弘和仁愛
HOSPITAL CORPORATION

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

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3869

2023
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Shuai（陳帥）*(Chairman and Acting Chief Executive Officer)*
Mr. Pu Chengchuan（蒲成川）
Ms. Pan Jianli（潘建麗）

Non-executive Directors

Ms. Liu Lu（劉路）
Ms. Wang Nan（王楠）

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

LISTING INFORMATION AND STOCK CODE

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

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

Hospital Corporation of China Limited (the "**Company**" and together with its subsidiaries, the "**Group**", "**we**", "**our**" and "**us**")
4th Floor, Air China Century Plaza
No.40, Xiaoyun Road, Chaoyang 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

KPMG
Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance

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 year ended December 31, 2023		The year ended December 31, 2022		The year ended December 31, 2021		The year ended December 31, 2020		The year ended December 31, 2019	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Revenue	1,427,733	100.0	1,142,951	100.0	520,290	100.0	399,214	100.0	410,883	100.0
Cost of revenue	(1,188,373)	(83.2)	(992,073)	(86.8)	(306,063)	(58.8)	(204,885)	(51.3)	(237,017)	(57.7)
Gross profit	239,360	16.8	150,878	13.2	214,227	41.2	194,329	48.7	173,866	42.3
Selling expenses	(1,568)	(0.1)	(344)	(0.0)	(2,006)	(0.4)	(4)	(0.0)	(9)	(0.0)
Administrative expenses	(129,232)	(9.1)	(95,158)	(8.3)	(95,872)	(18.4)	(51,899)	(13.0)	(64,535)	(15.7)
Impairment losses on financial assets, net	884	0.1	(1,867)	(0.2)	(26,477)	(5.1)	(15,007)	(3.8)	(1,581)	(0.4)
Impairment losses on intangible assets	–	–	(460,283)	(40.3)	(551,981)	(106.1)	(668,219)	(167.4)	–	–
Other gains/(losses) – net	88,421	6.2	(137,156)	(12.0)	19,854	3.8	136,226	34.1	65,838	16.0
Other income – net	16,633	1.2	5,942	0.5	7,181	1.4	4,803	1.2	3,453	0.8
Operating profit/(loss)	214,498	15.0	(537,988)	(47.1)	(435,074)	(83.6)	(399,841)	(100.2)	177,032	43.1
Finance income/(costs) – net	1,706	0.1	5,360	0.5	(14,028)	(2.7)	(35,982)	(9.0)	18,534	4.5
Profit/(loss) before taxation	216,204	15.1	(532,628)	(46.6)	(449,102)	(86.3)	(435,823)	(109.2)	195,566	47.6
Income tax	(47,860)	(3.4)	4,031	0.4	86,706	16.7	14,754	3.7	(26,120)	(6.4)
Profit/(loss) for the year	168,344	11.8	(528,597)	(46.2)	(362,396)	(69.7)	(421,069)	(105.5)	169,446	41.2
Other comprehensive income										
Item that will not be subsequently reclassified to profit or loss										
- Remeasurement of defined benefit obligations, net of nil tax	13,184	0.9	(2,781)	(0.2)	–	–	–	–	–	–
Total comprehensive income for the year	181,528	12.7	(531,378)	(46.5)	(362,396)	(69.7)	(421,069)	(105.5)	169,446	41.2

CONSOLIDATED ASSETS AND LIABILITIES

	As of December 31,				
	2023	2022	2021	2020	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	2,498,100	2,435,564	3,123,714	3,744,204	4,454,969
Total liabilities	1,906,897	1,992,136	1,987,887	2,376,964	2,637,129
Total equity	591,203	443,428	1,135,827	1,367,240	1,817,840

Dear Shareholders,

In 2023, the economy of the Yangtze River Delta region in China gradually recovered from the pandemic, but the scale of recovery was not as much as expected. Zhejiang Province, which is mainly engaged in the export-oriented economy, was also affected to a certain extent. Some migrant workers in the construction industry and workers in the export industry have lost, which has exerted greater pressure on the patient sources of the hospitals owned, managed and founded by the Group (the "**Group Hospital(s)**"). In addition, the reform of medical insurance payment by (Disease) Diagnosis Related Groups ("**DRGs**")/Diagnosis-Intervention Packet ("**DIP**") continued to deepen, and the Group Hospitals actively responded with more stringent cost control measures and more standardised diagnosis and treatment. Nevertheless, in 2023, the total revenue and operating profit of the Group Hospitals rebounded significantly compared with 2022, which reflected the Group's and the Group Hospitals' management teams' ability to overcome difficulties and forge ahead in business operation.

During the year, on the one hand, the Group continued to improve the quality of the medical and health services of the Group Hospitals and promoted the development of the Group Hospitals in the direction of standardisation, specialisation and branding, and on the other hand, we are striving to explore the management plan for non-public medical institutions with Chinese characteristics in a systematic and standardised manner. In terms of medical management, the hospital is supervised to formulate medium and long-term development strategies according to local conditions and supervise the implementation of work plans, and emphasize medical quality and safety management, and highlighting specialty characteristics; In line with the reform trend of the pharmaceutical industry, the Group's supply chain continued to standardise and optimise the procurement model of medicine and medical devices of the Group Hospitals, and improved the self-operation and logistics supply capacity of medicine and medical consumables; Established an independent and controllable information operation and maintenance team to continuously improve the level of refined management by means of information and technology; The Group gave full play to its management advantages, made up for the management shortcomings of non-public medical institutions through professional financial management, internal control audit and compliance review, strengthened the standardised management of the Group Hospitals, and laid a solid foundation for high-quality development.

Looking forward, the reform of medical insurance will be further advance into key points, and the public hospital medical consortium system will still hardly find the role of private hospitals, and it is also uncertain whether the key patient source of private hospitals – the mobile population brought by the real estate industry and the export trade industry – can resume growth. In the face of various challenges, the Group, as a medical service technology group with regional influence in the Yangtze River Delta region, will continue to adhere to the "Three-step" development strategy, explore and innovate business models, and focus on creating a business direction with differentiated competition with public hospitals and specialties, such as post-operative rehabilitation, dental, medical beauty, family beds, etc., in pursuit of breaking the original physical hospital walls, so that our services can benefit more people around the hospital. At the listed company level, we will continue to take measures to promote the steady growth of hospital performance, strengthen the Group's brand cultivation, actively promote the consolidation of high-quality Group Hospitals, build a sound balance sheet, and strive to enhance the integrated value of the Group.

Acknowledgement

I would like to express my sincere gratitude to the board (the "**Board**") of directors (the "**Directors**") of the Group, the management and all staff for their hard work and contributions over the past year. In the future, let us keep trying and steadily making Hospital Corporation develop into a large-scale medical service technology group that is trustworthy, respectful and striving for excellence.

Chairman and Acting Chief Executive Officer
Chen Shuai

BUSINESS OVERVIEW

Business positioning

Based on the strategic background of the construction of Healthy China, China's medical reform is moving forward rapidly towards the goal of comprehensively establishing a high-quality and efficient medical and health service system with Chinese characteristics. As a professional medical service technology group, the Group, in the face of opportunities and challenges of times, adheres to the concept of professional, standardised and differentiated management services. During the year under review, through scientific management of the Group Hospitals, on the one hand, we continued to improve the quality of the Group's comprehensive medical and health services and promoted the development of the Group Hospitals in the direction of standardisation, specialisation and branding, and on the other hand, we are striving to explore the management plan of non-public medical institutions with Chinese characteristics in a systematic and standardised manner.

Industry policy

In 2023, the government thoroughly implemented the decision and deployment of the Healthy China Strategy, and promoted the comprehensive establishment of a high-quality and efficient medical and health service system with Chinese characteristics. The General Office of the State Council issued the Opinions on Further Improving the Medical and Health Service System (《關於進一步完善醫療衛生服務體系的意見》), proposing that, by 2035, an integrated medical and health service system that is compatible with the basic realization of the socialist modernization, has a complete system, a clear division of labor, complementary functions, continuous coordination, efficient operation and resilience.

Following the milestones set forth in the Opinions on Further Improving the Medical and Health Service System(《關於進一步完善醫療衛生服務體系的意見》), and focusing on the issues of medical quality and safety, which are considered to be fundamental and crucial for promoting the construction of a Healthy China, the National Health Commission and the National Administration of Traditional Chinese Medicine issued the Comprehensive Action Plan for Enhancing the Quality of Healthcare (2023-2025) (《全面提升醫療質量行動計劃(2023-2025年)》), which put forward 28 specific measures and five special actions in the dimensions of basic quality and safety management, management of key aspects and behaviors and the construction of the quality and safety management system, and determined to commence the three-year Comprehensive Action Plan for enhancing the quality of healthcare across the PRC.

On September 20, 2023, the National Health Commission, the National Administration of Traditional Chinese Medicine, and the National Disease Control and Prevention Administration jointly issued the Technical Specifications for National Medical Service Projects (2023 Edition) (《全國醫療服務項目技術規範(2023年版)》), which requires unified industry standards, guides medical institutions to standardise charging behaviour, actively promotes cost measurement of medical institutions, establishes a scientific and reasonable performance appraisal system that reflects the value of technical labour, and strengthens the refined management of medical institutions.

Meanwhile, the National Health Commission has taken the lead in the inter-ministerial joint mechanism for the rectification of unethical practices in the field of medicine purchasing and sales and in medical services, to take forward the full-chain and full-coverage of the rectification in the medical field, and together with the member units, jointly issued the Notice of Adjustment of the Membership and Division of Responsibilities for the Inter-Ministerial Joint Mechanism for The Rectification of Unethical Practices in The Field of Medicine Purchasing and Sales and in Medical Services (《關於調整糾正醫藥購銷領域和醫療服務中不正之風部際聯席工作機制成員單位及職責分工的通知》), which mainly refers to five parts: 1) improving and perfecting the work system for rectifying unethical practices in the new era; 2) rectifying unethical practices in the key areas of the industry; 3) strengthening the supervision and management of the medical insurance funds; 4) thoroughly controlling the disruptions in the healthcare field; and 5) practically facilitating the processes to achieve practical results.

The General Office of the State Council also issued the Implementation Opinions on Strengthening the Regular Supervision over the Use of the Medical Insurance Funds (《關於加強醫療保障基金使用常態化監管的實施意見》), which promotes the normalization of unannounced inspections, campaigns and daily supervision, the combination of on-site and off-site supervision through the use of modern information technology, the promotion of the normalization of intelligent supervision and control, the continuous improvement of the social supervision system, the accessibility of the channels for reporting and complaining, and the comprehensive promotion of the implementation of the reporting incentive system.

The successive introduction of the aforesaid national policies and specific measures demonstrates that China's healthcare reform process is still firmly advancing towards its goals. According to the relevant interpretation of the policy documents, China's healthcare reform will focus on the public hospital reform oriented to public welfare, promote the transformation of China's healthcare development towards a greater emphasis on intrinsic development, service models shifting towards a greater emphasis on systemic continuity, and the management approach to one that focuses more on scientific governance, in order to build a high-quality and highly efficient medical and health service system with Chinese characteristics.

BUSINESS REVIEW

General hospital service

Our five Group Hospitals have a total of 1,650 authorised beds, with over 2 million outpatient visits and over 90,000 inpatient visits in 2023. The Group has initially established a non-public hospital group brand within the Yangtze River Delta region of China, which has a certain local influence and scale effect.

Based on the economic environment and the backdrop of medical reform, non-public medical institutions generally face a severe competition pattern and different degrees of development difficulties. Amid the fierce market competition, the Group Hospitals brave difficulties, and the revenue from general hospital services increased by 26.4% year-on-year, showing excellent business resilience and solid operation foundation. Among them, Shanghai Yangsi Hospital*(上海楊思醫院)(“**Yangsi Hospital**”), as the largest non-public hospital in Shanghai, has made outstanding contributions, while Jiande Hospital of Traditional Chinese Medical Co., Ltd.* (建德中醫院有限公司) (“**Jiande Hospital**”), as a for-profit medical institution featuring traditional Chinese medicine diagnosis and treatment, has also passed the Grade A Class II traditional Chinese medicine hospital evaluation during the year and started a new stage of development.

Hospital management service

As a professional medical service technology group, the management service business involves various aspects such as medical management, supply chain management, informatization construction, financial management, internal control and compliance management. We closely follow the development trend of the industry, and continue to create differentiated competitive advantages based on the different characteristics of various hospitals at all levels, so as to comprehensively promote the continuous improvement of the comprehensive strength of hospitals and the high-quality development of Group Hospitals.

In term of management services, the Group assists hospitals in formulating medium and long-term strategic development plans according to local conditions and supervising their implementation, provides systematic management methods in medical quality and safety, emergency response, operation, medical insurance, performance, training and other fields, implements the target management responsibility system of hospital administrators and department directors, stimulates the enthusiasm and subjective initiative of high and middle-level staff in hospitals, encourages and guides management and technological innovation, and improves management efficiency. Under the continuous scientific management of the Group, the Group Hospitals are developing steadily and demonstrating a diversified development pattern with different specialties. For example, Zhejiang Jinhua Guangfu Oncological Hospital*(浙江金華廣福腫瘤醫院) (“**Jinhua Guangfu Hospital**”) was rated as a Class III Grade B oncology specialty hospital by the Health Commission of Zhejiang Province, and the urology and other disciplines of Cixi Honghe Hospital*(慈溪弘和醫院) (“**Cixi Hospital**”) have certain popularity in the local area. By building a number of advantageous disciplines such as stomatology, ophthalmology and geriatrics, Yongkang Hospital*(永康醫院)has not only achieve good economic benefits, but also win the reputation of surrounding patients.

In order to achieve the goal of standardised and high-quality development of the Group Hospitals, in 2023, the Group emphasised on the premise of stable cash flow and compliant operation, and continued to conduct work from the three aspects of safety operation, supply chain management and informatization construction:

Strengthening Characteristic Specialty based on safety operation

- We supervise the hospital to formulate the annual work plans related to medical quality and safety, practically establish and improve the quality and safety management system of medical treatment, construct related responsibility mechanism, implement various specific tasks, strengthen personnel education, cultivate culture of pursuing medical quality and safety, and then improve the level of medical quality and safety.

- We supervise the hospital to carry out self-inspection and self-correction of safety operation in fire protection, infrastructure and other fields, investigate various hidden dangers in safety production, and introduce external professional resources to conduct technical evaluation and assist in rectification.

- The high-quality development of non-public medical institutions must take characteristic specialty as a breakthrough point, guide the Group Hospitals to formulate medium and long-term development strategies, form differentiated competition with local public medical resources, and integrate into the medical and health service system advocated by the government with complementary functions and balanced layout.

Strengthening the construction of anti-corruption system and standardising the development of supply chain

According to the reform policies and anti-corruption trend in the pharmaceutical field, the normalized management of the supply chain of non-public medical institutions is imperative. In 2023, by improving the procurement management system and process, the supply chain subsidiaries of the Group promoted the standardisation of procurement contracts, and initially formed a group procurement centre as platform, which effectively solved the problem that the relevant organisational structure and management standards of each Group Hospitals were difficult to unify; At the same time, the Group will accelerate taking over the procurement affairs of the Group Hospitals to ensure the quality and on-time supply of drugs and medical devices of the Group Hospitals. As of December 31, 2023, the Group's procurement centre has organised and implemented a total of 43 important procurement projects, including 26 medical device projects, 17 information system projects and nine other major capital expenditure projects, and has established cooperative relations with 55 suppliers.

In 2023, the Group hired a criminal compliance expert team to carry out the construction of anti-corruption system in the form of on-site visits and other investigations, identify and formulate a list of compliance risks, sort out and improve the management and control process, and unblock the reporting and complaint channels for malpractices in the field of medicine purchase and sales and medical services.

Improving informatization construction to empower high-quality development of hospitals

In 2023, the Group continued to increase investment, improve hospital information infrastructure and introduce intelligent hospital management tools. We have established a virtual intranet connecting all the Group Hospitals, and implemented a unified hospital resource planning (HRP) platform to provide information support for the linkage of medical advice and medical consumables, business and financial integration. Establishing an independent and controllable information operation and maintenance system to provide more reliable, stable and efficient support for the core business systems of each hospital. In line with the needs of improving quality and efficiency of medical care, the information team independently developed three subsystems, including performance appraisal and quality management, and promoted them to the Group Hospitals. The Group cooperated with external expert teams to take the lead in piloting the DRGs/DIP process control system and AI-assisted reading system to further ensure compliant and high-quality medical services.

