discount rates for the Forecast Period and after that period are determined by reference to discount rates provided by an independent valuer. Discount rates were estimated based on the weighted average cost of capital ('WACCs') with reference to the industry risk premium and the debt to equity ratio of some guideline companies in China healthcare sector.

Changes in the conditions for these estimates and assumptions can significantly affect the assessed result of goodwill impairment test.

For the sensitivity analysis and other details, please refer to Note 16.

The goodwill impairment charged during the year ended December 31, 2020 was RMB467,083, ine cuAm5sc 0 Tw 0 -

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

( ) A e e f c e -f - f h a – *continued*

The Group has exercised significant judgements in determining whether the Group has control over the Relevant Not-for-profit Hospitals. In exercising such judgement, the Group considers the purpose and design of the Relevant Not-for-profit Hospitals, what the relevant activities are and how decisions about those activities are made, whether the rights of the Group gives the current ability to direct the relevant activities, whether rights exercisable by other parties as internal governance body members are substantive, whether the Group is exposed, or has rights, to variable returns from its involvement with the Relevant Not-for-profit Hospitals, and whether the Group has the ability to use its power over the Relevant Not-for-profit Hospitals to affect the amount of the Group's returns.

After assessment, the management has concluded that when the Group does not have the decision making power over internal governance body to direct the relevant activities of the Relevant Not-for-profit Hospitals, the Group does not control and thus does not consolidate the Relevant Not-for-profit Hospitals. Instead, relevant agreements are considered as management contracts to generate management services income.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

( ) C e beb d

The fair values of the convertible bonds were determined by using valuation techniques. The Group applied judgements to select a variety of methods and made assumptions that were mainly based on market conditions existing at the end of each reporting period. If there was any change in methods or assumptions, the gains or losses relating to fair value changes could be changed. For the details of the valuation method and key assumptions used, please refer to Note 33.

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 of the Company that make strategic decisions.

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

5 **SEGMENT INFORMATION** – *continued*

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'

5 SEGMENT INFORMATION – *continued*

( ) U a ca ed

The ‘Unallocated’ category mainly represents the headquarter income and expenses.

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

	Ge e a h a e ce RMB’000	H a a age e e ce RMB’000	Sa e f ha ace ca d c RMB’000	U a ca ed RMB’000	T a RMB’000
Yea e ded Dece be 31, 2020					
Segment revenue	171,267	226,888	1,059	–	399,214 customersenue

5 SEGMENT INFORMATION – *continued*

( ) U a ca ed – *continued*

	General hospital services RMB'000	Hospital management services RMB'000	Wholesale of pharmaceutical products RMB'000	Elimination RMB'000	Unallocated RMB'000	Total RMB'000
Yea e ded Dece be 31, 2019						
Segment revenue	196,472	212,205	3,105	(899)	–	410,883
Inter-segment revenue	–	–	(899)	899	–	–
Revenue from external customers	196,472	212,205	2,206	–	–	410,883
Timing of revenue recognition						
– At a point in time	98,826	–	2,206	–	–	101,032
– Over time	97,646	212,205	–	–	–	309,851
	196,472	212,205	2,206	–	–	410,883
EBITDA	9,950	180,688	(199)	479	–	190,918
Depreciation	(7,926)	(1,925)	(258)	–	(103)	(10,212)
Amortization	(7,702)	(23,694)	(697)	–	(1,521)	(33,614)
Finance (costs)/income	(1,804)	205	5	–	20,128	18,534
Unallocated income-net					29,940	29,940
(Loss)/profit before income tax	(7,482)	155,274	(1,149)	479	48,444	195,566
A a Dece be 31, 2019						
Segment assets	404,802	1,464,058	3,167	–	965,175	2,837,202
Goodwill	301,995	1,306,506	9,266	–	–	1,617,767
Total assets	706,797	2,770,564	12,433	–	965,175	4,454,969
Total liabilities	137,064	342,565	1,788	–	2,155,712	2,637,129

6 EXPENSES BY NATURE

	Yea e ded Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Employee benefits expenses (Note 9)	**110,400**	122,100
Cost of inventories	**79,240**	103,665
Amortisation and depreciation	**42,902**	43,826
Professional fees	**6,986**	13,348
Auditor's remuneration	**2,933**	3,308
Utilities and office expenses	**2,768**	2,810
Business tax and other transaction taxes	**2,393**	1,694
Travelling and entertainment expenses	**683**	1,474
Operating lease rental expenses	**972**	1,337
Other expenses	**7,511**	7,999
	256,788	301,561

7 OTHER INCOME NET

	Yea e ded Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Government grants and subsidies (a)	**4,299**	2,138
Others	**504**	1,315
	4,803	3,453

(a) The Government grants and subsidies mainly consist of RMB1,638,000 granted by the People's Government of Sanlin Town in Shanghai for the year ended December 31, 2020 in consideration of the taxation contribution of Weikang Investment (2019: RMB1,677,000) and RMB1,860,000 granted by the People's Government of Jiande City for the year ended December 31, 2020 to support the development of private medical institutions established through social capital contribution (2019: nil).

8 OTHER GAINS – NET

	Yea e ded Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Net fair value gains on convertible bonds	**72,983**	62,586
Net gains on the extension of convertible bonds	**62,202**	—
Net fair value gains on financial assets at FVPL	**1,953**	5,026
Loss on disposal of property, plant and equipment	**(2,226)**	(325)
Others	**1,314**	(1,449)
	136,226	65,838

9 EMPLOYEE BENEFIT EXPENSE

	Yea e ded Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Wages, salaries, bonuses and other benefits	**101,723**	103,525
Share-based compensation expenses	**402**	2,386
Contribution to pension plans and others	**8,275**	16,189
	110,400	122,100

The employees of the Group in the PRC are members of a state-managed pension obligations operated by the PRC Government. The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the pension obligations to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

9 EMPLOYEE BENEFIT EXPENSE – *continued*

( ) F e h ghe a d d d a

The five individuals whose emoluments were the highest in the Group for the year include two (2019: two) directors whose emoluments are reflected in the analysis shown in Note 41. The emoluments payables to the remaining three (2019: three) individuals during the year are as follows:

	Yea e ded Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**3,128**	2,995
Contribution to pension scheme	**79**	65
Bonuses	**1,365**	936
Share-based compensation expenses	**433**	3,255
	5,005	7,251

The number of highest paid non-director individuals whose remunerations fell within the following band is as follows:

	Yea e ded Dece be 31,	
	2020	2019
	. f	no. of
	d d a	individual
E e ba d		
HKD1,500,000 – HKD1,999,999	**2**	1
HKD2,000,000 – HKD2,499,999	**1**	1
HKD4,000,000 – HKD4,499,999	**—**	1
	3	3

10 FINANCE INCOME AND COSTS

	Yea e ded Dece be 31,	
	2020	2019
	RMB'000	RMB'000
F a ce c e		
Interest income on bank deposits	14,052	9,716
Interest income on loan to related parties	4,368	876
Foreign exchange gains-net	—	31,510
	18,420	42,102
F a ce c		
Interest expense on bank borrowings	(12,964)	(14,618)
Interest expense on lease liabilities	(97)	(87)
Finance cost on other financial liability at amortised cost (a)	(6,500)	(8,800)
Foreign exchange losses – net	(34,753)	—
Others	(88)	(63)
	(54,402)	(23,568)
F a ce (c)/ c e e	(35,982)	18,534

(a) The Company has used the amortization method and estimated that the present value of the redemption amount of a put option granted by the Company to be RMB237,100,000 as at December 31, 2020, (2019: RMB230,600,000), with the reference to a valuation report issued by an independent valuer.