2023 was the first year after the adjustment to the control measures for the COVID-19 pandemic. The Group and the Group Hospitals have withstood the test of the pandemic. Currently, in the face of the deepening reform of China's medical and health service system, we will closely follow the policy requirements and guidelines for non-public medical institutions, pay attention to key issues such as medical quality, medical insurance management, anti-corruption system construction, and social responsibility fulfilment. We will make use of the advantages and experience of the Group's operation and management to improve the business and asset quality of the Group Hospitals, expand the quantity and scale of the custody hospitals in a timely manner, consolidate high-quality targets, promote the healthy and sustainable development of the Group, and create long-term value for shareholders.

RECENT DEVELOPMENTS

Time	Event
June 6, 2023	On 6 June 2023, in accordance with the terms and conditions of the convertible bonds with an aggregate principal amount of HK$468 million issued by the Company to Vanguard Glory Limited ("**Vanguard Glory**") on March 5, 2018 (the "**Vanguard Glory Convertible Bonds**"), the Company and Vanguard Glory entered into the deed of amendment in relation to the alteration of certain terms of the Vanguard Glory Controvertible Bonds (the "**Vanguard Glory Deed of Amendment**") (the "**Vanguard Glory Alteration of Terms**"), subject to and effective from fulfilment of the Vanguard Glory Conditions Precedent. Pursuant to the Vanguard Glory Alteration of Terms, the maturity date of the Vanguard Glory Convertible Bonds shall be extended from 29 December 2023 to 30 September 2025. Save as revised by the Vanguard Glory Alteration of Terms, all of the terms and conditions of the Vanguard Glory Convertible Bonds remain unchanged and in full force. On 6 June 2023, in accordance with the terms and conditions of the convertible bonds with an aggregate principal amount of HK$773,879,717 issued by the Company to Hony Capital Fund VIII (Cayman), L.P. ("**Hony Fund VIII**") on 7 August 2018 (the "**Hony Fund Convertible Bonds**"), the Company and Hony Fund VIII entered into the deed of amendment in relation to the alteration of certain terms of the Hony Fund Convertible Bonds (the "**Hony Fund Deed of Amendment**") (the "**Hony Fund Alteration of Terms**"), subject to and effective from fulfilment of the Hony Fund Conditions Precedent. Pursuant to the Hony Fund Alteration of Terms, the maturity date of the Hony Fund VIII Convertible Bonds shall be extended from 7 August 2023 to 30 September 2025. Save as revised by the Hony Fund Alteration of Terms, all of the terms and conditions of the Hony Fund VIII Convertible Bonds remain unchanged and in full force. As at the date of this report, the respective principal amount of the Vanguard Glory Convertible Bonds and the Hony Fund VIII Convertible Bonds remains outstanding in full, and Vanguard Glory and Hony Fund VIII has not exercised its respective conversion rights. At the 2023 Extraordinary General Meeting of the Company convened on July 31, 2023, the Vanguard Glory Deed of Amendment, the Vanguard Glory Alteration of Terms contemplated thereunder, the Hony Fund Deed of Amendment, the Hony Fund Alteration of Terms contemplated thereunder, the Hony Fund Specific Mandate and the Vanguard Glory Specific Mandate have been approved.

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

July 31, 2023

Pursuant to the deed of amendment (the "**Leap Wave Deed of Amendment**") executed by the Company and Leap Wave Limited ("**Leap Wave**") on 12 August 2021 for the convertible bonds with an aggregate principal amount of HK$800,000,000 issued by the Company to Leap Wave on 27 February 2019 (the "**Leap Wave Convertible Bonds**") and the alteration of terms contemplated thereunder (the "**Leap Wave Alteration of Terms**"), with prior written consent of the Company and Leap Wave, the outstanding Leap Wave Convertible Bonds may be redeemed in whole by the Company prior to the maturity date of the Leap Wave Convertible Bonds at the mutually agreed early redemption amount (the "**Early Redemption Amount**") as calculated in accordance with the formula as disclosed in the circular of the Company dated September 16, 2021, and the Early Redemption Amount may be settled in instalments. On October 15, 2021, the Company served a redemption notice to Leap Wave to request for early redemption on all outstanding Leap Wave Convertible Bonds, pursuant to which, the Company will pay the Early Redemption Amount, being HKD784 million, to Leap Wave. As at July 31, 2023, the Company has paid HKD695 million to Leap Wave, and HKD89 million remain unpaid (the "**Remaining Early Redemption Amount**").

Given the uncertainty in the economic environment and fierce competition in the medical industry, to safeguard the health of the Company's financial cash flow, on July 31, 2023, the Company has served a written notice to Leap Wave stating that the payment of the Remaining Early Redemption Amount and interests are intended to be paid in two instalments that an amount of HKD39 million shall be paid on or before July 31, 2024 and an amount of HKD50 million shall be paid on or before July 31, 2025. Interests shall be calculated based on the actual number of days accrued from the date on which such sum being due and payable to the date on which the full amount of such sum has been duly paid by the Company and on the basis of 360 days per year in accordance with the convertible bonds instrument executed by the Company on 27 February 2019 as revised by the Leap Wave Deed of Amendment.

Following the early redemption of the Leap Wave Convertible Bonds, there will be no principal amount of the Leap Wave Convertible Bonds outstanding and no Leap Wave Convertible Bonds have been or will be converted into Shares.

Upon the payment of the Early Redemption Amount (including the Remaining Early Redemption Amount) in full, the Leap Wave Convertible Bonds will be cancelled in whole and the Company will be discharged from all of the obligations under and in respect of the Leap Wave Convertible Bonds.

For details, please refer to the announcements of the Company dated August 12, 2021, October 8, 2021, October 15, 2021 and July 31, 2023 and the circular of the Company dated September 16, 2021.

November 3, 2023

On November 3, 2023, the Company entered into a guarantee agreement (the "**Guarantee Agreement**") in favour of Nanyang Commercial Bank (China) Limited Beijing Branch*(南洋商業銀行(中國)有限公司北京分行)(the "**Bank**"), pursuant to which the Company agreed to provide a corporate guarantee for Jinhua Guangfu Hospital, which is managed by Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd*(浙江弘和致遠醫療科技有限公司)("**Zhejiang Honghe Zhiyuan**") in connection with the repayment obligations up to a maximum outstanding amount of RMB50 million (the "**Corporate Guarantee**"), since the corporate guarantee provided by Company for Jinhua Guangfu Hospital in connection with the repayment obligations up to a maximum outstanding amount of RMB50 million (the "**2022 Corporate Guarantee**") which was about to expire in November 2023 so hat Jinhua Guangfu Hospital repaid the loans in full, which resulted in the termination of the 2022 Corporate Guarantee on 2 November 2023. The Corporate Guarantee is provided as a security to enable Jinhua Guangfu Hospital to obtain funds from the Bank for the purpose of maintaining its day-to-day business operations, supporting its development, and further improving its competitiveness in the healthcare sector. The Group is able to exercise its influence over the operational and managerial decisions of Jinhua Guangfu Hospital to keep track of the funds account of Jinhua Guangfu Hospital, closely monitor the operational stability and cash flow of Jinhua Guangfu Hospital, and supervise, manage and ensure the fulfillment of the repayment obligations. The Group has made the decision not to charge any fee from providing the Corporate Guarantee to Jinhua Guangfu Hospital in consideration of the contractual relationship between the Group and Jinhua Guangfu Hospital as well as the overall interests of the Group. As at 31 December 2023, the Corporate Guarantee remains effective.

According to Rule 14.22 of the Listing Rules, the Stock Exchange will aggregate a series of transactions and treat them as if there were one transaction if they are all completed within a 12-month period or are otherwise related.

On July 24, 2019, the Company entered into a loan agreement (the "**Existing 2019 Loan Agreement**") with Jinhua Guangfu Hospital, pursuant to which the Company has conditionally agreed to grant the loan in a principal amount of RMB80 million to Jinhua Guangfu Hospital at 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, for a term of 36 months from the date of the relevant drawdown (the "**Existing 2019 Loan**"). As at 31 December 2023, the Existing 2019 Loan has been drawn down in full by Jinhua Guangfu Hospital and the outstanding principal amount of the Existing 2019 Loan was RMB80 million.

On November 20, 2020, Tibet Honghe Zhiyuan Business Management Co., Ltd.* (西藏弘和志遠企業管理有限公司) ("**Tibet Honghe Zhiyuan**"), a wholly-owned subsidiary of the Company, entered into a loan agreement (the "**Existing 2020 Loan Agreement**") with Jinhua Guangfu Hospital, pursuant to which Tibet Honghe Zhiyuan has conditionally agreed to grant the loan to Jinhua Guangfu Hospital (the "**Existing 2020 Loan**") for an availability period of three years from the date of signing of the Existing 2020 Loan Agreement and a term of one year from the date of the relevant drawdown of each installment of the loan. The maximum principal amount is RMB100 million at an interest rate of 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.

In considering the cash management requirements of the Company, on November 3, 2023, Tibet Honghe Zhiyuan and Jinhua Guangfu Hospital entered into a supplemental agreement (the "**2023 Supplemental Loan Agreement**"), pursuant to which the revolving loan credit limit granted by Tibet Honghe Zhiyuan to Jinhua Guangfu Hospital was revised from RMB100 million to RMB20 million. As at 31 December 2023, the outstanding principal amount of the Existing 2020 Loan was RMB20 million.

Since the Existing 2019 Loan and Existing 2020 Loan (collectively, the "**Existing Loans**") and the transactions contemplated under the Guarantee Agreement constitute financial assistance provided by the Company to Jinhua Guangfu Hospital, the Existing Loans and the transactions contemplated under the Guarantee Agreement are required to be aggregated pursuant to Rule 14.22 of the Listing Rules.

As the highest applicable percentage ratio in respect of the transactions contemplated under the Guarantee Agreement, when aggregated with the Existing Loans, is more than 5% but less than 25%, the transactions contemplated under the Guarantee Agreement constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Please refer to the announcements of the Company dated July 24, 2019, November 20, 2020, September 27, 2022, November 11, 2022, November 3, 2023 and November 14, 2023 for further details.

EVENTS AFTER THE YEAR UNDER REVIEW

The Group had no significant events after December 31, 2023 and up to the date of this report.

REVIEW OF 2023 ANNUAL PERFORMANCE

Results of Operations

Revenue

Our revenue increased by approximately 24.9% from approximately RMB1,143.0 million in 2022 to approximately RMB1,427.7 million in 2023. The table below sets forth the Group's revenue by segment and by services category for the years indicated:

	For the year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Revenue	**1,427,733**	1,142,951
– Hospital management services	**86,919**	81,603
– General hospital services	**1,326,280**	1,049,374
– Sale of pharmaceutical products	**11,476**	11,124
– Others	**3,058**	850

Hospital management services

Revenue from our hospital management services and supply chain service and other comprehensive management services, which consists of the provision of hospital management services to Cixi Hospital and Jinhua Guangfu Hospital, increased by approximately 6.5% from approximately RMB81.6 million in 2022 to approximately RMB86.9 million in 2023. The increase in revenue was mainly due to the increment in the revenue from comprehensive management services (such as hospital management services and supply chain services) received from hospital.

General hospital services

Revenue from our general hospital services segment increased by approximately 26.4% from RMB1,049.4 million in 2022 to approximately RMB1,326.3 million in 2023. Revenue from this segment increased mainly due to an increase of RMB276.9 million in the revenue from the provision of general hospital services by hospital to individual patients as a result of the increase in the number of out-patient and in-patient visits of hospital in 2023.

Sale of pharmaceutical products

Revenue from sale of pharmaceutical products was derived from the business of Zhejiang Dajia Medicines Co., Ltd.*（浙江大佳醫藥有限公司）(“**DJ Medicines**”) and Honghe (Jinhua) Pharmaceutical Co., Ltd.*（弘和（金華）藥業有限公司）(“**Jinhua Pharmacy**”). Revenue from sale of pharmaceutical products increased by RMB0.4 million from approximately RMB11.1 million in 2022 to approximately RMB11.5 million in 2023, mainly due to an increase in Jinhua Pharmacy's income from the supply of pharmaceutical products to customers.

Cost

Our cost increased by approximately 19.8% from approximately RMB992.1 million in 2022 to approximately RMB1,188.4 million in 2023. The increase in costs was mainly due to an increase in related cost of inventories when compared with the Corresponding Period of Previous Year.

Administrative expenses

Our administrative expenses increased by approximately 35.8% from approximately RMB95.2 million in 2022 to approximately RMB129.2 million in 2023. The increase in administrative expenses was mainly attributable to the increase in related hospital of employee benefit expenses and technology operation related expenses when compared with the Corresponding Period of Previous Year.

Other gains/(losses), net

Our other gains/(losses), net, an increase by approximately RMB225.6 million from other losses, net of RMB137.2 million in 2022 to other gains, net of RMB88.4 million in 2023. The increase in other gains, net was mainly attributable to the increase in gain on extension of convertible bonds in 2023 of RMB222.9 million, and it was offset by the fair value loss and other changes of convertible bonds of approximately RMB15.2 million.

Other income

We recorded other income of approximately RMB5.9 million and approximately RMB16.6 million for the years ended December 31, 2022 and 2023, respectively, representing a year-on-year increase of approximately 179.9%. The increase was mainly due to the increase in income from government grants.

Finance income and finance costs

Our finance income decreased by approximately RMB4.8 million from approximately RMB14.6 million in 2022 to approximately RMB9.8 million in 2023, and such decrease was mainly attributable to a decrease in foreign exchange gains arising from cash and cash equivalents of approximately RMB5.5 million.

Our finance costs decreased by approximately RMB1.1 million from approximately RMB9.2 million in 2022 to approximately RMB8.1 million in 2023, mainly due to a decrease of approximately RMB2.0 million in interest expenses on bank borrowings.

Income tax

We recorded income tax expenses of approximately RMB47.9 million for the year ended December 31, 2023, and income tax credit of approximately RMB4.0 million for the year ended December 31, 2022. The changes of approximately RMB51.9 million was mainly attributable to the decrease of approximately RMB24.9 million in deferred income tax expenses, and the increase in current income tax expenses of approximately RMB26.9 million.

Earning for the year

We recorded a net profit of approximately RMB168.3 million for the year ended December 31, 2023, representing an increase of approximately RMB696.9 million from the net loss of approximately RMB528.6 million for the corresponding period, mainly due to an increase in revenue from general hospital services provided by hospital to individual patients and the increase in gain on extension of convertible bonds.

Discussion of certain items from the consolidated statement of financial position

Cash and cash equivalents

We had cash and cash equivalents of approximately RMB497.1 million and approximately RMB523.0 million as at December 31, 2022 and 2023, respectively. The increase of approximately RMB25.9 million in 2023 was primarily attributable to the decrease in financial assets at fair value through profit or loss.

Other receivables, deposits and prepayments

Our other receivables, deposits and prepayments decreased by approximately RMB2.2 million from approximately RMB15.8 million as at December 31, 2022 to approximately RMB13.6 million as at December 31, 2023, primarily due to a decrease of RMB7.2 million for the prepayments.

Financial assets at fair value through profit or loss

Our financial assets at fair value through profit or loss as at December 31, 2023 amounted to approximately RMB94.2 million, mainly representing monetary funds. The monetary funds held by us are low-risk products.

The following table sets out the changes in the monetary funds for the year ended December 31, 2023.

	Year ended December 31, 2023 *RMB'000*
Opening balance	**129,848**
Additions	**79,172**
Settlements	**(117,094)**
Gains recognised in other gains, net	**2,230**
Closing balance	**94,156**

During the year under review, we bought monetary funds from seven financial institutions, which are independent third parties. The purchases of monetary funds do not constitute connected transactions of the Company under the Listing Rules. As all applicable percentage ratios in respect of the purchases of monetary funds from each of the seven financial institutions are less than 5% under Rule 14.07 of the Listing Rules, the purchases of monetary funds do not constitute notifiable transactions of the Company under the Listing Rules.

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

Financial assets at fair value through profit or loss	Name of monetary funds	Balances at December 31, 2023
Monetary Fund	Yinhua Duolibao Money Market Fund B（銀華多利寶B）	15,619,502
Monetary Fund	Da Cheng Fund（大成基金）	10,335,762
Structured Deposit	Structured Deposit（結構性存款）	40,000,000
Monetary Fund	MANULIFE TEDA Money Market Fund（泰達宏利貨幣市場基金）	953,967
Monetary Fund	HFT Monetary B（海富通貨幣B）	920,086
Monetary Fund	MANULIFE TEDA Money Market Fund（泰達宏利貨幣市場基金）	11,326,645
Monetary Fund	E Fund Wealth（易方達財富）	15,000,000

The financial assets that the Company invested in during the year ended December 31, 2023 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.