11 SUBSIDIARIES

The Group's principal subsidiaries at December 31, 2020 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Na e fe	Pace a d da e f c a /e ab h e / d f ega e	P c a ac e / ace f e a	Reg e ed/ I ed a d ad- ca a	O e h ee hed b he G		O e h ee hed b -c g ee	
				2020 %	2019 %	2020 %	2019 %
D ec ed:							
Acute Sky Holdings Limited (天銳控股有限公司)	The BVI, on January 2,2014	Investment holding, the BVI	US$1	100%	100%	–	–
Ever Surpass Investments Limited (恒越投資有限公司)	The BVI, on December 10, 2013	Investment holding, the BVI	US$1	100%	100%	–	–
Oriental Ally Holdings Limited (東協控股有限公司)	The BVI, on May 2, 2014	Investment holding, the BVI	US$1	100%	100%	–	–
I d ec ed:							
Bliss Success Holdings Limited (妙榮控股有限公司)	Hong Kong, on December 20, 2011	Investment holding, Hong Kong	HK$1	100%	100%	–	–
New Pride Holdings Limited (捷穎控股有限公司)	Hong Kong, on April 11, 2012	Investment holding, Hong Kong	HK$1	100%	100%	–	–
Impeccable Success Limited (成臻有限公司)	Hong Kong, on June 9, 2014	Investment holding, Hong Kong	US$1	100%	100%	–	–
Honghe Yixin Investment Management (Shanghai) Co., Ltd. (弘和醫信投資管理(上海)有限公司)	The PRC, limited liability company, on July 29, 2014 #	Investment holding, the PRC	RMB 30,000,000	100%	100%	–	–
Tibet Honghe Zhiyuan Business Management Co., Ltd. (西藏弘和志遠企業管理有限公司)	The PRC, limited liability company, on October 10, 2014	Management services, the PRC	RMB 30,000,000	100%	100%	–	–
Tibet Dazi Honghe Ruixin Business Management Co., Ltd. (西藏達孜弘和瑞信企業管理有限公司)	The PRC, limited liability company, joint venture, on December 23, 2014	Hospital management, the PRC	RMB 500,000	77%	77%	23%	23%
Shanghai Weikang Investment Management Co., Ltd. (上海維康投資管理有限公司)	The PRC, limited liability company, joint venture, on April 15, 2002 @	Hospital management, the PRC	RMB 30,000,000	77%	77%	23%	23%
Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd. (							

Na e f e	P ace a d da e f c a /e ab h e / d f ega e	P c a ac e / ace f e a	Reg e ed/ I ed a d a d- ca a	O e h ee he d b he G		O e h ee he d b -c g ee	
				2020	2019	2020	2019
				%	%	%	%
Jiande Heyue Enterprise Management Co., Ltd. (							

11 SUBSIDIARIES – *continued*

( ) I e e b da e

Investment in subsidiaries is recorded at cost, which is the fair value of the consideration paid.

( ) Sg fca e c

Cash and cash equivalents of RMB116,597,000 (2019: RMB106,657,000) is held in Mainland China and is subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capitw 08ad.

11 SUBSIDIARIES – *continued*

( ) Ma e a -c g e e (NCI) – *continued*

Summarised statement of comprehensive income

	We a g l e e		H ghe R		Ja de H a		C H ghe		Zhe a g H ghe Zh a	
	Yea e ded Dece be 31,		Yea e ded Dece be 31,		Yea e ded Dece be 31,		Yea e ded Dece be 31,		Yea e ded Dece be 31,	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	52,853	44,288	122,334	105,068	167,244	194,004	15,426	21,092	36,276	41,757
Profit/(loss) before income tax	34,200	27,146	116,895	100,381	(3,218)	(5,734)	(64,924)	9,192	(151,860)	(23,226)
Income tax expense	(10,498)	(6,020)	(17,826)	(17,041)	315	169	16,291	(2,298)	37,964	3,714
P f /( ) f he ea	23,702	21,126	99,069	83,340	(2,903)	(5,565)	(48,633)	6,894	(113,896)	(19,512)
Other comprehensive income	–	–	–	–	–	–	–	–	–	–
T a c ehe e c e/( )	23,702	21,126	99,069	83,340	(2,903)	(5,565)	(48,633)	6,894	(113,896)	(19,512)
Profit/(loss) allocated to NCI	5,451	4,859	22,786	19,168	(871)	(1,669)	(14,590)	2,068	(28,474)	(4,878)
Dividends paid to NCI	4,964	7,088	20,489	20,306	–	–	5,470	–	–	–

Summarised statement of cash flows

	We a g l e e		H ghe R		Ja de H a		C H ghe		Zhe a g H ghe Zh a	
	Yea e ded Dece be 31,		Yea e ded Dece be 31,		Yea e ded Dece be 31,		Yea e ded Dece be 31,		Yea e ded Dece be 31,	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net cash generated from/ (used in) operating activities	15,278	18,609	88,268	32,278	23,843	21,065	(1,124)	7,061	(7,454)	13,544
Net cash (used in)/ generated from investing activities	(24,910)	113,912	(2,764)	50,346	(12,802)	(36,368)	16,167	(20,000)	–	–
Net cash (used in)/generated from financing activities	(5,894)	(118,793)	(84,504)	(84,760)	(13,947)	32,998	(12,055)	1,227	982	1,120
Ne (dec ea e)/ c ea e ca h a d ca h e a e	(15,526)	13,728	1,000	(2,136)	(2,906)	17,695	2,988	(11,712)	(6,472)	14,664

12 INCOME TAX (CREDIT)/EXPENSE

Subsidiaries established and operating in Mainland China are subject to the PRC corporate income tax at the rates of 25% or 15% for the year ended December 31, 2020 (2019: 25% or 15%).

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Current income tax:		
– PRC corporate income tax	35,454	27,025
Deferred income tax credit (Note 32)	(50,208)	(905)
	(14,754)	26,120

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of the PRC, the principal place of the Group's operations, as follows:

12 INCOME TAX (CREDIT)/EXPENSE – *continued*

( ) Ca a I a d I c e Ta

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.

( ) H g K g P f Ta

Hong Kong profits tax rate was 16.5% for the year ended December 31, 2020 (2019: 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 years ended December 31, 2020 and 2019.

( ) PRC C a e I c e Ta (‘CIT’)

The income tax rate of Tibet Honghe Zhiyuan Business Management Co., Ltd. (‘Honghe Zhiyuan’) and Honghe Ruixin was 15% for the year ended December 31, 2020 (2019: 15%). The income tax rate of other subsidiaries was 25% for the year ended December 31, 2020 (2019: 25%).

( ) W hh d g Ta

The withholding tax rate of Bliss Success Holdings Limited and Impeccable Success Limited was 10% Tw ecNurs26

13 (LOSS)/EARNINGS PER SHARE

( ) Ba c ( )/ea g e ha e

Basic (loss)/earnings per share is calculated by dividing:

- The (loss)/profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares.
- By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year excluding shares held for employee share scheme.