Accruals, other payables and provisions

Our accruals, other payables and provisions were approximately RMB520.8 million and approximately RMB486.4 million as at December 31, 2022 and 2023, respectively. The accruals, other payables and provisions decreased by approximately RMB34.4 million, mainly due to (i) the decrease in the early redemption payables for convertible bonds of RMB17.5 million, and (ii) the decrease in employee benefit expense payables of RMB26.0 million.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2023, our total equity was approximately RMB591.2 million (2022: approximately RMB443.4 million). As at December 31, 2023, we had current assets of approximately RMB949.5 million (2022: approximately RMB843.0 million) and current liabilities of approximately RMB724.4 million (2022: approximately RMB1,785.7 million). As at December 31, 2023, our current ratio was approximately 1.31, as compared with approximately 0.47 as at December 31, 2022.

Our current assets increased by approximately RMB106.5 million from approximately RMB843.0 million as at December 31, 2022 to approximately RMB949.5 million as at December 31, 2023, primarily due to the increase in cash and cash equivalents of approximately RMB25.9 million and the increase in term deposit of RMB50.0 million. Our current liabilities decreased by approximately RMB1,061.3 million from approximately RMB1,785.7 million as at December 31, 2022 to approximately RMB724.4 million as at December 31, 2023, primarily due to (i) the decrease of RMB1,026.4 million in convertible bonds which are due within one year, and (ii) the decrease of RMB79.7 million in accruals, other payables and provisions.

Our primary uses of cash in 2023 were payment for working capital. 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 RMB82.7 million, consisting of approximately RMB185.6 million in net cash inflows generated from our operations before changes in working capital, net cash outflows of approximately RMB76.4 million relating to changes in working capital, cash outflows on income tax paid of approximately RMB31.6 million and interests received of approximately RMB5.0 million. Our net cash inflows generated from operating activities before changes in working capital were primarily attributable to our profit before income tax of approximately RMB216.2 million, adjusted for non-cash and non-operating items, mainly including gains on fair value change arising from the change in value of convertible bonds of approximately RMB88.3 million, and depreciation of property, plant and equipment and amortization of intangible assets of approximately RMB62.9 million. Our net cash outflows relating to changes in working capital were primarily attributable to the increase in trade payable of approximately RMB9.6 million, the decrease in accruals, other payables and provisions of approximately RMB15.9 million, and the increase in trade receivable of approximately RMB61.2 million.

In the year under review, we had net cash outflows from investing activities of approximately RMB15.5 million, which primarily comprised the payment for property, plant and equipment of approximately RMB9.3 million.

Cash and Borrowings

We had cash and cash equivalents of approximately RMB497.1 million and approximately RMB523.0 million as at December 31, 2022 and 2023, respectively. Our borrowings amounted to approximately RMB82.1 million as at December 31, 2023 (as at December 31, 2022: approximately RMB69.4 million). Of our borrowings, approximately RMB69.0 million bear interest at a fixed rate of 3.4% and RMB13.1 million bear interest at a fixed rate of 3.2%. The table below sets forth the maturity profile of our borrowings in the years indicated:

	Bank borrowings	
	2023	2022
	RMB'000	*RMB'000*
Within 1 year	**82,100**	69,429
	82,100	69,429

As at December 31, 2023, the net gearing ratio of the Company was approximately 3.3% (net gearing ratio equals borrowing balance divided by total assets). Our Directors believe that, after taking into account the financial resources available to us, we have sufficient working capital for our requirements. Save as disclosed in this report, the Group did not have any other material contingent liabilities or guarantees as at December 31, 2023.

FUTURE PROSPECTS

China's medical industry is large in scale with high development potential. Although the current medical reform has a significant impact on the traditional medical service industry, however, we believe that such impact aims to promote the reasonable and standardised development of the industry, and will not lead to a shrinking demand for high-quality medical services. How to scientifically and effectively manage comprehensive medical institutions is still a common issue in the industry. Through the practise of hospital management services, the Group has built a team of talents with rich management experience and professional skills, and takes the Group Hospitals as the core service object to continuously improve the management system, with a view to forming an integrated solution that can effectively stimulate the high-quality development of non-public medical institutions in China.

With the deepening of China's medical reform, the Group will continue to explore the development model of non-public medical groups, seek strategic cooperation with Internet medical platforms and commercial insurance companies, form complementary resources and industrial linkage, use Internet and artificial intelligence technology to carry out personalised health management services, explore the development and application of wearable devices, intelligent health electronic products and health care mobile application services, continue to improve the competitive advantages and brand value of the Group Hospitals, and strive to provide people with safe, effective, convenient and economical medical services.

We will also pay attention to data economic opportunities. Under the premise of protecting patient privacy and abiding by other compliance requirements, we will accumulate clinical data, operational data and material data, and try to integrate resources and technical advantages in the financial and technological fields, with a view to building a business ecosystem that organically combines medical services, big data management and livelihood finance.

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, 2023 until December 31, 2023.

SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As of December 31, 2023, 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, 2023, 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, 2022 and 2023, Impeccable Success Limited ("**Impeccable Success**") has pledged its paid-up equity interests in Zhiyuan Medical to Industrial and Commercial Bank of China Jinhua Economic Development Zone Branch to secure certain loans granted to Jinhua Guangfu Hospital with a maximum amount of RMB412.5 million.

Zhiyuan Medical has provided a joint liability to Industrial and Commercial Bank of China Jinhua Economic Development Zone Branch in respect of the same loans granted to Jinhua Guangfu Hospital with a maximum amount of RMB550.0 million. As at December 31, 2023, the principal amount of loan balance of Jinhua Guangfu Hospital was RMB145.0 million.

As at December 31, 2023, Company has provided a corporate guarantee for Jinhua Guangfu Hospital and Nanyang Commercial Bank (China) Limited Beijing Branch in connection with the repayment obligations up to a maximum outstanding principal amount of RMB50 million. As at December 31, 2023, the principle amount of loan balance of Jinhua Guangfu Hospital was RMB40.0 million.

Save as disclosed above, as at December 31, 2023, the Group has pledged its assets as security for bank borrowings, details of which are set out in Note 26 to the consolidated financial statements.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended December 31, 2023.

HUMAN RESOURCES

As at December 31, 2023, we had a total of 1,457 employees (December 31, 2022: 1,422). 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, 2023, the total employee benefits expenses (including Directors' remuneration) were approximately RMB430.5 million (2022: approximately RMB380.8 million).

We set performance targets for our employees based on their position and department, and regularly review their performance. The results of these reviews are used in their salary determinations, bonus awards and promotion appraisals. As required by PRC laws and regulations, our employees participate in several government-run or-regulated benefit programs, including but not limited to retirement benefit programs, housing provident fund, medical insurance and other employee social insurance programs. The Company has adopted certain share-based payment schemes for the purpose of, among others, providing incentive and rewards to eligible persons with outstanding performance and contributions to the Group.

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, 2023.

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 hospitals; (ii) the provision of management services, supply chain services and other ancillary services to certain hospitals; and (iii) the sale of pharmaceutical products in China.

Segment analysis of the Company for the year ended December 31, 2023 is set out in Note 4 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 9 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, 2023, 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 64 to 66 of this report.

There is no significant subsequent event undertaken by the Company or by the Group from January 1, 2024 to the date of this report.

FINANCIAL RESULTS

The results of the Group for the year ended December 31, 2023 are set out in the consolidated statement of comprehensive income on page 100 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, 2019, 2020, 2021, 2022 and 2023, 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, 2023 are set out in Note 22 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 "**Articles**") and the Companies Law of the Cayman Islands (the "**Cayman Companies Law**"). 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' discretion. Dividends may also be declared and paid out of the share premium account of the Company in accordance with the Cayman Companies Law and the Articles, provided that no dividend may be paid out of the Company's share premium account unless the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which the dividend is proposed to be paid.

The Board does not recommend the payment of a final dividend for the year ended December 31, 2023 (2022: nil).

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders of the Company by reason of their holding of the Company's securities.

RESERVES

Details of the movements in the reserves of the Group during the year ended December 31, 2023 are set out in Note 24 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2023, the Company had distributable reserves of approximately RMB325.9 million.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements of our property, plant and equipment during the year ended December 31, 2023 are set out in Note 12 to the consolidated financial statements.

CONVERTIBLE BONDS

Vanguard Glory Convertible Bonds

In view of the Group's substantial need to fund our future acquisitions, the Company and Vanguard Glory, a shareholder holding 70.19% of the Company's issued share capital, entered into a subscription agreement on January 25, 2018, pursuant to which, on March 5, 2018, the Company issued and Vanguard Glory subscribed for convertible bonds in the aggregate principal amount of HK$468 million with an initial conversion price of HK$18.00 per conversion share. The Vanguard Glory 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 Glory Convertible Bonds at its principal amount.

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

Pursuant to the Alteration of Terms, (i) the maturity date of the Vanguard Glory 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 Glory 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.

On June 6, 2023, the Company and Vanguard Glory entered into the Vanguard Glory Deed of Amendment. Pursuant to the Vanguard Glory Alteration of Terms, the maturity date of the Vanguard Glory Convertible Bonds shall be extended from December 29, 2023 to September 30, 2025, subject to and effective from fulfillment of the conditions precedent.

All votes on all the proposed resolutions as set out in the notice of extraordinary general meeting dated July 7, 2023 were taken by poll at the extraordinary general meeting dated July 31, 2023 and was approved by the Stock Exchange subsequently.

Please refer to the announcements of the Company dated December 17, 2020, February 22, 2021 and June 6, 2023 and the circular of the Company dated January 29, 2021 and July 7, 2023 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 Glory Convertible Bonds were determined, was HK$15.00 per share.

The net proceeds from the Vanguard Glory Convertible Bonds, after deducting all related costs and expenses, was approximately HK$467 million. The net proceeds of approximately HK$405 million were used to acquire Cixi Hongai Medical Management Co., Ltd. ("**Cixi Hongai**") in March 2018. As at December 31, 2023, the amount of the net proceeds approximately HK$62 million used for hospital management businesses by the Group. The Directors believe that it is fair and reasonable, and in the interests of the Company and its shareholders as a whole. As at December 31, 2023, the analysis of use of the net proceeds is as follows:

	Intended use of net proceeds		Revised use of unutilized net proceeds		Utilized amount up to December 31, 2022	Utilized amount subsequent to December 31, 2022 and up to December 31, 2023	Unutilized amount as at December 31, 2023	Expected time period
	HK$ million	Percentage of the total amount	HK$ million	Percentage of the total amount	HK$ million	HK$ million	HK$ million	
Acquisition of Cixi Hongai	211	45%	405	87%	405	–	–	–
Acquisitions of other hospitals or hospital management businesses	256	55%	62	13%	–	62	–	–
	467	100%	467	100%	405	62	–	

As at December 31, 2023, none of the Vanguard Glory Convertible Bonds has been converted into shares of the Company. Details of the Vanguard Glory Convertible Bonds were disclosed in the announcement and circular of the Company dated January 25, 2018, June 6, 2023 and February 13, 2018 and July 7, 2023, respectively.

Dilution Impact on Earnings per Share

As calculated based on profit attributable to owners of the Company of approximately RMB131.4 million for the year ended December 31, 2023, basic earnings per share amounted to RMB0.956 and diluted earnings per share of the Company amounted to RMB0.213.

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

Date	**September 30, 2025** (HK$ per Share)
Share price	18.0

Hony Fund Convertible Bonds

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

Oriental Ally is an investment holding company, which directly owns 100% of the equity interest in Impeccable Success, which in turn directly owns 75% of the equity interest in Zhejiang Honghe Zhiyuan (collectively referred to as the "**Target Group**"). The Target Group is principally engaged in the provision of management and consultation services to hospital (Jinhua Guangfu 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 recognised as a non-controlling interest. The consideration was satisfied by the issuance of the Hony Fund Convertible Bonds in the aggregate principal amount of HK$773,879,717 by the Company to Hony Fund VIII on the completion date of the acquisition pursuant to the Share Purchase Agreement. On August 7, 2018, the Hony Fund Convertible Bonds were issued in registered form in the denomination of HK$1.00 each provided that in no event shall any Hony Fund Convertible Bonds be transferred, exchanged, converted or purchased in an aggregate principal amount less than HK$1.00. The Hony Fund Convertible Bonds will mature five years from their issuance or may be converted into 38,693,985 ordinary shares of the Company (assuming the conversion rights are exercised in full and subject to adjustment) at the holder's option at the conversion price of HK$20.00 per conversion share (subject to adjustment to the conversion price). Upon maturity, the Company will redeem all outstanding Hony Fund Convertible Bonds at its principal amount.

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

On June 6, 2023, the Company and Hony Fund VIII entered into the Hony Fund Deed of Amendment to alter certain terms of the Hony Fund Convertible Bonds. Pursuant to the Hony Fund Alteration of Terms, the maturity date of the Hony Fund Convertible Bonds shall be extended from August 7, 2023 to September 30, 2025.

All votes on all the proposed resolutions as set out in the notice of extraordinary general meeting dated July 7, 2023 were taken by poll at the extraordinary general meeting dated July 31, 2023 and was approved by the Stock Exchange subsequently.

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

As at December 31, 2023, none of the Hony Fund Convertible Bonds has been converted into shares of the Company. Details of the Hony Fund Convertible Bonds have been disclosed in the announcement and circular of the Company dated May 29, 2018, June 7, 2023 and June 24, 2018 and July 6, 2023, respectively.

Dilution Impact on Earnings per Share

As calculated based on earnings attributable to owners of the Company of approximately RMB131.4 million for the year ended December 31, 2023, basic earnings per share amounted to RMB0.956 and diluted earnings per share of the Company amounted to RMB0.213.

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

Date	**September 30, 2025** (HK$ per Share)
Share price	20.0

Leap Wave Convertible Bonds

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

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

On August 12, 2021, in accordance with the terms and conditions of the Leap Wave Convertible Bonds, the Company and Leap Wave entered into the Leap Wave Deed of Amendment in relation to early redemption (the "**Early Redemption**"), subject to and effective from the fulfilment of certain conditions precedent.

The Leap Wave Alteration was approved by the Shareholders at the extraordinary general meeting of the Company held on October 8, 2021 and was approved by the Stock Exchange subsequently.

The terms of Leap Wave Convertible Bonds has been amended as follows:

(i) The existing arrangements with respect to early redemption shall be replaced in entirety with the following:

With prior written consent of the Company and the Bondholder, the outstanding Convertible Bonds may be redeemed in whole by the Company prior to the Maturity Date at the mutually agreed Early Redemption Amount calculated in accordance with the following formula:

Early Redemption Amount = Principal amount of the outstanding Convertible Bonds as of the redemption date x 98%.

(ii) The following payment arrangements with respect to early redemption shall be added:

Company may pay the Early Redemption Amount to the Bondholder in instalments. The detailed instalment schedules shall be agreed between the Company and the Bondholder and set out in the redemption notice to be served by the Company to the Bondholder. No interest shall accrue on any unpaid Early Redemption Amount during the instalment period, unless where the Company fails to pay the agreed instalments on the corresponding payment dates, default interest (i.e. 5% per annum) shall accrue on the overdue amount in accordance with the existing terms of the Convertible Bonds.

On October 15, 2021, the Company has served a redemption notice to Leap Wave to request for early redemption on all outstanding Leap Wave Convertible Bonds in the principal amount of HK$800,000,000, pursuant to which, the Company will pay the early redemption amount, being HKD784,000,000, to Leap Wave in accordance with the following payment schedule:

Payment dates	**Instalment amount** (HKD in millions)
October 20, 2021	550
July 31, 2022	120
July 31, 2023	114
Total Early Redemption Amount:	784

As at July 31, 2023, the Company has paid HKD695 million to Leap Wave, and HKD89 million remain unpaid (the "**Remaining Early Redemption Amount**"). Given the uncertainty in economic environment and fierce competition in the medical industry, to safeguard the health of the Company's financial cash flow, on July 31, 2023, the Company has served a written notice to Leap Wave stating that the payment of the Remaining Early Redemption Amount and interests are intended to be paid in two instalments that an amount of HKD39 million shall be paid on or before July 31, 2024 and an amount of HKD50 million shall be paid on or before July 31, 2025. Interests shall be calculated based on the actual number of days accrued from the date on which such sum being due and payable to the date on which the full amount of such sum has been duly paid by the Company and on the basis of 360 days per year in accordance with the convertible bonds instrument executed by the Company on 27 February 2019 as revised by the Leap Wave Deed of Amendment.