	Yea e ded Dece be 31,	
	2020	2019
Total (loss)/profit attributable to owners of the Company (RMB'000)	**(404,342)**	150,900
Weighted average number of ordinary shares in issue (in thousands)	**138,194**	138,158
Basic (loss)/earnings per share (in RMB)	**(2.926)**	1.092

( ) D ed ( )/ea g e ha e

The Group had potential dilutive shares during the year ended December 31, 2020 related to the convertible bonds. Mainly due to the Group's negative financial results during the year ended December 31, 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 in 2020.

Diluted (loss)/earnings per share is calculated by adjusting the (loss)/profit attributable to owners of the Company to assume conversion of the convertible bonds issued at March 5, 2018 and August 7, 2018 which are dilutive and adjusting the weighted average number of ordinary shares in issue considering conversion of the convertible bonds during the year ended December 31, 2019.

13 (LOSS)/EARNINGS PER SHARE – *continued*

( ) D ed ( )/ea g e ha e – *continued*

	Yea e ded Dece be 31,	
	2020	2019
Total (loss)/profit attributable to owners of the Company (RMB'000)	**(404,342)**	150,900
Fair value change of the convertible bonds (RMB'000)	**—**	(104,643)
Total (loss)/profit used to determine diluted (loss)/earnings per share (RMB'000)	**(404,342)**	46,257
Weighted average number of ordinary shares in issue (in thousands)	**138,194**	138,158
Adjustment for calculation of diluted earnings per share:		
– Convertible bonds that are dilutive (in thousands)	**—**	64,694
Weighted average number of ordinary shares in issue and potential ordinary shares (in thousands)	**138,194**	202,852
Diluted (loss)/earnings per share (in RMB)	**(2.926)**	0.228

14 PROPERTY, PLANT AND EQUIPMENT

				Off ce		
				e e ,		
		Lea eh d	Med ca	f ea d	C c	
	B d g	e e	e e	eh c e	g e	T a
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
A Ja a 1, 2019						
Cost	125,245	2,957	24,518	8,855	—	161,575
Accumulated depreciation	(9,567)	(2,723)	(3,199)	(2,146)	—	(17,635)
Net book amount	115,678	234	21,319	6,709	—	143,940
Yea e ded Dece be 31, 2019						
Ne b a e						
Opening net book amount	115,678	234	21,319	6,709	—	143,940
Additions	—	107	7,393	609	4,743	12,852
Disposals	(290)	—	(75)	(39)	—	(404)

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14 PROPERTY, PLANT AND EQUIPMENT – *continued*

Depreciation expense of RMB8,232,000 (2019:RMB7,613,000) was charged in 'cost of revenue', and RMB2,535,000 (2019: RMB2,599,000) in 'administrative expenses' for the year ended December 31, 2020.

Some land and buildings of the Group have certain title defects. The Group does not hold the land use right certificates or building ownership certificates for the relevant properties, nor the construction work planning permits, commencement permits or completion inspection certificates. The Group has not yet obtained properties title certificates and is in the process of obtaining ownership certificates for all its properties.

Furthermore, PRC legal advisors of the Group have advised that the title defects on the land and buildings will not create any substantive legal obstacle for the Group to continue using the land and the buildings located on it or cause suspension to the operations of the Group. The management of the Group reasonably and firmly believes that the risk of the Group being required to suspend using the land and buildings is extremely remote. Moreover, the management has considered and assessed the feasibility of relocation and made a relocation plan accordingly. In addition, the controlling shareholder have confirmed to the management of the Group that they have sufficient financial resources (including capital commitments of the limited partners of Hony Fund V and assets of Hony Fund V) to fully indemnify the Group for any damages or costs incurred in relation to the title defects.

Based on the aforementioned facts, the directors of the Company are of the view that:

(i) The title defects of the land and buildings did not have a significant impact on the operation and going concern issue related to the basis of preparation of the financial information of the Group during the periods; and

(ii) Any damages or costs incurred in relation to the title defects of the land and building will be indemnified by the controlling shareholder of the Company, thus there will be no significant financial impact on the financial information of the Group.

The acquisition cost of buildings is comprising of the land and its building cost. According to an independent valuer, due to the title defects, it is infeasible and impractical to separately evaluate the fair value of the land and the buildings, which would be required to split the value between land and building cost. The directors of the Company consider as there is no reasonable basis to allocate the consideration to the land and the buildings located thereon, respectively, the total consideration has been recognized in the 'Property, Plant and Equipment' as buildings and depreciated over the estimated useful lives of 20 to 50 years. The directors of the Company is of the view that the reclassification of non-current assets in the balance sheet and the difference between depreciation and amortization charges resulting from different useful lives is immaterial.

15 LEASES

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

( ) A ec g ed he ba a ce hee

The balance sheet shows the following amounts relating to leases:

	A a Dece be 31, 2020 RMB'000	As at December 31, 2019 RMB'000
R gh - f- e a e		
Properties	1,276	3,467
Land use right	37,599	38,544
	38,875	42,011
Lea e L ab e		
Current	266	2,412
Non-current	692	650
	958	3,062

Additions to the right-of-use assets during the 2020 financial year were RMB739,000 (2019: RMB4,219,000).

( ) A ec g ed he c da ed a e e f c ehe e c e

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

	Yea e ded Dece be 31,	
	2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets – properties	2,138	1,861
Amortisation charge of right-of-use assets – land use right	944	943
Interest expense (included in finance cost)	100	87
Expense relating to short-term leases (included in cost of revenue and administrative expenses)	866	1,304
Expense relating to leases of low-value assets (included in administrative expenses)	16	33

The total cash outflow for leases in 2020 was RMB3,129,000 (2019: RMB3,643,000).

15 LEASES – *continued*

( ) The G ’ ea g ac e a d h he e a e acc ed f

The Group leases a warehouse, two retail stores, various equipment, offices, apartments and lands. Rental contracts are typically made for fixed periods of 3 months to 50 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

( ) E e a d e a

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group’s operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

16 INTANGIBLE ASSETS

	G d	C ac a gh de a age e e ce	Med ca ce e	C e f a e	T a
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
A Ja a 1, 2019					
Cost	1,617,767	1,158,200	186,900	1,813	2,964,680
Accumulated amortisation	—	(21,047)	(6,853)	(241)	(28,141)
Net book amount	1,617,767	1,137,153	180,047	1,572	2,936,539
Yea e ded Dece be 31, 2019					
Opening net book amount as at January 1, 2019	1,617,767	1,137,153	180,047	1,572	2,936,539
Additions	—	—	—	100	100
Amortisation charge	—	(23,647)	(6,853)	(310)	(30,810)
Closing net book amount as at December 31, 2019	1,617,767	1,113,506	173,194	1,362	2,905,829
A Dece be 31, 2019					
Cost	1,617,767	1,158,200	186,900	1,913	2,964,780
Accumulated amortisation	—	(44,694)	(13,706)	(551)	(58,951)
Net book amount	1,617,767	1,113,506	173,194	1,362	2,905,829
Yea e ded Dece be 31, 2020					
Opening net book amount as at January 1, 2020	1,617,767	1,113,506	173,194	1,362	2,905,829
Amortisation charge	—	(21,959)	(6,815)	(279)	(29,053)
Impairment charge	(467,083)	(201,136)	—	—	(668,219)
Closing net book amount as at December 31, 2020	1,150,684	890,411	166,379	1,083	2,208,557
A Dece be 31, 2020					
Cost	1,617,767	1,158,200	186,900	1,913	2,964,780
Accumulated amortisation and impairment	(467,083)	(267,789)	(20,521)	(830)	(756,223)
Net book amount	1,150,684	890,411	166,379	1,083	2,208,557

16 INTANGIBLE ASSETS – *continued*

( ) I a e e f g d

Goodwill of RMB1,617,767,000 is mainly resulted from the acquisitions of subsidiaries, among which RMB950,916,000 was arising from the acquisition of Weikang Investment on September 30, 2014, RMB308,854,000 was arising from the acquisition of Jiande Hexu Enterprise Management Co., Ltd. ('Jiande Hexu') on January 11, 2018, RMB166,613,000 was arising from the acquisition of Cixi Hongai Medical Management Company Limited ('Cixi Hongai') on March 14, 2018, RMB188,977,000 was arising from the acquisition of Oriental Ally Holdings Limited ('Oriental Ally') on August 7, 2018, RMB2,407,000 was arising from the acquisition of Xinlin Pharmacy on August 31, 2018.