Following the early redemption of the Leap Wave Convertible Bonds, there will be no principal amount of the Leap Wave Convertible Bonds outstanding and no Leap Wave Convertible Bonds have been or will be converted into Shares. Upon the payment of the early redemption amount in full, the Leap Wave Convertible Bonds will be cancelled in whole and the Company will be discharged from all of the obligations under and in respect of the Leap Wave Convertible Bonds.

Dilution Effect of the Conversion of the Vanguard Glory Convertible Bonds, the Hony Fund Convertible Bonds and the Leap Wave Convertible Bonds

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

Substantial Shareholders	**As at December 31, 2023**		**Immediately upon full conversion of the Vanguard Glory Convertible Bonds and the Hony Fund Convertible Bonds**	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Vanguard Glory	97,000,000	70.19	123,000,000	60.62
Hony Fund VIII	0	0.00	38,693,985	19.07
Anhui Zhong'an LP	9,098,800	6.58	9,098,800	4.48

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

Save as disclosed in this report, during the year ended December 31, 2023, 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. Chen Shuai *(Chairman and Acting Chief Executive Officer)*
Mr. Pu Chengchuan
Ms. Pan Jianli

Non-executive Directors:

Ms. Liu Lu
Ms. Wang Nan

Independent non-executive Directors:

Mr. Dang Jinxue
Mr. Shi Luwen
Mr. Zhou Xiangliang

Biographical details of the Directors are set out in the section headed "Biographies of Directors and Senior Management" on pages 68 to 76 of this annual report.

Ms. Pan Jianli, Mr. Dang Jinxue and Mr. Zhou Xiangliang shall retire by rotation at the forthcoming annual general meeting of the Company (the "**AGM**"). Ms. Liu Lu and Ms. Wang Nan shall also voluntarily retire at the AGM. All of the aforementioned retiring Directors, being eligible, will offer themselves for re-election at the AGM.

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 COMPETING BUSINESS

Save as disclosed under Note 36 "Significant related party transactions" to the consolidated financial statements and the section headed "Convertible Bonds" in this report, no transaction, arrangement or contract of significance (as defined in Appendix D2 to the Listing Rules) in relation to our business to which the Company, its holding company or any of its subsidiaries was a party and in which a Director or controlling shareholder of the Company had a material interest, either directly or indirectly, subsisted at any time during or at the end of the year ended December 31, 2023.

As of December 31, 2023, 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, 2023 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

During the year ended December 31, 2023, the Company conducted the following transactions which constitute non-exempt continuing connected transactions (as defined in the Listing Rules) of the Company, details of these transactions are set out below.

Procurement Agreements

On July 12, 2021, 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) An agreement (the "**New Medicine Procurement Agreement**") with Zhejiang Zhongyouli Medicines Co., Ltd.*(浙江中友力醫藥有限公司)("**Zhejiang Zhongyouli**"), pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Zhongyouli agreed to sell, certain types of medicines (the "**Medicines**") from time to time during the term of the New Medicine Procurement Agreement, for a term of three years ending on December 31, 2024.

For medicines listed in the Prices Catalogue of the Medical Insurance of Zhejiang Province*(浙江省醫保支付價目錄)which is valid and in effect as at the time of the relevant purchase, the purchase price shall be determined in accordance with the price of the winning bid for supplying medicine to the medical insurance of Zhejiang Province.

For medicines not listed in the Prices Catalogue of the Medical Insurance of Zhejiang Province*(浙江省醫保支付價目錄)which is valid and in effect as at the time of the relevant purchase:

(a) For each of the medicines listed in the Medicine and Medical Device Procurement Platform of Zhejiang Province*(浙江省藥械採購平台), the purchase price shall be determined in accordance with the purchase prices of the same medicines on such platform.

(b) For each of the medicines not listed in the Medicine and Medical Device Procurement Platform of Zhejiang Province*(浙江省藥械採購平台), the purchase price shall be determined after negotiation and agreement between the parties to the New Medicine Procurement Agreement, which shall not be higher than the purchase price of the same medicine offered to other hospitals within Zhejiang Province.

* *For identification purpose only*

(ii) An agreement (the "**New Medical Consumables and Equipment Procurement Agreement**") with Zhejiang Dajia Medical Equipment Co., Ltd.*(浙江大佳醫療器械有限公司)("**Zhejiang Dajia**"), pursuant to which Jiande Hospital agreed to purchase, and Zhejiang Dajia agreed to sell, certain medical consumables and equipment (the "**Medical Consumables and Equipment**") from time to time during the term of the New Medical Consumables and Equipment Procurement Agreement, for a term of three years ending on December 31, 2024.

The prices of such products shall in principle be not higher than the comparable fair market values or prices offered by independent third parties for the medical consumables and equipment to be purchased and will be determined by negotiation and agreement between the parties to the New Medical Consumables and Equipment Procurement Agreement with reference to:

(1) For medical consumables and equipment listed in the Prices Catalogue of the Medical Insurance of Zhejiang Province*(浙江省醫保支付價目錄)which is valid and in effect as at the time of the relevant purchase, the purchase price shall be determined in accordance with the supplying price of such medical consumables and equipment set out in such catalogue.

(2) For medical consumables and equipment not listed in the Prices Catalogue of the Medical Insurance of Zhejiang Province*(浙江省醫保支付價目錄)which is valid and in effect as at the time of the relevant purchase:

(a) For each of the medical consumables and equipment listed in the Medicine and Medical Device Procurement Platform of Zhejiang Province*(浙江省藥械採購平台), the purchase price shall be determined in accordance with the price of the winning bid for the same medical consumables and equipment listed in such platform (which for this purpose excludes linked price and price under re-negotiation).

(b) For each of the medical consumables and equipment not listed in the Medicine and Device Procurement Platform of Zhejiang Province*(浙江省藥械採購平台), the purchase price shall be determined after negotiation and agreement between the parties to the New Medical Consumables and Equipment Procurement Agreement, which shall not be higher than the purchase price of the same product offered to other hospitals within Zhejiang Province.

* *For identification purpose only*

Mr. Hong Jiangxin (洪江鑫) ("**Mr. Hong**") is a substantial shareholder of Jiande Hospital, which is an indirectly non-wholly owned subsidiary of the Company and hence, Mr. Hong is a connected person of the Company. Zhejiang Zhongyouli is directly held as to 49% by Mr. Hong and 51% by Mr. Hong Yang and Zhejiang Dajia is a directly wholly-owned subsidiary of Zhejiang Xinxiangli Investment Co., Ltd.* (浙江新祥利投資有限公司) which in turn is held as to 67% by Mr. Hong, 32% by Mr. Hong Yang and 1% by Ms. Hong Lijuan (洪麗娟) ("**Ms. Hong**"). Therefore, Zhejiang Zhongyouli and Zhejiang Dajia are both associates of Mr. Hong under the Listing Rules. Accordingly, Zhejiang Zhongyouli and Zhejiang Dajia are connected persons of the Company under the Listing Rules. As such, the transactions contemplated under each of the New Medicine Procurement Agreement and New Medical Consumables and Equipment Procurement Agreement (collectively, the "**New Procurement Agreements**") constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

On February 16, 2022, the Group acquired the entire equity interests of Hangzhou Jingyouzhi (holding 30% of the equity interests in Jiande Dajia Chinese Medicines Pharmaceutical Technology Co., Ltd.* (建德大家中醫藥科技有限公司) ("**DJ Pharmaceutical Technology**") and DJ Medicines and controlling 30% of the equity interests in Jiande Hospital) (the "**Acquisition**"), at a consideration of RMB120 million in accordance with the terms and conditions under an equity transfer agreement (the "**Onshore Equity Transfer Agreement**"). The Group, through Hangzhou Jingyouzhi, indirectly holds 30% equity interests in DJ Medicines and DJ Pharmaceutical Technology, and indirectly controls 30% of the equity interests in Jiande Hospital through a series of structured contracts. Accordingly, Zhejiang Zhongyouli and Zhejiang Dajia are no longer connected persons of the Company under the Listing Rules. As such, the transactions contemplated under each of the New Medicine Procurement Agreement and New Medical Consumables and Equipment Procurement Agreement no longer constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Contractual Arrangements

Introduction

On February 16, 2022, the Group acquired the entire equity interests of Hangzhou Jingyouzhi Enterprise Management Company Limited*（杭州靜有智企業管理有限公司）(“**Hangzhou Jingyouzhi**”) (holding 30% of the equity interests in DJ Pharmaceutical Technology and DJ Medicines and controlling 30% of the equity interests in Jiande Hospital) (the “**Acquisition**”), at a consideration of RMB120 million in accordance with the terms and conditions under an equity transfer agreement (the “**Onshore Equity Transfer Agreement**”). The Group, through Hangzhou Jingyouzhi, indirectly holds 30% equity interests in DJ Medicines and DJ Pharmaceutical Technology, and indirectly controls 30% of the equity interests in Jiande Hospital through a series of structured contracts. This Acquisition contributed to revenue for the sale of pharmaceutical products and general hospital services businesses that the Group engaged in.

Hangzhou Jingyouzhi, Hangzhou Jinhoupu Management Company Limited*（杭州金厚樸企業管理有限公司）(“**Hangzhou Jinhoupu**” or the “**OPCO**”, which does not have any other business other than holding 30% equity interests in Jiande Hospital) and Mr. Hong Jiangxin and Mr. Hong Yang (together with Mr. Hong Jiangxin, the “**Vendors**”) have entered into a series of structured contracts (the “**Existing VIE Contracts**”) on February 7, 2022. On April 2, 2022, (i) a series of agreements (the “**Termination Agreements**”) have been entered into by Hangzhou Jingyouzhi, Hangzhou Jinhoupu, and the Vendors to terminate the Existing VIE Contracts; (ii) a series of contracts (the “**New VIE Contracts**”) have been duly executed to establish the new variable interest entity (“**VIE**”) structure; and (iii) the equity transfer in the OPCO from the Vendors to Mr. Qin Chuan and Mr. Liu Hui (the “**PRC Equity Owners**”) pursuant to an equity transfer agreement (“**Associated Equity Transfer Agreement**”) has been completed.

The New VIE Contracts, comprise the following:

(i) the exclusive operation service agreement entered into among Jiande Heyue Enterprise Management Co., Ltd.*（建德和悦企業管理有限公司）(“**Jiande Heyue**”), the OPCO and the PRC Equity Owners (the “**Exclusive Operation Service Agreement**”);

(ii) the exclusive option agreements entered into among Jiande Heyue, the PRC Equity Owners, the OPCO and Jiande Hospital (the “**Exclusive Option Agreements**”);

(iii) the entrustment agreements entered into among Jiande Heyue, the PRC Equity Owners, the OPCO and Jiande Hospital in favor of Jiande Heyue (and its successors or liquidators) or a natural person designated by Jiande Heyue (the “**Entrustment Agreements**”) and the annexure of the powers of attorney executed by the PRC Equity Owners and the OPCO appended thereto (the “**Powers of Attorney**”); and

(iv) the equity pledge agreements entered into among Jiande Heyue, the PRC Equity Owners, the OPCO and Jiande Hospital (the “**Equity Pledge Agreements**”).

* *For identification purpose only*

Background and reasons for use of the New VIE Contracts

The Group is principally engaged in hospital management business and general hospital business in China. Foreign investment activities in the PRC are mainly governed by the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2021 Version) (the "**Negative List**") and the Catalog of Industries for Encouraging Foreign Investment (2020 Version) (the "**Encouraging Catalog**"), which were promulgated and are amended from time to time jointly by The Ministry of Commerce of the PRC (the "**MOFCOM**") and the National Development and Reform Commission (NDRC). The Negative List and the Encouraging Catalog divide industries into four categories in terms of foreign investment, namely, "encouraged", "restricted", "prohibited" and "permitted" (the last category of which includes all industries not listed under the "encouraged", "restricted" and "prohibited" categories).

According to the Negative List, medical institutions fall within the "restricted" investment category, and therefore cannot be held 100% by foreign investments and foreign investments are restricted to the form of sino-foreign equity joint venture. Furthermore, as advised by our PRC legal adviser, Bureau of Commerce of Jiande City, as the competent authority for foreign investment administration in Jiande City, and Health Commission of Jiande City, as the competent authority of medical institutions in Jiande City, are of the view that the Company, as a foreign entity, shall not hold, directly or indirectly, more than 70% of the equity interests in any medical institution in Jiande City (the "**Foreign Ownership Restriction**"). As such, the Company, through Jiande Heyue, holds 70% equity interests in Jiande Hospital and Hangzhou Jinhoupu holds the remaining 30% equity interests in Jiande Hospital.

In light of the Foreign Ownership Restriction, in order to control Jiande Hospital and to prevent leakages of equity and values to the minority shareholders of Jiande Hospital, and to obtain 30% economic benefits of this medical institution attributable to the OPCO, Jiande Heyue entered into the New VIE Contracts with the PRC Equity Owners and the OPCO Group. The New VIE Contracts allow the Group to control and consolidate the OPCO and to obtain 30% economic benefits of Jiande Hospital attributable to the OPCO.

The New VIE Contracts are narrowly tailored because they are only used to address the Foreign Ownership Restriction. The New VIE Contracts are also narrowly tailored to achieve the business purposes of the Company and minimize the potential for conflict with relevant PRC laws and regulations.

The revenue and net loss of the operating entity (Jiande Hospital) subject to the Existing VIE Contracts amounted to approximately RMB188.8 million and RMB24.2 million for the year ended 31 December 2023, respectively.The total assets and total liabilities of the operating entity (Jiande Hospital) subject to the Existing VIE Contracts amounted to approximately RMB145.0 million and RMB153.7 million as at 31 December 2023, respectively.

Principal terms of the New VIE Contracts

Exclusive Operation Service Agreement

Pursuant to the Exclusive Operation Service Agreement, Jiande Heyue agrees to provide to the OPCO and its affiliated medical institution, being Jiande Hospital, on an exclusive basis, shareholder's rights and investment management related services and medical institution operation services based on their actual business demand. Accordingly, Jiande Heyue agrees to provide services to the OPCO and its affiliated medical institution, including but not limited to, (i) asset and business operational plan formulation and execution, (ii) human resources and operation technology related consultation and management, (iii) technical and commercial market research, (iv) strategies for marketing and business expansion, (v) technical personnel support, (vi) internal management, (vii) provision of comprehensive solution including medical resources sharing and technical consultation, (viii) medical appliances sourcing, (ix) quality control, and (x) other services relating to management and operation of medical institutions and maintenance of appliances and facilities.

Jiande Heyue has proprietary rights to all the intellectual properties developed or created by Jiande Heyue from the performance of these services. During the term of the Exclusive Operation Service Agreement, Jiande Heyue may use the intellectual property rights owned by the OPCO free of charge and without any conditions. The OPCO may also use the intellectual property work created by Jiande Heyue from the services performed by Jiande Heyue in accordance with the Exclusive Operation Service Agreement.

Pursuant to the Exclusive Operation Service Agreement, Jiande Heyue has the right to request for an annual service fee in an amount equivalent to 30% of the annual distributable profits of Jiande Hospital after deducting any loss in the prior year and the statutory provident fund (if applicable) from the OPCO.

In addition, pursuant to the Exclusive Operation Service Agreement, without the prior written approval from Jiande Heyue, the OPCO and the PRC Equity Owners shall not enter into any transactions that may materially affect their assets, obligations, equity interests, rights or operation, including but not limited to (i) the disposal, transfer or acquisition of any assets, (ii) the disposal or transfer of the shares in its affiliated medical institution, and (iii) the entering into of any contracts or arrangements which may conflict with the New VIE Contracts or adversely affect the interests of Jiande Heyue under the New VIE Contracts.

Exclusive Option Agreements

Pursuant to the Exclusive Option Agreements, (i) each of the PRC Equity Owners irrevocably and unconditionally grants an exclusive option to Jiande Heyue which entitles Jiande Heyue to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interests in the OPCO itself or through its designated person(s), (ii) the OPCO irrevocably and unconditionally grants an exclusive option to Jiande Heyue which entitles Jiande Heyue to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of the OPCO itself or through its designated person(s), (iii) the OPCO irrevocably and unconditionally grants an exclusive option to Jiande Heyue which entitles Jiande Heyue to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the 30% of equity interests in Jiande Hospital from the OPCO itself or through its designated person(s), and (iv) Jiande Hospital irrevocably and unconditionally grants an exclusive option to Jiande Heyue which entitles Jiande Heyue to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of Jiande Hospital attributable to the OPCO from Jiande Hospital itself or through its designated person(s). Jiande Heyue may appoint designated person(s) when exercising its option. The transfer price of the relevant equity interests and assets shall be the minimum purchase price permitted under PRC law, and each of the PRC Equity Owners, the OPCO and Jiande Hospital will undertake that they/it will, subject to applicable PRC laws, return in full the consideration received in relation to such transfer of equity interests or assets to Jiande Heyue.