Management reviews the business performance and monitors goodwill resulted from each acquisition on operating segment level respectively. Goodwill arising from the acquisition of Weikang Investment was allocated to general hospital services segment and hospital management services segment. Goodwill arising from the acquisition of Jiande Hexu was allocated to general hospital services segment and sale of pharmaceutical products. Goodwill arising from the acquisition of Cixi Hongai and Oriental Ally was fully allocated to hospital management services segment. Goodwill arising from the acquisition of Xinlin Pharmacy was allocated to general hospital services segment.

The following is a summary of goodwill allocation for each operating segment:

	O e g	Add	I a e	D a	C g
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Yea e ded Dece be 31, 2020					
General hospital services segment	301,995	—	(243,500)	—	58,495
Hospital management services segment	1,306,506	—	(223,583)	—	1,082,923
Sale of pharmaceutical products segment	9,266	—	—	—	9,266
	1,617,767	—	(467,083)	—	1,150,684
Yea e ded Dece be 31, 2019					
General hospital services segment	301,995	—	—	—	301,995
Hospital management services segment	1,306,506	—	—	—	1,306,506
Sale of pharmaceutical products segment	9,266	—	—	—	9,266
	1,617,767	—	—	—	1,617,767

16 INTANGIBLE ASSETS – *continued*

( ) I a e e f g d – *continued*

As at December 31, 2020, the management of the Group 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 operates. Cash flows beyond the eight-year period are extrapolated using the estimated growth rates stated below.

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 fair value less cost of disposal (FVLCOD) calculations. 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 December 31, 2020 and 2019.

Due to the drastic changes in macroeconomic conditions as a result of the outbreak of Coronavirus Disease 2019 ('the COVID-19 outbreak'), for the year ended December 31, 2020 the operating results of general hospital services contributed by Jiande Hospital operating CGU as well as hospital management services contributed by Cixi Honghe and Zhejiang Honghe Zhiyuan operating CGUs were below the management's previous forecasts.

Based on the updated forecasts and assumptions approved by management, the recoverable amount of each CGU as at year end was determined by assessing the FVLCOD of the underlying assets with reference to a valuation report 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.

Goodwill impairment losses of RMB243,500,000, RMB130,153,000 and RMB93,430,000 were recognised for Jiande Hospital, Cixi Honghe and Zhejiang Honghe Zhiyuan operating CGUs ("the three CGUs") respectively during the year ended December 31, 2020, reducing the carrying amount of the goodwill to RMB56,088,000, RMB36,460,000 and RMB95,548,000 respectively as at December 31, 2020.

16 INTANGIBLE ASSETS – *continued*

( ) I a e e f g d – *continued*

(a) Goodwill arising from the acquisition of Weikang Investment

Hospital Management Service Segment

16 INTANGIBLE ASSETS – *continued*

( ) I a e e f g d – *continued*

(b) Goodwill arising from the acquisition of Jiande Hexu

General Hospital Services Segment

As at December 31, 2020 and 2019, the recoverable amount of general hospital services segment was determined based on FVLCOD. The key assumptions used were as follows:

	Ge e a h a e ce eg e	
	2020	2019
Revenue (% compound growth rate)	**11.98%**	14.65%
Post-tax discount rate	**15.00%**	14.50%
Recoverable amount of operating segment (RMB'000)	**372,000**	717,000

The table below sets forth each key assumption for the eight-year forecast period as of the year end (estimates based on the operation for the period indicated) used in goodwill impairment testing and the breakeven point of such key assumptions:

	Yea e ded Dece be 31, 2020	
	Ke A	**B ea e e P**
Percentage of the compound growth rate of revenue	**11.98%**	**9.48%**
Percentage of the post-tax discount rate	**15.00%**	**16.28%**

	Year ended December 31, 2019	
	Key Assumption	Breakeven Point

16 INTANGIBLE ASSETS – *continued*

( ) I a e e f g d – *continued*

(b) Goodwill arising from the acquisition of Jiande Hexu – continued

Sale of Pharmaceutical Products Segment

As at December 31, 2020, the recoverable amount of sale of pharmaceutical products segment was determined based on FVLCOD. The key assumptions used were as follows:

	Sa e f ha ace ca d c eg e	
	2020	2019
Revenue (% compound growth rate)	**19.95%**	45.90%
Post-tax discount rate	**15.00%**	14.50%
Recoverable amount of operating segment (RMB' 000)	**19,000**	15,000

The table below sets forth each key assumption for the eight-year forecast period as of the year end (estimates based on the operation for the period indicated) used in goodwill impairment testing and the breakeven point of such key assumptions:

	Yea e ded Dece be 31, 2020	
	Ke A	**B ea e e P**
Percentage of the compound growth rate of revenue	**19.95%**	**19.29%**
Percentage of the post-tax discount rate	**15.00%**	**17.50%**

	Year ended December 31, 2019	
	Key Assumption	Breakeven Point
Percentage of the compound growth rate of revenue	45.90%	45.07%
Percentage of the post-tax discount rate	14.50%	14.79%

No impairment was charged for DJ Medicine operating CGU during the years ended December 31, 2020 and 2019.

16 INTANGIBLE ASSETS – *continued*

( ) I a e e f g d – *continued*

(c) *Goodwill arising from the acquisition of Cixi Hongai*

Hospital Management Service Segment

As at December 31, 2020 and 2019, the recoverable amount of hospital management services segment was determined based on FVLCOD. The key assumptions used were as follows:

	H a a age e e ce eg e	
	2020	2019
Revenue (% compound growth rate)	**11.77%**	18.26%
Post-tax discount rate	**14.00%**	13.50%
Recoverable amount of operating segment (RMB'000)	**255,000**	514,000

The table below sets forth each key assumption for the eight-year forecast period as of the year end (estimates based on the operation for the period indicated) used in goodwill impairment testing and the breakeven point of such key assumptions:

	Yea e ded Dece be 31, 2020	
	Ke	[illegible]
	A	

16 INTANGIBLE ASSETS – *continued*

( ) I a e e f g d – *continued*

(d) Goodwill arising from the acquisition of Oriental Ally

Hospital Management Service Segment

As at December 31, 2020 and 2019, the recoverable amount of hospital management services