The PRC Equity Owners and the OPCO undertake to endeavor to develop the business of the OPCO and Jiande Hospital and not to take any action or fail to take any action which may affect their asset value, goodwill and effectiveness of business licenses. Furthermore, in the absence of prior written consent of Jiande Heyue, the PRC Equity Owners and the OPCO shall not transfer or otherwise dispose of any option under the Exclusive Option Agreements, or create any encumbrances thereon and Jiande Hospital shall not assist in transferring or otherwise disposing of any option or assets under the Exclusive Option Agreements, or creating any encumbrances thereon.

In addition, the PRC Equity Owners, the OPCO and Jiande Hospital undertake that, upon Jiande Heyue issuing the notice to exercise the option in accordance with the Exclusive Option Agreements, they will implement necessary actions to effect the transfer and to ensure there is no defects, security rights or any restrictions imposed by third-party in the legal title of the option or transferred assets, as the case may be. Each of the parties to the Exclusive Option Agreements confirms and agrees that (i) in the event of a dissolution or liquidation of the OPCO and Jiande Hospital (as applicable) under the PRC laws, all the residual assets which are attributable to the PRC Equity Owners and the OPCO (as applicable) shall be transferred to Jiande Heyue or its designated person(s) at the minimum purchase price permitted under PRC law, and each of the PRC Equity Owners and the OPCO undertakes that he/it will, subject to applicable PRC laws, return in full the consideration received in relation to such transfer to Jiande Heyue or its designated person(s), (ii) in the event of bankruptcy, reorganization or merger of the OPCO, death or incapacity of the PRC Equity Owners or any other event which causes changes to their shareholding in the OPCO, or the OPCO's shareholding in Jiande Hospital (as applicable), the successor of the PRC Equity Owners' equity interests in the OPCO, or the OPCO's equity interests in Jiande Hospital shall be bound by the New VIE Contracts, and (iii) any disposal of shareholding in the OPCO and Jiande Hospital shall be governed by the New VIE Contracts unless Jiande Heyue consents otherwise in writing.

Entrustment Agreements and Powers of Attorney

Pursuant to the Entrustment Agreements and the Powers of Attorney annexed thereto, (i) the PRC Equity Owners irrevocably agree to authorize the Attorney to exercise all of its rights and powers as a shareholder of the OPCO and Jiande Hospital (as applicable), including the rights to vote in a shareholders' meeting, sign minutes, and file documents with the relevant companies registry; and (ii) the OPCO irrevocably agrees to authorize the Attorney to exercise all of its rights and powers as a shareholder of Jiande Hospital (as applicable), including the rights to vote in a shareholders' meeting, sign minutes, and file documents with the relevant companies registry. As Jiande Heyue is a wholly-owned subsidiary of the Company, the terms of the Entrustment Agreements and the Powers of Attorney will give the Company full control over all corporate decisions made by such Attorney and exercise management control over the OPCO, and the 30% equity interests in Jiande Hospital.

Furthermore, since the Exclusive Option Agreements, the Entrustment Agreements and the Powers of Attorney encompass dealing with the assets of the OPCO and Jiande Hospital, the liquidator can seize their assets in a winding up situation for the benefit of Jiande Heyue's shareholders or creditors.

Equity Pledge Agreements

Pursuant to the Equity Pledge Agreements, the PRC Equity Owners and the OPCO agree to pledge all of his/its respective equity interests in the OPCO and Jiande Hospital to Jiande Heyue to secure performance of all their obligations and the obligations of Jiande Hospital under the New VIE Contracts.

To the extent permitted by the PRC laws and best knowledge of the PRC Equity Owners, if the OPCO and Jiande Hospital declare any dividend during the term of the pledge, Jiande Heyue is entitled to receive all dividends or other income arising from the pledged equity interests, if any. In case of any breach of obligations by the PRC Equity Owners, the OPCO or Jiande Hospital, upon issuing a written notice to the PRC Equity Owners and the OPCO, Jiande Heyue will be entitled to all remedies available in the New VIE Contracts including but not limited to disposing of the pledged equity interests.

In addition, pursuant to the Equity Pledge Agreements, the PRC Equity Owners and the OPCO undertake to Jiande Heyue, among other things, not to transfer their equity interests in the OPCO and Jiande Hospital and not to create or allow any pledge or encumbrance thereon that may affect the rights and interest of Jiande Heyue without its prior written consent. The OPCO and Jiande Hospital undertake to Jiande Heyue, among other things, not to assist to transfer the equity interests in the OPCO and Jiande Hospital held by the PRC Equity Owners and the OPCO (as applicable) or to create or allow any pledge or encumbrance thereon without Jiande Heyue's prior written consent.

During the year ended December 31, 2022, (i) there were no material changes in the New VIE Contracts or the circumstances under which they were adopted; and (ii) none of the New VIE Contracts mentioned above had been unwound as none of the restrictions that led to the adoption of the New VIE Contracts were removed.

Internal control measures implemented by the Group

The Group has adopted the following measures to ensure legal and regulatory compliance of the New VIE Contracts:

- as part of the internal control measures, major issues arising from the implementation of the New VIE Contracts with the PRC Equity Owners and the OPCO Group will be regularly reviewed, at least on an annual basis, by the Board. The Board will determine, as part of its periodic review process, whether legal advisers and/or other professionals will be retained to assist the Group to deal with specific issues arising from the New VIE Contracts;

- the independent non-executive Directors will review the implementation and compliance of the New VIE Contracts;

- matters relating to compliance and regulatory enquiries from government authorities (if any) will be discussed at regular meetings by the Board no less frequently than on a quarterly basis;

- the relevant business units and operation divisions of the Group will report regularly, which will be no less frequently than on a monthly basis, to the senior management of the Company in relation to compliance and performance conditions under the New VIE Contracts and other related matters;

- the PRC Equity Owners and the OPCO will undertake that they will not carry on, own or acquire any business which is in competition with or is likely to be in competition with the business carried on by Jiande Hospital without our prior written consent; and

- the Group will unwind the VIE Contracts as soon as the law allows the business to be operated without them.

As of December 31, 2023, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry, the Directors are not aware of any factors that would lead to any interference from or restrictions imposed by any PRC governing bodies on the Group's operating the businesses through Jiande Hospital under the Existing VIE Contracts.

Risks associated with the New VIE Contracts and the actions taken by the Company to mitigate the risks

Risks associated with the New VIE Contracts	**Mitigation actions taken by the Company**
If the PRC government finds that the New VIE Contracts do not comply with PRC laws and regulations, or if these laws or regulations or their interpretations change in the future, the Company could be subject to severe penalties or be forced to relinquish our interests received through the New VIE Contracts.	According to the agreements of the New VIE Contracts, in the event of any changes in the relevant laws and regulations that result in the legal effect of the agreement and its performance are not compliant with the laws and regulations of the PRC, the parties to the agreements shall take action in keep its legal effect, or otherwise realize the purpose and intention of new VIE contracts. The Directors will closely monitor the latest development of the existing or future applicable PRC laws or regulations (including the Foreign Investment Law of the PRC), so as to comply with relevant rules and regulations in the PRC.
The New VIE Contracts may not be as effective in providing operational control as direct ownership and any member of the OPCO Group or the PRC Equity Owners may fail to perform their obligations under the New VIE Contracts.	Each of the New VIE Contracts contains a dispute resolution provision, which stipulates that in the event of any dispute relating to the interpretation and performance of the New VIE Contracts, the parties shall negotiate in good faith to resolve such disputes. If the parties fail to reach an agreement on the resolution of such a dispute within 30 days, the relevant dispute may be submitted to the China International Economic and Trade Arbitration Commission for arbitration in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing, and the language used in the arbitration shall be Chinese. The arbitration ruling shall be final and binding on all parties.

Risks associated with the New VIE Contracts	Mitigation actions taken by the Company
The Group may lose control over any member of the OPCO Group and may not enjoy 30% of the economic benefits of Jiande Hospital if the OPCO declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.	Pursuant to the Exclusive Option Agreements, (i) in the event of a dissolution or liquidation of the OPCO and Jiande Hospital (as applicable) under the PRC laws, all the residual assets which are attributable to the PRC Equity Owners and the OPCO (as applicable) shall be transferred to Jiande Heyue or its designated person(s) at the minimum purchase price permitted under PRC law, and each of the PRC Equity Owners, the OPCO and Jiande Hospital undertakes that he/it will, subject to applicable PRC laws, return in full the consideration received in relation to such transfer to Jiande Heyue or its designated person(s), (ii) in the event of bankruptcy, reorganization or merger of the OPCO, death or incapacity of the PRC Equity Owners or any other event which causes changes to the PRC Equity Owner's shareholding in the OPCO or the OPCO's shareholding in Jiande Hospital, the successor of the PRC Equity Owners' equity interests in the OPCO and the successor of the OPCO's equity interests in Jiande Hospital shall be bound by the New VIE Contracts, and (iii) any disposal of shareholding in the OPCO or the OPCO's shareholding in Jiande Hospital shall be governed by the New VIE Contracts unless Jiande Heyue consents otherwise in writing.
The New VIE Contracts may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that we owe additional taxes could substantially reduce the Group's net income.	In accordance with applicable PRC laws and regulations, under the condition that the OPCO executes the VIE Contracts in accordance with the terms of the structured contract, New VIE Contracts will not be challenged by the PRC tax authorities or other governmental authorities, unless the PRC tax authorities determine that such transactions do not comply with the independent transaction principle.

Risks associated with the New VIE Contracts	Mitigation actions taken by the Company
The PRC Equity Owners may have conflicts of interest with the Group, which may materially and adversely affect the Group's business and financial conditions.	The Company confirms that appropriate arrangements have been made to address the potential conflict of interests between the PRC Equity Owners and the Group. Each of the PRC Equity Owners has made certain consents, confirmations and the undertakings. The PRC Equity Owners have undertaken under the Exclusive Option Agreements that, during the period that the New VIE Contracts remain effective, they shall not take or omit to take any action which may lead to a conflict of interest with Jiande Heyue or Jiande Heyue's direct or indirect shareholders. If there is any conflict of interest, Jiande Heyue shall have the right to decide in its sole discretion on how to deal with such conflict of interest in accordance with the applicable PRC laws. The PRC Equity Owners and the OPCO will unconditionally follow the instructions of Jiande Heyue to take any action to eliminate such conflict of interest.
Certain terms of the New VIE Contracts may not be enforceable under PRC law and enforcement of certain of the Group's rights under the New VIE Contracts is subject to regulatory approval.	All the agreements which constitute the New VIE Contracts are governed by PRC laws and all disputes will be submitted for arbitration, whose ruling will be final and binding. Accordingly, these agreements would be interpreted in accordance with PRC laws and disputes would be resolved in accordance with PRC legal procedures. Under PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order. In the event that the Group is unable to enforce the New VIE Contracts, or if the Group suffers significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert control over the PRC Equity Owners, the OPCO and the 30% equity interests in Jiande Hospital.

Risks associated with the New VIE Contracts	Mitigation actions taken by the Company
	The New VIE Contracts contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of the OPCO Group and the PRC Equity Owners, injunctive relief and/or winding up of these entities. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under PRC laws, these terms may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order. However, under the PRC law, the parties may apply to a PRC court for enforcement of the arbitral award. In addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC. Therefore, in the event of breach of any of the New VIE Contracts by the OPCO Group and the PRC Equity Owners, and if the Group is unable to enforce the New VIE Contracts, the Group may not be able to exert control over the PRC Equity Owners, the OPCO and the 30% equity interests in Jiande Hospital, which could negatively affect our ability to conduct our business. Pursuant to the New VIE Contracts, Jiande Heyue (or its designee) has the exclusive right to purchase all or any part of the equity interests in the OPCO and all or any part of the 30% equity interests in Jiande Hospital from the PRC Equity Owners and the OPCO by the minimum price permitted under the then applicable PRC laws. The equity interests transfer is subject to the approval from or filings with the PRC's competent departments, which is outside of the Group's control. As disclosed in the Company's announcement dated 16 February 2022 and confirmed by the parties to the VIE Contracts, the Company's PRC legal advisers believe that the new VIE Contracts are entered into for the purpose of fulfilling the commercial purpose of the parties and minimising the possibility of violating applicable PRC laws and regulations.

Risks associated with the New VIE Contracts	Mitigation actions taken by the Company
Our current corporate structure and business operations may be affected by the Foreign Investment Law.	Foreign Investment Law does not contain a concrete guidance to deal with the existing VIE structures. As such, the Board will monitor the implementation of the Foreign Investment Law and discuss with the Company's PRC legal adviser on a regular basis in order to assess any possible impact arising from the implementation of the Foreign Investment Law on the New VIE Contracts and the business operation of the OPCO Group. In case there would be material and adverse effect on the Onshore Target Companies or the business of the OPCO Group arising from the Foreign Investment Law, the Company will timely publish announcements in relation to (i) any amendments to or interpretations of the Foreign Investment Law; and (ii) any material impact of the Foreign Investment Law on the OPCO Group's operations and financial position.
The Group would be adversely affected if OPCO suffers losses	As advised by our PRC legal adviser, none of the New VIE Contracts contains the provisions that the Group is obligated to share the losses of the OPCO or provide financial support to the OPCO. Further, the OPCO is a limited liability company and will be solely liable for its own debts and losses with assets and properties owned by it. Under the PRC laws, Jiande Heyue is not required to share the losses of the OPCO or provide financial support to the OPCO.

Risks associated with the New VIE Contracts	Mitigation actions taken by the Company
Limitations in acquiring ownership in the equity interest of the OPCO	Pursuant to the Exclusive Option Agreements, (i) each of the PRC Equity Owners irrevocably and unconditionally grants an exclusive option to Jiande Heyue which entitles Jiande Heyue to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interests in the OPCO itself or through its designated person(s), (ii) the OPCO irrevocably and unconditionally grants an exclusive option to Jiande Heyue which entitles Jiande Heyue to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of the OPCO itself or through its designated person(s), (iii) the OPCO irrevocably and unconditionally grants an exclusive option to Jiande Heyue which entitles Jiande Heyue to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the 30% of equity interests in Jiande Hospital from the OPCO itself or through its designated person(s), and (iv) Jiande Hospital irrevocably and unconditionally grants an exclusive option to Jiande Heyue which entitles Jiande Heyue to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of Jiande Hospital attributable to the OPCO from Jiande Hospital itself or through its designated person(s). Jiande Heyue may appoint designated person(s) when exercising its option. The transfer price of the relevant equity interests and assets shall be the minimum purchase price permitted under PRC law, and each of the PRC Equity Owners, the OPCO and Jiande Hospital will undertake that they/it will, subject to applicable PRC laws, return in full the consideration received in relation to such transfer of equity interests or assets to Jiande Heyue.
The Company does not have any insurance which covers the risks relating to the New VIE Contracts and the transactions contemplated thereunder	The Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. The Company will continue evaluating the feasibility, the cost and the benefit of insuring the transactions contemplated under the New VIE Contracts.

Waiver from the Stock Exchange and annual review

On April 3, 2022, the Company has applied for a waiver (the "**Waiver**") pursuant to Rule 14A.102 of the Listing Rules from (i) fixing the term of the New VIE Contracts for a period of not exceeding three years under Rule 14A.52 of the Listing Rules; and (ii) setting a maximum annual cap for the service fees payable by the OPCO to Jiande Heyue under Rule 14A.53 of the Listing Rules. The Stock Exchange has granted the Waiver, subject to conditions.

The independent non-executive Directors have confirmed that (i) the transactions carried out during the year ended December 31, 2023 have been entered into in accordance with the relevant provisions of the New VIE Contracts and that the profit generated by the OPCO Group has been substantially retained by the Group; (ii) no dividends or other distributions have been made by the OPCO Group to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and (iii) any new contracts entered into, renewed or reproduced between the Group and the OPCO Group during the year ended December 31, 2023 (if any) are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole.

Please refer to the announcements published by the Company on October 27, 2017, November 1, 2017, February 16, 2022, April 3, 2022 and the circular published by the Company on December 15, 2017 for details of the New VIE Contracts.

Confirmation from Directors in respect of continuing connected transactions

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.

Auditor's report on continuing connected transactions

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) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with paragraph 14A.56 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In addition, all of the continuing connected transactions of the Company disclosed above which constitute related party transactions were set out in Note 36 to the consolidated financial statements in this annual report. Save as disclosed above, all other related party transactions as described in Note 36 to the consolidated financial statements did not fall under the definition of "continuing connected transaction" or "connected transaction" under the Listing Rules.

Save for the continuing connected transaction as disclosed above and the related party transactions as disclosed in Note 36 to the consolidated financial statements in this annual report, during the year ended December 31, 2023, the Company did not enter into any connected transactions and/or continuing connected transactions which were required to be disclosed in accordance with the requirements of Chapter 14A of the Listing Rules. The Company has complied with all applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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, 2023, 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 "**Model Code**") as set out in Appendix C3 to the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares and underlying shares of the Company

Name of Director	Capacity/Nature of interest	Number of shares or underlying shares of the Company	Approximate percentage of shareholding interest[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)("**Anhui Zhong'an**"). Anhui Zhong'an is the general partner of Anhui Zhong'an Health Elderly Care Services Industry Investment Partnership (Limited Partnership)(安徽省中安健康養老服務產業投資合夥企業(有限合夥)) ("**Anhui Zhong'an LP**"), which is a limited partnership formed under the laws of the PRC as an investment vehicle and holds approximately 6.58% of the issued share capital of the Company. Ms. Liu Lu is a director of Anhui Zhong'an.

(2) As of December 31, 2023, the total number of issued shares of the Company was 138,194,000.

Save as disclosed above, as of December 31, 2023, so far as is known to the Directors, none of the Directors and chief executives of the Company had or were deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified under Divisions 7 and 8 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As of December 31, 2023, 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:

Name of shareholder	Capacity/Nature of interest	Number of shares or underlying shares of the Company	Approximate percentage of shareholding interest(6)
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%

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, 2023. 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) As of December 31, 2023, the total number of issued shares of the Company was 138,194,000.

SHARE-BASED PAYMENT SCHEMES

(a) Pre-IPO Share Appreciation Rights Scheme

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

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

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

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

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

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

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

The share-based compensation expense related to the Pre-IPO SARs Scheme of RMB230,000 were recognised as "cost of revenue" for the year ended December 31, 2023 (2022: RMB749,000 were derecognised as "cost of revenue").

(b) **Share Incentive Scheme**

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

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

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

In 2021, the remaining 50% of the shared awards granted by Vanguard Glory has been released from the lock-up restrictions and free to be vested.

(c) Post-IPO Share Appreciation Rights Scheme

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

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

(d) Share Award Scheme

The Company has adopted a share award scheme of the Company (the "**Share Award Scheme**") for a term of 10 years from January 18, 2021.

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

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

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

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

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

The remaining life of the Share Award Scheme is seven years. No payment is required on acceptance of the Share Awards and for the Share Awarded. As at the date of this report, the total number of shares available for issue under the Share Award Scheme was 13,819,400, representing 10% of the issued shares of the Company.

Since the adoption of the Share Award Scheme on January 18, 2021 and up to the date of this report, no Share Award has been granted, vested, lapsed or cancelled pursuant to the Share Award Scheme.

As of January 1, 2023 and December 31, 2023, the number of shares available for grant under the scheme mandate of the Share Award Scheme was 13,819,400 (representing approximately 10% of the issued shares of the Company as at the date of this report). There is no service provider sublimit being defined under the Share Award Scheme.

The aggregated maximum number of Shares that the SAS Trustee may purchase must not exceed 10% of the Company's share capital in issue from time to time, i.e. 13,819,400 Shares (representing approximately 10% of the issued shares of the Company as at the date of this report).

As the date of this report, the SAS Trustee has purchased 1,079,000 Shares pursuant to the Share Award Scheme, representing approximately 0.78% of the issued shares of the Company as at the date of this report. The remaining number of Shares which may be purchased by the SAS Trustee is 12,740,400, representing approximately 9.22% of the issued shares of the Company as at the date of this report.

Where any grant of Share Awards to a SAS Eligible Participant would result in the shares issued and to be issued in respect of all share awards granted to such person (excluding any share awards lapsed in accordance with the terms of the scheme) in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the shares of the Company in issue, such grant must be separately approved by shareholders of the Company in general meeting with such SAS Eligible Participant and his/her close associates (or associates if the participant is a connected person) abstaining from voting. The Company must send a circular to the shareholders.

The vesting period for Share Awards shall not be less than 12 months, which is subject to the Board discretion.

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

CHANGES TO DIRECTORS' INFORMATION

The directors confirm that no information is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

COMPLIANCE WITH MODEL CODE

The Company has adopted a code of conduct regarding the transactions of securities of the Company by the Directors and the relevant employees (who likely possess inside information of the Company) (the "**Securities Dealing Code**") on terms no less stringent than the required standard set out in the Model Code as set out in Appendix C3 to the Listing Rules. Having made specific enquiries with all Directors and relevant employees of the Company, the Company confirms that all Directors and relevant employees of the Company have complied with the Model Code and the Securities Dealing Code during the Reporting Period.

AUDIT COMMITTEE

The annual and interim reports (including the consolidated financial statements contained therein), and result announcements have been reviewed by the Audit Committee. The Audit Committee consists of three independent non-executive Directors, namely Mr. ZHOU Xiangliang (Chairman) and Mr. SHI Luwen, and Mr. DANG Jinxue. The Audit Committee is of the opinion that such financial statements complies with applicable accounting standards, the Listing Rules and all other applicable legal requirements.

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, 2023 or subsisted at the end of 2023.

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

Remuneration policy of the Group is reviewed regularly, making reference to legal framework, market condition and performance of the Group and individual staff (including the Directors). Under the Share Award Scheme, Share Award is granted based on individual employee's performance and the achievement of certain goals that are consistent with the Group's objective of maximising long-term value for the Shareholders. The remuneration policy and remuneration packages of the Directors and member of the senior management of the Group are reviewed by the Remuneration Committee. The Directors' fees are subject to approval by the shareholders of the Company at general meetings.

The five individuals whose remuneration was the highest in the Group for the year ended December 31, 2023 included one Director and four 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, 2023 are set out in Note 8(b) and Note 39 to the consolidated financial statements, respectively. None of the Directors has agreed to waive any emoluments for the year ended December 31, 2023. During the year ended December 31, 2023, no emoluments were paid by the Group to any of the directors, chief executive, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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.

PENSION SCHEME

In Mainland China, the Group operates a central pension scheme operated by the local municipal government and in Hong Kong, the Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in. The contributions to fund the retirement benefits of the employees are calculated based on certain percentage of the average employee salary as agreed by local municipal government to the schemes. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contribution under the schemes. Contributions to the schemes vest immediately, there is no forfeited contributions that may be used by the Group to reduce the existing level of contribution as at December 31, 2022 and December 31, 2023.

Certain subsidiary of the Group operates a post employment benefit plan during the year ended December 31, 2023. Details of the post employment benefit plan are set out in Note 28 to the consolidated financial statements. Save as disclosed in note 28 to the consolidated financial statements in this annual report, for the year end December 31, 2022 and December 31, 2023 the Group did not have any defined benefit plan.

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, 2023.

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, 2023 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 Shanghai, China and engaged in the wholesale and retail of pharmaceuticals and medical devices. The credit period from the major suppliers is 30 to 365 days. The payables were usually settled within the credit period.

Details of the trade payables of the Group as at December 31, 2023 are set out in note 25 to the financial statements. Up to the date of this report, approximately 90% of the trade payables to the major suppliers has been settled.

The principal activities of the Group are provision of hospital management services and general hospital services and sale 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 year ended December 31, 2023, the Group did not have any significant disputes with our major suppliers.

The Group values the views and opinions of all customers and collected their views and opinions through various means and channels, including the use of business intelligence to understand customer trends and needs and analyze customers' feedback on a regular basis. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

Our major customers include the Group Hospitals. The years of business relationship of these major customers with the Group was five years in average and the credit terms granted to them ranged from 90 to 365 days. Details of the trade receivables of the Group as at December 31, 2023 are set out in note 16 to the financial statements. Up to the date of this report, approximately 90% of the trade 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 year ended December 31, 2023, 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 2023, Cixi Hospital and Jinhua Guangfu Hospital were our largest customers, and the Group received comprehensive management service fees from Cixi Hospital and Jinhua Guangfu Hospital in respect of the provision of management services, supply chain services and other comprehensive management services to them. In 2023, the management service fees recognized from them (net of value-added tax) were approximately RMB86.9 million (2022: approximately RMB81.6 million), accounting for approximately 6.1% (2022: approximately 7.1%) of our revenue, and the management service fees recognised from the largest customer accounted for approximately 3.5% (2022: approximately 5.2%) of our revenue for the year ended December 31, 2023. Our other customers are patients of Yangsi Hospital and Jiande Hospital, from whom we derive revenue by providing general hospital services.

The majority of these patients rely on public medical insurance programs to pay for their medical treatments.

In 2023, our purchases from the top five suppliers of the Group amounted to RMB287.3 million (2022: approximately RMB283.1 million), accounting for approximately 39.3% (2022: approximately 47.5%) of our total purchase, and the amount of purchase from the largest supplier accounted for approximately 18.9% (2022: approximately 25.2%) of our total purchase for the year ended December 31, 2023.

None of the Directors, their close associates or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in any of our five largest customers and suppliers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year ended December 31, 2023 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

Market Risk

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 mainly exposed to price risk in respect of convertible bonds hold by the Group, details of the price risk of the Group during the year ended December 31, 2023 are set out in Note 34(v) to the consolidated financial statements. The wealth management products we held in 2023 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, 2023, our borrowings amounted to approximately RMB82.1 million bearing no variable interest rates.

Credit risk

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 Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and amount due from related parties (trade in nature). To measure the expected credit losses, trade receivables and amount due from related parties (trade in nature) have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 12 month before December 31, 2023 or December 31, 2022, 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.

Other financial assets at amortized cost include other receivables, deposits and amounts due from related parties (others). The Directors have assessed that other receivables, deposit and amounts due from related parties (others) have not had a significant increase in credit risk since initial recognition. Thus, a 12-month expected credit loss approach that results from possible default event within 12 months of the reporting period of the Group is adopted by management. The Directors do not expect any losses from non-performance by the counterparties of other receivables, deposits and amounts due from related parties (others) to be recognised.

Details of the credit risk of the Group during the year ended December 31, 2023 are set out in Note 34(i) to the consolidated financial statements.

Liquidity Risk

We are exposed to liquidity risk. We aim to maintain sufficient cash and cash equivalents to meet our operating capital requirements.

Capital Risk

Our primary objectives when managing capital are to safeguard our ability to continue as a going concern in order to provide returns to our shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. We actively and regularly review and manage our capital structure to maintain a balance between the higher equity shareholders’ returns that may be achieved with higher levels of borrowings and the advantage and security afforded by a sound capital position, and make adjustments to our capital structure in light of changes in economic conditions. In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debt. We monitor our capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. Our liability-to-asset ratio was approximately 82% as of December 31, 2022 and approximately 76% as of December 31, 2023. Neither our Company nor any of our subsidiaries is subject to externally imposed capital requirements.

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, 2023, the Group incurred approximately RMB655,442 (2022: approximately RMB708,642) 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, 2023 and up to the date of this report, none of our management received reports concerning environmental claims, lawsuits, penalties or administrative sanctions.

Further discussions on the Group's environmental policy and our relationships with various stakeholders are covered by a separate environmental, social and governance report which will be available on the Group's website under the "Investor Relations" section and the website of the Stock Exchange on or before April 30, 2024.

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, 2023 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.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

Vanguard Glory, 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 "**Controlling Shareholders**"). 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 of Non-Competition**") 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.

AUDITOR

On June 22, 2022, PricewaterhouseCoopers retired as auditor of the Company and KPMG was appointed as the Company's auditor for the year of 2022 until the conclusion of the next annual general meeting of the Company. The Company has appointed KPMG as the Company's auditor for the year of 2023.

A resolution for the re-appointment of KPMG as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chen Shuai
Chairman and Acting Chief Executive Officer

Hong Kong
March 26, 2024

DIRECTORS

Chen Shuai（陳帥）

Chairman and Acting Chief Executive Officer

Mr. Chen, aged 50, was appointed as a non-executive Director, the Chairman of the Board and the acting Chief Executive Officer and the chairman of the Nomination Committee of the Company in June 2020 and was re-designated as an executive Director on November 20, 2020. Mr. Chen joined Hony Capital (a series of private equity investment funds, together with their respective management companies/general partners, "**Hony Capital**") in 2003 and currently serves as the partner, managing director and general manager of PE funds of Hony Capital, and a member of the business investment committee of Hony Capital's real estate funds. Mr. Chen fully leads Hony Capital's PE fund business and has certain investment practises and unique insights in industries such as city services, hotel management, financial services, culture and media, consumer goods and retail and construction materials. 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.

Currently, Mr. Chen is a non-executive director of Century Ginwa Retail Holdings Limited (HKEX Stock Code: 162). He resigned as a non-executive director of China Rongzhong Financial Holdings Company Limited (HKEX stock code: 3963) and a director of Shanghai Chengtou Holding Co., Ltd. (Shanghai Stock Exchange Stock Code: 600649) on 10 March 2023 and 7 September 2022, respectively. Mr. Chen served as 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.

Pu Chengchuan（蒲成川）

Executive Director

Mr. Pu, aged 37, was appointed as an executive Director of the Company on June 22, 2021. Currently, Mr. Pu is a member of the Remuneration Committee of the Company Mr. Pu currently serves as a chief investment officer of the private equity investment department of Hony Capital, focusing on the investment in medical and healthcare-related fields. Prior to joining Hony Capital, Mr. Pu worked in the investment department of CITIC Private Equity Funds Management Co., Ltd. from 2012 to 2016, and in the strategic investment department of Beijing Cathay Health Technology Co, Ltd.*（北京國泰智慧醫療科技有限公司）from 2016 to 2018. Since December 30, 2022, Mr. Pu has been serving as a non-executive director of Neusoft Xikang Holdings Inc. (HKEX Stock Code: 09686).

Currently, Mr. Pu is a director of certain subsidiaries of the Company, namely, Acute Sky Holdings Limited, Ever Surpass Investments Limited, Oriental Ally Holdings Limited, Shanghai Weikang Investment Management Co., Ltd.*（上海維康投資管理有限公司）and Zhejiang Honghe Zhiyuan and an executive of Yangsi Hospital. Mr. Pu is also currently a supervisor of certain subsidiaries of the Company, namely, Honghe Yixin Investment Management (Shanghai) Co., Ltd.*（弘和醫信投資管理（上海）有限公司）, Beijing Hongyuan Zhiying Enterprise Management Consulting Co., Ltd.*（北京弘遠智盈企業管理諮詢有限公司）, Tibet Honghe Zhiyuan, Dazi Honghe Ruixin Medical Technology Co., Ltd.*（達孜弘和瑞信醫療科技有限公司）and Tibet Hongai Business Management Co., Ltd.*（西藏弘愛企業管理有限公司）.

Mr. Pu obtained his Bachelor's degree in Science (Physics) from Tsinghua University in July 2008 and his Master's degree in Finance from Peking University in June 2012.

* *For identification purpose only*

Pan Jianli（潘建麗）

Executive Director

Ms. Pan, aged 46, was appointed as the Chief Financial Officer of the Company in April 2021, and was appointed as an executive Director of the Company on March 29, 2022. Currently, she is responsible for the supervision and management of the Company in the fields such as finance, investment and financing, risk control and auditing. Ms. Pan has over 20 years of work experience in the field of financial management and investment, and has extensive experience in financial auditing, merger, acquisition and reorganization, and cross-border investment and financing of listed companies. From April 2007 to December 2017, Ms. Pan served as the assistant to president, company secretary, and head of the finance department and investment management department of China Glass Holdings Limited (whose shares are listed on the Main Board of the Stock Exchange, Stock Code: 03300), and was responsible for capital operation, compliance, financial management and corporate external auditing of listed companies. From December 2017 until before joining the Company, she served as a partner of a cross-border investment institution, responsible for cross-border mergers and acquisitions and financing consulting business based on the Hong Kong capital market. Since December 6, 2019, Ms. Pan has been serving as an independent non-executive director of China Singyes New Materials Holdings Limited (whose shares are listed on the GEM of the Stock Exchange, Stock Code: 08073), and as the chairperson of the Audit Committee and a member of the Remuneration Committee of the company.