17 FINANCIAL INSTRUMENTS BY CATEGORY

	F a c a a e A a Dece be 31,	
	2020 **RMB'000**	2019 RMB'000
F a c a a e		
Financial assets at amortised cost		
Trade receivables	**33,945**	30,332
Other receivables and deposits	**2,544**	16,647
Amounts due from related parties	**351,120**	297,947
Cash and cash equivalents	**860,726**	836,624
Term deposits	**—**	134,370
Financial assets at FVPL		
Call option to acquire subsidiaries' remaining interest	**—**	600
Monetary funds with floating rates	**90,737**	36,229
	1,339,072	1,352,749

	F a c a ab e A a Dece be 31,	
	2020 **RMB'000**	2019 RMB'000
F a c a ab e		
Liabilities at amortised cost		
Borrowing	**131,695**	214,402
Trade payables	**16,762**	13,325
Accruals, other payables and provisions (excluding accrued employee benefits, share-based payments and other tax liabilities)	**24,366**	15,440
Amounts due to related parties	**22,843**	23,749
Financial liabilities at amortised cost	**237,100**	230,600
Lease liabilities	**958**	3,062
Financial liabilities at FVPL		
Convertible bonds	**1,558,245**	1,693,430
	1,991,969	2,194,008

18 TRADE RECEIVABLES

	A a Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Trade receivables	**36,945**	31,332
Less: provision for impairment of trade receivables (Note 3.1(ii))	**(3,000)**	(1,000)
Trade receivables – net	**33,945**	30,332

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

As at December 31, 2020 and 2019, the aging analysis based on invoice date of the trade receivables was as follows:

	A a Dece be 31,	
	2020	2019
	RMB'000	RMB'000
1 – 90 days	**33,058**	

19 INVENTORIES

	A a Dece be 31,
	2020

21 BALANCES WITH RELATED PARTIES

As at December 31, 2020 and 2019, the balances with related parties are unsecured, receivable/payable on demand and are denominated in RMB.

	A a Dece be 31,	
	2020	2019
	RMB'000	RMB'000
A d e f e a ed a e		
– Trade in nature		
Jinhua Hospital	**150,573**	122,120
Yangsi Hospital	**116,308**	88,540
Cixi Hospital	**12,822**	6,384
– Others		
Jinhua Hospital (a)	**80,000**	80,429
Vanguard Glory Limited	**342**	366
Yangsi Hospital	**414**	64
Midpoint Honour Limited	**—**	36
Han Prestige Limited	**6**	8
	360,465	297,947
Less: provision for impairment of amounts due from related parties (Note 3.1(ii))	**(9,345)**	—
Amounts due from related parties – net	**351,120**	297,947
Less: non-current portion (a)	**(80,000)**	(80,000)
Current portion	**271,120**	217,947

(a) Honghe Zhiyuan, as a lender, entered into three loan agreements with Jinhua Hospital in July, November and December of 2019 with the principle amounting to RMB40,000,000, RMB20,000,000, RMB20,000,000, respectively. The loans will mature 36 months from the date of drawdown and bear an interest rate of 5.23% per annum, which is subject to adjustment according to the applicable benchmark interest rates as published by the People's Bank of China from time to time. As at December 31, 2020, the outstanding principal amounted to RMB80,000,000.

21 BALANCES WITH RELATED PARTIES – *continued*

As at December 31, 2020 and 2019, the aging analysis based on trading date of the amount due from related parties which are trade in nature was as follows:

	A a Dece be 31,	
	2020	

21 BALANCES WITH RELATED PARTIES – *continued*

As at December 31, 2020 and 2019, the aging analysis based on trading date of the amount due to related parties which are trade in nature was as follows:

	A a Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Within 90 days	**7,031**	7,621
90 to 180 days	**1,260**	179
Over 180 days	**170**	942
	8,461	8,742

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

( ) C a f ca f f a c a a e a FVPL

The Group classifies the following financial assets at FVPL:

- Debt investments that do not qualify for measurement at either amortised cost or FVOCI, and
- Equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

Financial assets mandatorily measured at FVPL include the following:

	A a 31 Dece be ,	
	2020	2019
	RMB'000	RMB'000
C e a e		
Monetary funds with floating rates	**90,737**	36,229
Call option to acquire subsidiaries' remaining interests	**—**	600
	90,737	36,829

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – *continued*

( ) A ec g ed f

During the year, the following gains were recognised in profit or loss:

	Yea e ded 31 Dece be ,	
	2020	2019
	RMB'000	RMB'000
Fair value gains on monetary funds with floating rates recognised in other gains	**2,553**	5,626
Fair value loss on call option recognised in other losses	**(600)**	(600)
	1,953	5,026

( ) R e ea d fa a e ea e e

For information about the methods and assumptions used in determining fair value please refer to Note 3.3.

23 TERM DEPOSITS

	A a 31 Dece be ,	
	2020	2019
	RMB'000	RMB'000
HKD term deposits	**—**	134,370

Term deposits with initial terms of six months were neither past due nor impaired.

The term deposits were redeemed as scheduled in March 2020. The effective interest rate for the term deposits of the Group with initial terms of six months during the year ended December 31, 2019 was 2.50% and the carrying amounts approximated their fair values as at December 31, 2019.

24 CASH AND CASH EQUIVALENTS

	A a Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Cash at banks	142,612	305,779
Cash on hand	300	44
Term deposits with initial terms within three months	676,714	497,816
Deposits held at call with financial institutions	41,100	32,985
	860,726	836,624

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	A a Dece be 31,	
	2020	2019
	RMB'000	RMB'000
US dollars	3,682	5,447
Hong Kong dollars	628,487	614,650
RMB	228,557	216,527
	860,726	836,624

Cash at banks earns interest at floating rates based on daily bank deposit rates, and deposits held at call with financial institutions earns interest at the fixed rates.

25 SHARE CAPITAL, TREASURY SHARES AND SHARE PREMIUM

	N be f ha e	N a a e f ha e HKD
A h ed		
Ordinary shares	500,000,000	500,000

	N be f ha e	O d a ha e RMB'000	T ea ha e RMB'000	Sha e e RMB'000	T a RMB'000
I ed a d Pa d					
A a Ja a 1, 2019	138,194,000	123	—*	432,993	433,116
Vesting of shares under management					

26 SHARE-BASED PAYMENTS

( ) Sha e S b c Ag ee e

On March 31, 2016, the Company entered into a share subscription agreement (the 'Share Subscription Agreement') with certain members of the management (collectively, the 'Management Subscribers'), their respective investment holding companies, Midpoint Honour Limited (a shareholder of the Company, which was collectively owned by the investment holding companies of the Management Subscribers) ('Midpoint Honour'), Hony Capital 2008 Management Limited ('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, respectively (the 'Amendment Agreements').

Pursuant to the Share Subscription Agreement, the Company allotted and issued 300 new ordinary shares to Midpoint Honour (the 'Subscription Shares'), representing 3% of the Company's then issued ordinary shares for RMB31,152,000, and such Subscription Shares were treated as treasury shares. On December 4, 2016, the Company repurchased 14 Subscription Shares at a price of HKD1,787,000 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 of a par value of HKD0.001 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 Subscribers resigns with the Company's consent, with a consideration equal to the subscription consideration plus interests where available (the "Put Back Consideration"). As a result, it is accounted as a share option scheme in accordance with relevant accounting standards, under which the Management Subscribers were granted 300 share options and the Group receives services from the Management Subscribers. Options are conditional on the employees completing the first year and second year's services, which are the vesting period. The options are exercisable starting 12 months (the 'First Batch Share Options') or 24 months (the 'Second Batch Share Options') from the Listing date. The exercise price of the granted options is equal to the Put Back Consideration. The granted share options were considered as equity-settled share-based payment to the subscriber.