Currently, Ms. Pan is a director of certain subsidiaries of the Company, namely Bliss Success Holdings Limited, Impeccable Success and New Pride Holdings Limited.

Ms. Pan obtained her master's degree in management from Guanghua School of Management, Peking University（北京大學光華管理學院）in the PRC in 2009 and her bachelor's degree in economics from Shandong University of Finance and Economics（山東財經大學）in the PRC in 1999. Ms. Pan is concurrently a Senior Accountant in China and a member of the Chinese Institute of Certified Public Accountant.

Liu Lu（劉路）

Non-executive Director

Ms. Liu Lu（劉路）, aged 51, 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 Anhui Sunhere Pharmaceutical Excipients Co., Ltd.（安徽山河藥用輔料股份有限公司）(Shenzhen Stock Exchange Stock Code: 300452) and Anhui Tongyuan Environment Energy Saving Co.,ltd. (安徽省通源環境節能股份有限公司) (Shanghai Stock Exchange Stock Code:688679). 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.

Wang Nan（王楠）

Non-executive Director

Ms. Wang Nan（王楠）, aged 47, 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, secretary to the board of directors and the chief investment officer at Neusoft Corporation since May 2011, December 2011 and April 2021, respectively. Since November 18, 2015, Ms. Wang has been serving as a non-executive director of Neusoft Xikang Holdings Inc. (HKEX Stock Code: 09686).

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

Dang Jinxue（党金雪）

Independent non-executive Director

Mr. Dang Jinxue（党金雪）, aged 69, was appointed as an independent non-executive Director on March 9, 2020. Currently, Mr. Dang is the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee of the Company. 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）. From August 2019 to September 2022, Mr. Dang served 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. Currently, he is a registered medical practitioner.

Shi Luwen (史錄文)

Independent non-executive Director

Mr. Shi Luwen (史錄文), aged 60, was appointed as an independent non-executive Director on December 13, 2016 with effect from the Listing Date. Currently, Mr. Shi is a member of each of the Audit Committee and Nomination Committee of the Company. 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:

Name of organization	Position
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)	Expert

Mr. Shi has been an independent non-executive director of China Meheco Co., Ltd. (中國醫藥健康產業股份有限公司), a company listed on the Shanghai Stock Exchange (Shanghai Stock Exchange Stock Code: 600056), since December 2015. Mr. Shi was awarded the Scientific Chinese Person (2011) (科學中國人(2011)年度人物) by the Scientific Chinese Magazine in 2012, the Hospital Science and Technology Innovation Award (醫院科技創新獎) by the Chinese Hospital Association in 2011 and the Xue Muqiao Price Research Award (薛暮橋價格研究獎) by the Price Association of China (中國價格協會) in 2010. He was awarded the Beijing Science and Technology Award (北京市科學技術獎) by the People's Government of Beijing Municipality in 2002.

Mr. Shi obtained his bachelor's degree in science from the Peking University Health Science Center (北京大學醫學部) (formerly known as Beijing Medical University (北京醫科大學)) in July 1987 and his master's degree in health professions education from the University of Illinois in the United States in July 1992.

Zhou Xiangliang（周向亮）

Independent non-executive Director

Mr. Zhou Xiangliang（周向亮）, aged 43, was appointed as an independent non-executive Director on December 13, 2016 with effect from the Listing Date. Currently, Mr. Zhou is the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. 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

Wu Yuanzhi (吳遠志)

Executive vice president of the Company

Mr. Wu Yuanzhi (吳遠志), aged 64, was appointed as executive vice president of the Company in January 2023. 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.

Ding Yue (丁玥)

Vice president of the Company

Ms. Ding Yue (丁玥), aged 51, was appointed as the vice president of our Company in January 2023. She is primarily responsible for supervising the healthcare quality management of our Company. Currently, she is 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.

Kan Ruihan（闞睿涵）

Vice President officer of the Company

Ms. Kan Ruihan（闞睿涵）, aged 53, is a senior accountant and a non-practicing member of the Chinese Institute of Certified Public Accountants. She joined the Company in June 2014 and has served as finance manager, chief financial officer and director of internal control of the Company and was later promoted in January 2023 to the position of vice president officer. She is primarily responsible for internal control development and internal audit matters of the Company. Prior to joining the Company, Ms. Kan was the accounting manager of the Greater China in Lenovo Group（聯想集團）from April 2005 to June 2014.

Ms. Kan obtained her bachelor's degree from the University of Science and Technology Beijing Admissions（北京科技大學）in 1993 and her master's degree in management from Renmin University of China（人民大學）in 2003.

Zhang Lixin（張立新）

Vice president officer of the Company

Mr. Zhang Lixin（張立新）, aged 50, was appointed as the chief supply chain management officer（供應鏈管理部總監）of the Company in December 2020, and was later promoted to be vice president in January 2023. 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 Code**") contained in Appendix C1 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 C.2.1

Code provision C.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.

BOARD OF DIRECTORS

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

Executive Directors:
Mr. Chen Shuai *(Chairman and Acting Chief Executive Officer)*
Mr. Pu Chengchuan
Ms. Pan Jianli

Non-executive Directors:
Ms. Liu Lu
Ms. Wang Nan

Independent Non-executive Directors:
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 68 to 76 of this annual report.

As at the date of this report, there is no relationship, including financial, business, family or other material and relevant relationship, among members of the Board.

Responsibilities, Accountabilities and Contributions of the Board and Management

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.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflicts of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors keep abreast of their responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure an appropriate understanding of the business and operations of the Company and full awareness of directors' responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors, where appropriate.

During the year under review, all Directors have been provided with the relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors and duty of disclosure of interests. During the year under review, relevant reading materials, including legal and regulatory updates, have been provided to the Directors appointed (if any) for their reference and study.

A summary of the Directors' participation in training and continuous professional development during the year ended December 31, 2023 according to the records provided by the Directors is as follows:

Name of directors	Attending training organised by professional organisations and/or reading materials on latest rules and regulations
Executive Directors	
Mr. Chen Shuai	✓
Mr. Pu Chengchuan	✓
Ms. Pan Jianli	✓
Non-executive Directors	
Ms. Liu Lu	✓
Ms. Wang Nan	✓
Independent non-executive Directors	
Mr. Dang Jinxue	✓
Mr. Shi Luwen	✓
Mr. Zhou Xiangliang	✓

Insurance for Directors

Code provision C.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.

Chairman and Chief Executive Officer

Provision C.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 ("**Chief Executive Officer**") 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 ("**Mr. Chen**") has been appointed as the chairman of the Board and the acting Chief Executive Officer. Mr. Chen will only serve as the acting Chief Executive Officer until the Board appoints a new Chief Executive Officer. The Board is in the course of identifying suitable candidate to fill the position of Chief Executive Officer in order to seek to comply with provision C.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.

Independent Non-executive Directors

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.

Directors' Re-election

Code provision B.2.2 of the CG Code stipulates 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.

ATTENDANCE RECORD OF BOARD AND BOARD COMMITTEE MEETINGS AND GENERAL MEETINGS

Code provision C.5.1 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, 2023 are set out in the table below:

	Number of meetings attended/held				
	Board Meeting(s)	Audit Committee Meeting(s)	Remuneration Committee Meeting(s)	Nomination Committee Meeting(s)	General Meeting(s)
Executive Directors					
Mr. Chen Shuai	4/4*	–	–	1/1*	2/2
Mr. Pu Chengchuan	4/4	–	1/1	–	2/2
Ms. Pan Jianli	4/4	–	–	–	2/2
Non-executive Directors					
Ms. Liu Lu	4/4	–	–	–	2/2
Ms. Wang Nan	4/4	–	–	–	2/2
Independent non-executive Directors					
Mr. Dang Jinxue	4/4	2/2	1/1*	1/1	2/2
Mr. Shi Luwen	4/4	2/2	–	1/1	2/2
Mr. Zhou Xiangliang	4/4	2/2*	1/1	–	2/2

* *the chairman of the Board or the committees*

BOARD COMMITTEES

The Board has established three Board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference. The terms of reference of the Board committees are posted on the website of the Company and of Hong Kong Exchanges and Clearing Limited ("**HKEX**") and are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting system, internal control procedures and risk management system, relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

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

(a) the audit related matters of the Company (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, 2022, and the interim results announcement and interim report of the Company for the six months ended June 30, 2023;

(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 2023; and

(f) the Company's continuing connected transactions.

Remuneration Committee

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, 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, and reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules.

The Remuneration Committee held one 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;

(b) the performance of the executive Directors, and terms of service and remuneration plan for newly appointed Directors; and

(c) the structure, size and composition of the Board.

The annual remuneration of the members of the senior management by band for the year ended December 31, 2023 is set out below:

Remuneration bands	Number of individuals
Nil to HK$1,499,999	3
HK$1,500,000 to HK$1,999,999	1
HK$2,500,000 to HK$2,999,999	–

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 Nomination Committee held one meeting 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.

Nomination Procedures and Policy

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 adopted the nomination policy (the "**Nomination Policy**") 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.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision A.2.1 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.

COMPANY SECRETARY

Ms. Ho Wing Yan, an associate member of The Hong Kong Chartered Governance Institute ("**HKCGI**") and The Chartered Governance Institute and a holder of the Practitioner's Endorsement issued by HKCGI, 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. Liu Hui, the chief legal officer and secretary to the Board.

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 "**Securities Dealing Code**") on terms no less stringent than the required standard set out in the Model Code as set out in Appendix C3 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, 2023.

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 CEO's Committee accesses and monitors key risks, controls and procedures to assure our Board 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 internal 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 Guangfu Hospital have improved their internal policies and procedures based on this standardized systems.

Procedures on Identifying, Evaluating and Managing Significant Risks

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, 2023, 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.

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, 2023.

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 92 to 99 of this annual report.

AUDITORS' REMUNERATION

An analysis of the remuneration paid to the external auditor of the Company, KPMG, in respect of audit services and non-audit services for the year ended December 31, 2023 is set out below:

Service Category	**Fees paid/ payable** RMB'000
Audit services	2,359
Non-audit services	–
Total	2,359

BOARD DIVERSITY POLICY

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.

For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

1. Independence: The Board should consist of both executive and non-executive members, including independent non-executive Directors, in order to maintain balance and independence. The independent non-executive Directors should be of high caliber and have sufficient stature for their opinions to carry weight.

2. Skills and experience: The Board is composed of a group of Directors who possess a balance of skills that are appropriate for the requirements of the Company's business. The Directors have a range of backgrounds in finance, academia, and management, which, when taken together, provide the Company with considerable experience in a variety of activities.

3. Gender equality: The Board currently consists of three female directors. The Board aims to maintain/ increase the ratio of female representation in the Board to no less than 35% by or before 2024.

Apart from the above objectives, the Board Diversity Policy has complied with the following objectives with the Listing Rules:

1. Rules 3.10(1): at least one third of the members of the Board shall be independent non-executive Directors;

2. Rules 3.10(2): at least one of the members of the Board shall have obtained appropriate professional qualifications or accounting or related financial management expertise; and

3. Rules 3.10A: at least three of the members of the Board shall be independent non-executive Directors.

The Board has achieved the measurable objectives in the Board Diversity Policy and complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules.

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 respect of the gender diversity of the Board, as at the date of this report, 5 Directors are male and 3 Directors are female. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance, and sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. It is expected that the ratio of female Directors will reach more than 35% in the following years. The Company will achieve this goal through active nomination of suitable candidates with no gender limitation to be newly appointed Directors in the next few years.

Moreover, the current gender ratio of the Company's workforce (including senior management) is 1,042 males per 2,222 females, compared with 1,036 males per 2,229 females of last year. As at the end of the Reporting Period, there were 4 senior management members with 2 female members. Female employees accounted for 68.1% of the Company's workforce, while male employees accounted for 31.9%. The Company strives to achieve employee diversity, with gender diversity being considered in staff recruitment. The Company is committed to promoting gender diversity at all levels, including the Board and senior management levels, and developing a pipeline of female senior management and potential successors to the Board. Hence, the Company will continue focusing on the area because workforce gender diversity is associated with resources that can provide a sustained competitive advantage to the Company, which includes market insight, creativity and innovation ability, and improved problem-solving ability. Men's and women's different experiences may provide insights into the different needs of male and female customers. Further, men and women may have different cognitive abilities. Therefore, a mix of cognitive abilities in a gender diverse team may enhance the team's overall creativity and innovation ability as proved by research. Moreover, a gender diverse team produces high quality decisions. The Company will keep focusing on the workforce gender diversity to maintain its current strength as well as to further improve its competitiveness in the future.

Mechanisms to Ensure Independent Views

The Company makes certain that the Board has access to independent views and input through the mechanisms listed below:

1. The Nomination Committee should review the Board composition and the independence of the independent non-executive Directors annually, in particular the portion of the independent non-executive Directors and the independence of the independent non-executive Director who has served for more than nine years.

2. A written confirmation was received by the Company under Rule 3.13 of the Listing Rules from each of the independent non-executive Directors in relation to his/her independence to the Company. The Company considers all its independent non-executive Directors to be independent.

3. In view of good corporate governance practices and to avoid conflict of interests, the Directors who are also Directors and/or senior management of the Company's controlling shareholders and/or certain subsidiaries of the controlling shareholders, would abstain from voting in the relevant Board resolutions on the transactions with the controlling shareholders and/or its associates.

4. The chairman of the Board shall meet with independent non-executive Directors at least once annually.

5. All members of the Board can seek independent professional advice when necessary to perform their responsibilities in accordance with the Company's policy.

The mechanisms to ensure independent views are reviewed by the Nomination Committee for ensuring independent views and input are available to the Board on an annual basis, whether in terms of proportion, recruitment and independence of independent non-executive Directors, and their contribution and access to external independent professional advice.

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.

Putting Forward Proposals at General Meetings

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.

Putting Forward Enquiries to the Board

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.

Contact Details

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.

Shareholders' Communication Policy

Purpose

The Company recognises the importance of providing current and relevant information to its shareholders (the "**Shareholders**"). This shareholders' communication policy (the "**Shareholders' Communication Policy**") aims to set out the provisions with the objective to ensure that the Shareholders and potential investors are provided with equal and timely access to balanced and understandable information about the Company, in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and potential investors to engage actively with the Company.

General Policy

The Board shall maintain an on-going dialogue with Shareholders and will regularly review the Shareholders' Communication Policy to ensure its effectiveness.

Information is communicated to the Shareholders as well as the stakeholders through periodic disclosure through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and other corporate publications on the website of the Stock Exchange and corporate communications, on the website of the Stock Exchange at www.hkex.com.hk and the Company's website at www.hcclhealthcare.com.

Effective and timely dissemination of information to Shareholders shall be ensured at all times. Any questions, requests and comments can be addressed to the Company by mail to Suite 10, 70/F., Two International Finance Centre, No. 8 Finance Street, Central, Hong Kong or through the Company's share registrar.

The Company believes that communication with Shareholders by electronic means, particularly through its website, is an efficient way to distribute information in a timely and convenient manner. Shareholders are encouraged to access to the corporate communications posted on the Company's website to help reduce the quantity of printed copies and hence reduce the impact on the environment.

The Company's website will be updated with material posted to the website of the Stock Exchange immediately thereafter. Such material includes but not limited to financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

Shareholders shall be provided with designated contacts, email addresses and enquiry lines of the Company in order to enable them to make any query in respect of the Company.

The Company has reviewed the Shareholders' Communication Policy conducted for the year ended December 31, 2023 and considered that the Shareholders' Communication Policy has been well implemented and effective.

Constitutional Documents

The Board has proposed to make certain amendments to the existing amended and restated Memorandum and Articles of Association to conform to the core standards for shareholder protections a uniform set of 14 core standards for shareholder protections set out in Appendix A1 to the Listing Rules) and to incorporate certain housekeeping amendments (collectively, the "Amendments").

In view of the Amendments, the Board proposed to adopt an amended Memorandum and Articles of Association (the "New Constitutional Documents"). The New Constitutional Documents was adopted by the shareholders of the Company (the "Shareholders") at the Annual General Meeting of the Company held on June 20, 2023.

For details, please refer to the announcement of the Company dated March 27, 2023 and the circular of the Company dated April 24, 2023. Save as disclosed herein, there was no significant changes in the Company's constitutional documents during the year ended December 31, 2023.