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

26 SHARE-BASED PAYMENTS – *continued*

( ) Sha e S b c Ag ee e – *continued*

On March 15, 2019, pursuant to the Share Subscription Agreement and the Amendment Agreements, the Second Batch Share Option of unlocked treasury 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.

As of December 31, 2019, pursuant to the Share Subscription Agreement and the Amendment Agreements, the granted share options have been finally settled when the options were vested or repurchased. Share-based compensation expenses related to the Share Subscription Agreement of nil was recognized as 'cost of revenue' for the year ended December 31, 2020 (2019: RMB311,000).

( ) P e-IPO Sha e A ec a R gh Sche e

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

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

The fair value of the notional shares granted to the Pre-IPO SARs Grantee as at December 31, 2020, as determined using the Black-Scholes model by a professional valuation firm, was RMB1,458,000. The significant inputs in the valuation model were listed as below:

	A a Dece be 31, 2020			
	F Ba ch Sha e O	Sec d Ba ch Sha e O	Th d Ba ch Sha e O	F h Ba ch Sha e O
Volatility	25.60%	25.60%	25.60%	25.60%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected option life (month)	20.50	32.50	44.50	56.50
Annual risk-free interest rate	1.07%	1.07%	1.07%	1.07%
Carrying amount of liability	459,000	459,000	276,000	264,000

26 SHARE-BASED PAYMENTS – *continued*

( ) P e-IPO Sha e A ec a R gh Sche e – *continued*

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

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

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

From March 15, 2020, the third batch, which is 25% of the total notional shares were free to be vested for the remaining Pre-IPO SARs Grantees.

26 SHARE-BASED PAYMENTS – *continued*

( ) Se ce C ac h M . L We – *continued*

On January 25, 2019, Mr. Lu Wenzuo submitted an application to New Pride for the exercise of Mr. Lu's SARs amounting to RMB13,623,000. As at December 31, 2020 and 2019, the amount of Mr. Lu's SARs had not been settled.

Share-based compensation expenses related to the Mr. Lu's SARs of nil was derecognized as 'cost of revenue' for the year ended December 31, 2020 (2019: RMB277,000 was derecognized as 'cost of

27 OTHER RESERVES

	Ca a e e e RMB'000	S a e e e RMB'000	T a RMB'000
A Ja a 1, 2019	878,445	32,013	910,458
Share-based payments – share subscription agreement	311	—	311
Share-based payments – share option scheme (Note 26(iv))	5,182	—	5,182
Transfer of reserves (a)	—	8,280	8,280
A Dece be 31, 2019	883,938	40,293	924,231
A Ja a 1, 2020	**883,938**	**40,293**	**924,231**
Share-based payments – share option scheme (Note 26(iv))	**1,392**	**—**	**1,392**
Transfer of reserves (a)	**—**	**2,488**	**2,488**
A Dece be 31, 2020	**885,330**	**42,781**	**928,111**

(a) S a e e e

In accordance with the PRC regulations and the articles of association of the companies now comprising the Group, before distributing the net profit of each year, companies registered in the PRC are required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses '

28 (ACCUMULATED LOSSES)/RETAINED EARNINGS

	RMB'000
A Ja a 1, 2019	(19,172)
Profit for the year	150,900
Transfer of reserves	(8,280)
A Dece be 31, 2019	123,448
A Ja a 1, 2020	**123,448**
Loss for the year	**(404,342)**
Transfer of reserves	**(2,488)**
A Dece be 31, 2020	**(283,382)**

29 TRADE PAYABLES

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

	A a Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Within 90 days	**12,729**	11,458
91 to 180 days	**1,570**	971
181 days to 1 year	**1,219**	372
Over 1 year	**1,244**	524
	16,762	13,325

30 BORROWINGS

	As at December 31, 2020			As at December 31, 2019		
		Non-			Non-	
	Current	current	Total	Current	current	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowing						
Secured but unguaranteed (a)	57,309	34,386	91,695	74,744	99,658	174,402
Unsecured and unguaranteed (b)	40,000	—	40,000	40,000	—	40,000
Total bank borrowing	97,309	34,386	131,695	114,744	99,658	214,402

(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 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 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 seven one-year loan agreements with Agricultural Bank of China Jiande Branch on January 15, January 17, March 20, April 9, November 12, December 4 and December 17, 2020, respectively. The remaining amount of these loans was RMB40,000,000, which consist of the loans amounting to RMB3,000,000, RMB9,900,000, RMB9,900,000, RMB9,000,000 and RMB8,200,000 bore fixed interest rates of 4.437%, 4.350%, 4.300%, 4.300% and 4.300% respectively.

As at December 31, 2020, the Group's borrowings were repayable as follows:

	Bank borrowing	
	2020	2019
	RMB'000	RMB'000
Within 1 year	97,309	114,744
Between 1 and 2 years	34,386	62,286
Between 2 and 5 years	—	37,372
	131,695	214,402

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

31 ACCRUALS, OTHER PAYABLES AND PROVISIONS

	A a Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Accrued employee benefits	35,673	36,841
Share-based payments	15,081	16,071
Duty and tax payables other than corporate income tax	10,787	10,870
Other payables to suppliers for purchase of plant and equipment	8,331	6,148
Accrued professional service fee	5,508	5,556
Other payables of medical allowance	1,274	1,392
Payments to medical insurance settlement	3,350	—
Payments to Jiande Medical Insurance Bureau	2,157	—
Others	3,746	2,344
	85,907	79,222
Less: non-current portion	(196)	(362)
Current portion	85,711	78,860

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

32 DEFERRED INCOME TAX

	A a Dece be 31,	
	2020	2019
	RMB'000	RMB'000
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	3,835	1,413
	3,835	1,413
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	(265,302)	(322,085)
– Deferred income tax liabilities to be settled within 12 months	(36,999)	(28,002)
	(302,301)	(350,087)
Deferred income tax liabilities – net	(298,466)	(348,674)

32 DEFERRED INCOME TAX – *continued*

Defe ed c e a、a e

	P	Cha ge fa a e	U ea ed f	D a	T a
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Ba a ce a Ja a 1, 2019	694	173	66	—	933
Credited/(charged) to profit or loss	(89)	150	(66)	485	480
Ba a ce a Dece be 31, 2019	605	323	—	485	1,413
Ba a ce a Ja a 1, 2020	**605**	**323**	**—**	**485**	**1,413**
Credited/(charged) to profit or loss	**2,813**	**(275)**	**—**	**(116)**	**2,422**
Ba a ce a Dece be 31, 2020	**3,418**	**48**	**—**	**369**	**3,835**

Defe ed c e a、ab e

	B d g a d a gbe a e	W hh d g a、	Cha ge fa a e	I e e ca a a	T a
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Ba a ce a Ja a 1, 2019	(335,520)	(13,406)	(1,126)	(460)	(350,512)
Credited/(charged) to profit or loss	6,923	(7,649)	1,126	25	425
Ba a ce a Dece be 31, 2019	(328,597)	(21,055)	—	(435)	(350,087)
Ba a ce a Ja a 1, 2020	**(328,597)**	**(21,055)**	**—**	**(435)**	**(350,087)**
Credited/(charged) to profit or loss	**56,760**	**(8,998)**	**—**	**24**	**47,786**
Ba a ce a Dece be 31, 2020	**(271,837)**	**(30,053)**	**—**	**(411)**	**(302,301)**

Deferred income tax asset is recognised for provision for impairment of trade receivables, changes in fair value of financial assets at FVPL, unrealized profit resulted from changes in fair value of FVPL, internal transaction and donation to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

The Group did not recognise deferred income tax assets of RMB4,027,000 in 2020 (2019:RMB6,996,000) in respect of tax losses amounting to RMB17,386,000 (2019:RMB32,396,000) which can be carried forward against future taxable income.

32 DEFERRED INCOME TAX – *continued*

Defe ed c e a、 ab e – *continued*

The significant tax losses without recognising deferred income tax as at December 31, 2020 are mainly accumulated by Honghe Zhiyuan and DJ Pharmaceutical Technology based on management’

33 CONVERTIBLE BONDS – *continued*

( ) C e b e b d ed Ma ch 5, 2018 a d e e ded Dece be 17, 2020

On December 17, 2020, in accordance with the terms and conditions of the convertible bonds by reference to latest capital market development, the Group and Vanguard Glory renegotiated and entered into the deed of amendment to alter certain terms of the convertible bonds (the "Deed of Amendment"), subject to and effective from fulfilment of the conditions precedent. Pursuant to the Deed of Amendment, (i) the maturity date of the convertible bonds issued on March 5, 2018 shall be extended from March 5, 2021 to December 29, 2023; and (ii) in the event that the shares 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 convertible bonds. Save as revised by the Deed of Amendment, all of the terms and conditions of the convertible bonds remain unchanged and in full force.

None of convertible bonds was converted into ordinary shares of the Company during the year ended December 31, 2020.

As at December 31, 2020, the fair value of the convertible bonds is approximately HKD387,372,000, equivalent to approximately RMB326,028,000 (2019: HKD438,808,000, RMB393,077,000), which is determined by an independent qualified valuer.

The significant inputs in the valuation model related to convertible bonds extended on December 17, 2020 and issued on March 5, 2018 were listed as below:

	A a Dece be 31,	
	2020	2019
Volatility	**30%**	30%
Time to expiration (years)	**2.99**	1.18
Risk free rate of interest	**0.24%**	1.87%
Dividend yield	**0.00%**	0.00%

33 CONVERTIBLE BONDS – *continued*

( ) C e beb d ed A g 7, 2018

None of convertible bonds was converted into ordinary shares of the Company during the year ended December 31, 2020.

As at December 31, 2020, the fair value of the convertible bonds was approximately HKD639,976,000, equivalent to approximately RMB538,629,000 (2019: HKD638,069,000, RMB571,569,000), which is determined by an independent qualified valuer.

The significant inputs in the valuation model related to convertible bonds issued on August 7, 2018 were listed as below:

	A a Dece be 31,	
	2020	2019
Volatility	**30%**	30%
Time to expiration (years)	**2.60**	3.60
Risk free rate of interest	**0.21%**	1.58%
Dividend yield	**0.00%**	0.00%

( ) C e beb d ed Feb a 27, 2019

None of convertible bonds was converted into ordinary shares of the Company during the year ended December 31, 2020.

As at December 31, 2020, the fair value of the convertible bonds was approximately HKD819,493,000, equivalent to approximately RMB689,718,000 (2019: HKD808,585,000, RMB724,315,000), which is determined by an independent qualified valuer.

The significant inputs in the valuation model related to convertible bonds issued on February 27, 2019 were listed as below:

	A a Dece be 31,	
	2020	2019
Volatility	**30%**	30%
Time to expiration (years)	**3.16**	4.16
Risk free rate of interest	**0.25%**	1.53%
Dividend yield	**0.00%**	0.00%

34 DIVIDENDS

The board of directors of the Company does not resolve to declare a dividend for the year ended December 31, 2020 (2019: nil).

35 CASH GENERATED FROM OPERATIONS

( ) Ca h f f a

	A a Dece be 31,	
	2020	2019
(L e)/ f bef e c e a	**(435,823)**	195,566
Adjustments for:		
– Foreign exchange losses/(gains)	**34,753**	(31,493)
– Interest paid – net	**(5,271)**	4,176
– Finance cost related to other financial liability at amortised cost	**6,500**	8,800
– Provision for impairment of financial assets	**15,077**	1,581
– Professional fee for financing	**—**	3,333
– Depreciation and amortisation	**42,902**	43,826
– Share-based compensation expenses	**402**	5,525
– Fair value gainr,re379.843ome14843omnexpnveT1Ble bonds (Note 8Tf37.058 0 Td(34435,823))Tj/11185Tf8.566 0 Td(4,178632		

35 CASH GENERATED FROM OPERATIONS – *continued*

( ) Ne deb ec c a

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Yea e ded Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Cash and cash equivalents	**860,726**	836,624
Term deposits	**—**	134,370
Financial assets at fair value through profit or loss		
– Monetary funds with floating rates	**90,737**	36,229
Bank borrowings	**(131,695)**	(214,402)
Lease liabilities	**(958)**	(3,062)
Amounts due to related parties (non-trade)	**(14,382)**	(15,007)
Convertible bonds	**(1,558,245)**	(1,693,430)

35 CASH GENERATED FROM OPERATIONS – *continued*

( ) Ne deb ec c a – *continued*

		M ea		
	Te	f d h	Ba	Lea e
Ca h	de	f a g a e	b g	ab e

36 CONTINGENCIES

As of December 31, 2020, there was no material outstanding lawsuit of the Group and no significant lawsuit provision has been made based on directors' assessment.

37 COMMITMENTS

( ) Ca a c e

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

	Yea e ded Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Property, plant and equipment	**851**	—
Intangible assets	**1,960**	—
	2,811	—

( ) N -ca ce ab e e a g ea e

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

From January 1, 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, as described in Note 2.24 and Note 15.

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

	Yea e ded Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Within one year	**252**	71

38 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

Na e	**Re a h h he G**
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 years ended December 31, 2020 and 2019. 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.

38 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

( ) S g f ca a ac h e a ed a e

	Yea e ded Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Management service fee		
– Yangsi Hospital	**173,387**	147,206
– Cixi Hospital	**15,426**	21,092
– Jinhua Hospital	**36,276**	41,757
	225,089	210,055
Purchase of pharmaceuticals, medical consumables and medical equipment		
– Zhejiang Zhongyouli Medicines Co., Ltd	**17,510**	30,151
– Dajia Medical Equipment Co., Ltd	**5,655**	5,991

( ) L a f e a ed a e

	Yea e ded Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Beg g f he ea	**15,007**	35,929
Loans advanced	**1,726**	6,452
Loan repayments received	**(2,351)**	(28,177)
Interest payable	**—**	88
Transfer of debt	**—**	715
E d f he ea	**14,382**	15,007

38 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

( ) L a e a ed a e

	Yea e ded Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Beg g f he ea	**80,903**	60,500
Loans advanced	**55,350**	80,000
Loan repayments received	**(55,062)**	(1,568)
Interest receivable	**4,630**	929
Interest received	**(5,059)**	(500)
Transfer of debt	**—**	(58,458)
E d f he ea	**80,762**	80,903

Loan to Jinhua Hospital mature till December 31, 2020 and bear interest rate of 5.23% annually.

During the year ended December 31, 2020, the loans of RMB55,000,000 provided by Honghe Zhiyuan and Honghe Ruixin bear interest rate of 4.79% annually and had repaid this year.

( ) Ke a age e c e a

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

	Yea e ded Dece be 31,	
	2020	2019
	RMB'000	RMB'000
Wages, salaries and bonuses	**15,289**	14,822
Share-based compensation expenses	**—**	3,129
Others	**215**	356
	15,504	18,307

38 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

( ) P de g a a ee f e a ed a

As at December 31, 2020 and 2019, 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 to maximum amount of RMB412.5 million.

As at December 31, 2020 and 2019, Zhejiang Honghe Zhiyuan has provided a joint liability guarantee to Industrial and Commercial Bank of China Jinhua Economic Development Zone Branch regarding the same loans granted to Jinhua Hospital to the maximum amount of RMB550 million.

39 EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed elsewhere in this report, subsequent to December 31, 2020, the following subsequent events took place:

Adoption of Share Award Scheme

The Board has approved the adoption of the share award scheme on January 18, 2021 (the “Adoption Date”). The purposes of the scheme are (i) to encourage or facilitate the holding of shares by the selected participants; (ii) to encourage and retain the selected participants to work with the Group; and (iii) to provide additional incentive for the selected 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 selected participants with the shareholders through ownership of shares.

The scheme shall be valid and effective for a period of 10 years commencing from the Adoption Date but may be terminated earlier as determined by the Board. As of the date of this report, no share has been granted to any participants.

40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Ba a ce hee f he C a

		A a Dece be 31,
	Notes	2020

40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY – *continued*

Ba a ce hee f he C a – *continued*

	Notes	A a Dece be 31, 2020 RMB'000	2019 RMB'000
L ab e			
N -c e ab e			
Borrowings		**34,386**	99,658
Convertible bonds		**1,558,245**	1,693,430
Accruals, other payables and provisions		**—**	362
T a -c e ab e		**1,592,631**	1,793,450
C e ab e			
Borrowing		**57,309**	74,744
Other financial liability at amortised cost		**237,100**	230,600
Accruals, other payables and provisions		**5,108**	6,192
Amounts due to subsidiaries		**109,810**	–
Amounts due to related parties		**1,425**	1,517
T a c e ab e		**410,752**	313,053
T a ab e		**2,003,383**	2,106,503
T a e a d ab e		**3,226,850**	3,361,142

The balance sheet of the Company was approved by the Board of Directors on March 30, 2021 and was signed on its behalf.

Chen Shuai

Lu Wenzuo

40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY – *continued*

(a)	Acc a ed e RMB'000	O he e e e RMB'000
At January 1, 2019	(126,852)	837,546
Profit for the year	103,025	—
Share-based payments	—	5,493
A Dece be 31, 2019	(23,827)	843,039
At January 1, 2020	**(23,827)**	**843,039**
Loss for the year	**(32,564)**	**—**
Share-based payments	**—**	**1,392**
A Dece be 31, 2020	**(56,391)**	**844,431**

41 BENEFITS AND INTERESTS OF DIRECTORS

( ) D ec ' a d ch ef e ec e ff ce ' e e

The remuneration of every director and the chief executive is set out below:

E e a d ece ab e e ec f a e ' e ce a a d ec , he he f he C a b d a de a g

	Fee RMB'000	Sa a e RMB'000	D c e a b e RMB'000	E e ' c b e che e RMB'000	Sha e- ba ed a e RMB'000	E a ed e a e f he be ef RMB'000	T a RMB'000
Yea e ded Dece be 31, 2020							
Executive directors							
Mr. Shan Guoxin (i)	—	1,125	3,000	3	—	2,034	6,162
Mr. Lu Wenzuo	—	358	4,200	—	—	—	4,558
Mr. Chen Shuai (ii)	—	—	—	—	—	—	—
Non-executive directors	—						
Mr. Zhao John Huan (iii)	—	—	—	—	—	—	—
Mr. Li Peng (iv)	—	—	—	—	—	—	—
Ms. Liu Lu	—	—	—	—	—	—	—
Ms. Wang Nan	—	—	—	—	—	—	—
Mr. Su Zhiqiang (v)	—	—	—	—	—	—	—
Ms. Shi Wenting (vi)	—	—	—	—	—	—	—
Independent non-executive directors							
Ms. Chen Xiaohong (vii)	—	—	—	—	—	—	—
Mr. Shi Luwen	150	—	—	—	—	—	150
Mr. Zhou Xiangliang	150	—	—	—	—	—	150
Mr. Dang Jinxue (vii)	125	—	—	—	—	—	125
	425	1,483	7,200	3	—	2,034	11,145

41 BENEFITS AND INTERESTS OF DIRECTORS – *continued*

( ) D ec ’a d ch ef e ec e ff ce ’e e – *continued*

Emoluments paid or receivables in respect of a person’s services as a director, whether of the Company or its subsidiary undertaking

	Fees RMB’000	Salaries RMB’000	Discretionary bonuses RMB’000	Employer’s contribution to pension scheme RMB’000	Share-based payments RMB’000	Estimated money value of other benefits RMB’000	Total RMB’000
Yea e ded Dece be 31, 2019							
Executive directors							
Mr. Shan Guoxin (i)	—	2,250	2,250	32	—	63	4,595
Mr. Lu Wenzuo	—	344	3,558	—	(277)	—	3,625
Non-executive directors	—						
Mr. Zhao John Huan (iii)	—	—	—	—	—	—	—
Mr. Li Peng (iv)	—	—	—	—	—	—	—
Mr. Lin Sheng	—	—	—	—	—	—	—
Ms. Liu Lu	—	—	—	—	—	—	—
Ms. Wang Nan	—	—	—	—	—	—	—
Mr. Wei Kai	—	—	—	—	—	—	—
Independent non-executive directors							
Ms. Chen Xiaohong (vii)	150	—	—	—	—	—	150
Mr. Shi Luwen	150	—	—	—	—	—	150
Mr. Zhou Xiangliang	150	—	—	—	—	—	150
	450	2,594	5,808	32	(277)	63	8,670

41 BENEFITS AND INTERESTS OF DIRECTORS – *continued*

( ) D ec ’a d ch ef e ec e ff ce ’e e – *continued*

(i) Mr. Shan Guoxin, the chief executive officer of the Group, was appointed as an executive director as of March 12, 2019 and resigned as of June 23, 2020.

(ii) Mr. Chen Shuai had been appointed as a non-executive director, the chairman of the Board and acting chief executive officer of the Group as of June 23, 2020, and has been re-designated as an executive director as of November 20, 2020.

(iii) Mr. Zhao John Huan has resigned as a non-executive director as of June 23, 2020.

(iv) Mr. Li Peng was appointed as a non-executive director as of July 24, 2019 and resigned as of June 23, 2020.

(v) Mr. Su Zhiqiang had been appointed as an executive director of the Group as of June 23, 2020, and has been re-designated as a non-executive director of the Group as of November 20, 2020.

(vi) Ms. Shi Wenting has been appointed as a non-executive director as of June 23, 2020.

(vii) Ms. Chen Xiaohong has resigned as an independent non-executive director and Mr. Dang Jinxue has been appointed as an independent non-executive director as of March 9, 2020.

( ) D ec ’ a e a e e a ac , a a ge e c ac

No significant transactions, arrangements and contracts in relation to the Group’s business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time for the year ended December 31, 2020 (2019: nil).