Save as disclosed herein, during the year ended December 31, 2023, 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.

Independent auditor's report to the shareholders of
Hospital Corporation of China Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Hospital Corporation of China Limited (the "Company") and its subsidiaries (the "Group") set out on pages 100 to 188, which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes, comprising material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board (the "IASB") 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") issued by the International Auditing and Assurance Standards Board ("IAASB"). 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 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"), together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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 – *continued*

Assessment of goodwill impairment

Refer to Note 14, to the consolidated financial statements and the accounting policies in Note 2.10.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2023, the goodwill arising from the acquisitions of subsidiaries of the Group amounted to RMB745,868,000 were allocated to cash generating unit ("CGU") or CGU groups among segments of hospital management services and general hospital services. Management reviews the business performance and monitors goodwill on the CGU or CGU groups. Goodwill impairment assessments were undertaken annually or more frequently if events or changes in circumstances indicated a potential impairment. The recoverable amount of the CGU or CGU groups was determined based on the higher of fair value less costs of disposal and value in use. These calculations required the use of estimates and judgements. Management assessed and determined the recoverable amount of the CGU or CGU groups, which involved the use of key assumptions including compound growth rate of revenue within forecast period, long-term growth rate and post-tax discount rate.	Our audit procedures to assess goodwill impairment included the following: • obtaining an understanding of and evaluating the design and implementation of key internal controls in relation to the assessment goodwill impairment; • discussing future operating plans with management and assessing the reasonableness of compound growth rate of revenue used in the discounted cash flow forecasts with reference to historical revenue growth rate; • involving our internal valuation specialist in assessing the appropriateness of the methodology applied with reference to the prevailing accounting standards and the reasonableness of other assumptions used in determining the recoverable amount of each CGU or CGU groups, which included comparing long-term growth rate with the long-term inflation rate of China and post-tax discount rate with reference to those of comparable companies;

KEY AUDIT MATTERS – *continued*

Assessment of goodwill impairment – *continued*

Refer to Note 14, to the consolidated financial statements and the accounting policies in Note 2.10.

The Key Audit Matter	How the matter was addressed in our audit
We identified the assessment of goodwill as a key audit matter because the estimation of recoverable amount involved significant judgements and estimates, which is inherently uncertain.	• testing the mathematical accuracy of the calculations on the impairment losses performed by management; • evaluating the sensitivity analysis performed by management on the above key assumptions, considering the resulting impact on the valuation results and whether there were any indicators of management bias; and • considering the reasonableness of the disclosures in the consolidated financial statements in respect of impairment assessment with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS – *continued*

Fair value estimation of convertible bonds

Refer to Note 30 to the consolidated financial statements and the accounting policies in Note 2.18.

The Key Audit Matter	How the matter was addressed in our audit
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 a 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 identified the fair value of convertible bonds as a key audit matter because the fair value determination of convertible bonds involved significant judgements and estimates, which is inherently uncertain.	Our audit procedures to assess fair value of convertible bonds included the following: • obtaining an understanding of and evaluating the design and implementation of the key internal controls in relation to the fair value estimation of convertible bonds; • assessing the competence, capabilities and objectivity of the professional valuer; • assessing the appropriateness of the valuation method with reference to the requirements of the prevailing accounting standards and the reasonableness of the key assumptions with the assistance from internal valuation specialist, which included comparing: – risk-free rate of interest with 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 with the annualised 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 with the dividend policy of the Group; and – time to expiration with the terms of the convertible bond instruments;

KEY AUDIT MATTERS – *continued*

Fair value estimation of convertible bonds – *continued*

Refer to Note 30 to the consolidated financial statements and the accounting policies in Note 2.18.

The Key Audit Matter	How the matter was addressed in our audit
	• testing the mathematical accuracy of the calculation of fair value of the convertible bonds with the assistance from our internal valuation specialist; • evaluating the sensitivity analysis performed by management and independent valuer on the above key assumptions, considering the resulting impact on the valuation results and whether there were any indicators of management bias; and • considering the reasonableness of the disclosures in the consolidated financial statements in respect of fair value estimation of convertible bonds with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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. This report is made 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 judgement and maintain professional skepticism 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.

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

- 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.

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 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.

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

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 Wan Chi Yau, Charles.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023
(Expressed in Renminbi ("RMB"))

	Notes	2023 RMB'000	2022 RMB'000
Revenue	5	**1,427,733**	1,142,951
Cost of revenue		**(1,188,373)**	(992,073)
Gross profit		**239,360**	150,878
Selling expenses		**(1,568)**	(344)
Administrative expenses		**(129,232)**	(95,158)
Impairment losses on financial assets, net		**884**	(1,867)
Impairment losses on intangible assets	14	**-**	(460,283)
Other income	6	**16,633**	5,942
Other gains/(losses), net	7	**88,421**	(137,156)
Operating profit/(loss)		**214,498**	(537,988)
Finance income	8(a)	**9,824**	14,599
Finance costs	8(a)	**(8,118)**	(9,239)
Profit/(loss) before taxation	8	**216,204**	(532,628)
Income tax	10	**(47,860)**	4,031
Profit/(loss) for the year		**168,344**	(528,597)
Attributable to:			
Owners of the Company		**131,384**	(480,948)
Non-controlling interests		**36,960**	(47,649)
Profit/(loss) for the year		**168,344**	(528,597)
Earning/(losses) per share:			
– Basic earnings/(losses) per share (in RMB)	11	**0.956**	(3.480)
– Diluted earnings/(losses) per share (in RMB)	11	**0.213**	(3.480)

The notes on pages 107 to 188 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023
(Expressed in RMB)

	Notes	2023 RMB'000	2022 RMB'000
Profit/(loss) for the year		**168,344**	(528,597)
Other comprehensive income			
Item that will not be subsequently reclassified to profit or loss			
– Remeasurement of defined benefit plan obligation, net of nil tax	28	**13,184**	(2,781)
Total comprehensive income for the year		**181,528**	(531,378)
Attributable to:			
Owners of the Company		**131,384**	(480,948)
Non-controlling interests		**50,144**	(50,430)
Total comprehensive income for the year		**181,528**	(531,378)

The notes on pages 107 to 188 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023
(Expressed in RMB)

	Notes	As at 31 December 2023 RMB'000	2022 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**183,004**	218,933
Right-of-use assets	13	**43,433**	44,877
Intangible assets	14	**1,152,245**	1,162,237
Deferred income tax assets	29	**8,165**	9,312
Other receivables, deposits and prepayments	18	**805**	466
Amounts due from related parties	19	**160,944**	156,726
Total non-current assets		**1,548,596**	1,592,551
Current assets			
Inventories	17	**51,425**	57,068
Trade receivables	16	**133,652**	71,543
Other receivables, deposits and prepayments	18	**12,776**	15,340
Amounts due from related parties	19	**80,932**	71,457
Financial assets at fair value through profit or loss	20	**94,156**	129,848
Term deposits		**50,708**	696
Restricted bank deposits		**2,828**	–
Cash and cash equivalents	21	**523,027**	497,061
Total current assets		**949,504**	843,013
Total assets		**2,498,100**	2,435,564
EQUITY			
Equity attributable to owners of the Company			
Share capital	22	**123**	123
Share premium	22	**435,304**	435,304
Other reserves	24	**875,958**	870,779
Treasury shares	24	**(8,000)**	–
Accumulated losses		**(924,291)**	(1,050,496)
		379,094	255,710
Non-controlling interests		**212,109**	187,718
Total equity		**591,203**	443,428

At 31 December 2023
(Expressed in RMB)

	Notes	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
LIABILITIES			
Non-current liabilities			
Convertible bonds	30	**938,149**	–
Lease liabilities	13	**7,237**	6,240
Defined benefit plan obligation	28	**44,649**	49,111
Deferred income tax liabilities	29	**147,142**	151,056
Accruals, other payables and provisions	27	**45,310**	–
Total non-current liabilities		**1,182,487**	206,407
Current liabilities			
Trade payables	25	**150,543**	136,855
Convertible bonds	30	**–**	1,026,407
Accruals, other payables and provisions	27	**441,062**	520,757
Amounts due to related parties	19	**7,690**	10,757
Contract liabilities		**4,570**	2,148
Current income tax liabilities		**36,662**	17,849
Borrowings	26	**82,100**	69,429
Lease liabilities	13	**1,783**	1,527
Total current liabilities		**724,410**	1,785,729
Total liabilities		**1,906,897**	1,992,136
Total equity and liabilities		**2,498,100**	2,435,564

Approved and authorised for issue by the board of directors on 26 March 2024.

Chen Shuai

Pu Chengchuan

The notes on pages 107 to 188 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023
(Expressed in RMB)

		Attributable to owners of the Company							
	Notes	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Treasury shares RMB'000	Accumulated losses RMB'000	Sub-total RMB'000	Attributable to non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2022		123	435,304	929,345	–	(566,799)	797,973	337,854	1,135,827
Comprehensive income									
– Loss for the year		–	–	–	–	(480,948)	(480,948)	(47,649)	(528,597)
– Remeasurement of defined benefit plan obligation		–	–	–	–	–	–	(2,781)	(2,781)
Share-based payments									
– share incentive scheme	23	–	–	130	–	–	130	–	130
Transfer of reserves	24(a)	–	–	2,749	–	(2,749)	–	–	–
Dividends provided for or paid	9(iii)	–	–	–	–	–	–	(42,151)	(42,151)
Acquisition of non-controlling interests of subsidiaries		–	–	(61,445)	–	–	(61,445)	(57,555)	(119,000)
Balance at 31 December 2022		**123**	**435,304**	**870,779**	**–**	**(1,050,496)**	**255,710**	**187,718**	**443,428**
Balance at 1 January 2023		**123**	**435,304**	**870,779**	**–**	**(1,050,496)**	**255,710**	**187,718**	**443,428**
Comprehensive income									
– Profit for the year		**–**	**–**	**–**	**–**	**131,384**	**131,384**	**36,960**	**168,344**
– Remeasurement of defined benefit plan obligation		**–**	**–**	**–**	**–**	**–**	**–**	**13,184**	**13,184**
Transfer of reserves	24(a)	**–**	**–**	**5,179**	**–**	**(5,179)**	**–**	**–**	**–**
Repurchase of treasury shares	24(b)	**–**	**–**	**–**	**(8,000)**	**–**	**(8,000)**	**–**	**(8,000)**
Dividends provided for or paid	9(iii)	**–**	**–**	**–**	**–**	**–**	**–**	**(25,753)**	**(25,753)**
Balance at 31 December 2023		**123**	**435,304**	**875,958**	**(8,000)**	**(924,291)**	**379,094**	**212,109**	**591,203**

The notes on pages 107 to 188 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023
(Expressed in RMB)

	Notes	2023 RMB'000	2022 RMB'000
Cash flows from operating activities			
Cash generated from operations	32(i)	**109,200**	170,485
Income tax paid		**(31,551)**	(30,852)
Interest received		**5,042**	3,502
Net cash generated from operating activities		**82,691**	143,135
Cash flows from investing activities			
Payments for property, plant and equipment		**(9,271)**	(15,583)
Payments for intangible assets		**(6,018)**	(1,066)
Proceeds from sale of property, plant and equipment		**6,883**	3,332
Payments for financial assets at fair value through profit or loss	34(v)(d)	**(79,172)**	(407,961)
Proceeds from sale of financial assets at fair value through profit or loss	34(v)(d)	**115,775**	618,818
Interest received on financial assets at fair value through profit and loss	34(v)(d)	**1,319**	3,922
Placement of term deposits with initial terms over three months		**(50,708)**	(696)
Redemption of term deposits with initial terms over three months		**696**	638
Interest received on term deposits		**35**	959
Loans to related parties	36(iii)	**–**	(30,000)
Loans repayment from related parties	36(iii)	**–**	10,000
Loans interest received from related parties	36(iii)	**4,943**	4,800
Net cash (used in)/generated from investing activities		**(15,518)**	187,163

CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED

For the year ended 31 December 2023
(Expressed in RMB)

	Notes	2023 RMB'000	2022 RMB'000
Cash flows from financing activities			
Proceeds from borrowings	32(ii)	**82,100**	69,000
Repayment of borrowings	32(ii)	**(71,884)**	(82,410)
Principal elements of lease payments	32(ii)	**(1,477)**	(1,354)
Interest elements of lease payments	32(ii)	**(383)**	(408)
Settlement of redeemed convertible bonds	32(ii)	**(22,858)**	(103,128)
Loans from related parties	32(ii)	**–**	119
Loans repayment to related parties	32(ii)	**–**	(13)
Dividends paid to non-controlling interests of subsidiaries		**(20,734)**	(41,149)
Payment for acquisition of non-controlling interests of subsidiaries		**–**	(120,000)
Purchase of own shares		**(6,379)**	–
Net cash used in financing activities		**(41,615)**	(279,343)
Net increase in cash and cash equivalents		**25,558**	50,955
Cash and cash equivalents at the beginning of the year		**497,061**	440,428
Effects of exchange rate changes on cash and cash equivalents		**408**	5,678
Cash and cash equivalents at the end of the year		**523,027**	497,061

The notes on pages 107 to 188 form part of these financial statements.

1 GENERAL INFORMATION

Hospital Corporation of China Limited ("the Company") was incorporated in the Cayman Islands on 21 February 2014 as an exempted company with limited liability under the Companies Law (Cap.22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The 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 hospitals; (ii) provision of management services, supply chain services and other ancillary services to certain 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 16 March 2017.

2 MATERIAL ACCOUNTING POLICIES

This note provides a list of the material 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 Basis of preparation

(i) Statement of compliance

The consolidated financial statements of Hospital Corporation of China Limited have been prepared in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board ("IASB") and disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Material accounting policies adopted by the Group are disclosed below.

The IASB has issued certain amendments to IFRS Accounting Standards that are first effective or available for early adoption for the current accounting period of the group. Note 2.1(iii) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(ii) Basis of preparation of the financial statements

The consolidated financial statements have been prepared on a historical cost basis, except for the following assets stated at their fair value as explained in the accounting policies set out below:

- Financial instruments classified as other equity securities (see note 2.4), and
- Convertible bonds (see note 2.18).

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS Accounting Standards that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(Expressed in RMB unless otherwise indicated)

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(iii) Changes in accounting policies

The Group has applied the following new and amended IFRS Accounting Standards issued by the IASB to these financial statement for the current accounting period:

– International Financial Reporting Standards ("IFRS") 17, Insurance contracts

– Amendments to International Accounting Standards ("IAS") 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates

– Amendments to IAS 1, Presentation of financial statements and IFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies

– Amendments to IAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction

– Amendments to IAS 12, Income taxes: International tax reform – Pillar Two model rules

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

None of these developments has had a material effect on how to the Group's results and financial position for the current period have been prepared or presented in these financial statement.

(iv) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2023

	Effective for accounting periods beginning on or after
Amendments to IAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current ("2020 amendments")*	1 January 2024
Amendments to IAS 1, *Presentation of financial statements: Non-current liabilities with covenants ("2022 amendments")*	1 January 2024
Amendments to IFRS 16, *Leases: Lease liability in a sale and leaseback*	1 January 2024
Amendments to IAS 7, *Statement of cash flows and IFRS 7, Financial Instruments: Disclosures: Supplier finance arrangements*	1 January 2024
Amendments to IAS 21, *The effects of changes in foreign exchange rates: Lack of exchangeability*	1 January 2025

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(iv) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2023 – continued

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

2.2 Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

For each business combination, the Group can elect to measure any non-controlling interests ("NCI") either at fair value or at the NCI's proportionate share of the subsidiary's net identifiable assets. NCI are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. NCI in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between NCI and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Group loses control of a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in that former subsidiary is measured at fair value when control is lost.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2.10), unless it is classified as held for sale.

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.3 Goodwill

Goodwill arising on acquisition of businesses is measured at cost less accumulated impairment losses and is tested annually for impairment (see note 2.10).

2.4 Other investments in securities

The Group's policies for investments in securities, other than investments in subsidiaries are set out below.

Investments in securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at financial assets at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 34(v).

Non-equity investments are classified into FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.5 Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2.6 Foreign currency translation

(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 of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, 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 profit or loss, within "finance income and cost". All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within "other gains/(losses), net".

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.7 Property, plant and equipment

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

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 – 10 years
–	Office equipment and furniture	3 – 10 years
–	Leasehold improvements	Shorter of remaining lease term or estimated useful lives

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.8 Intangible assets (other than goodwill)

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.

Contractual rights to provide management services are the rights to provide management services to 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.

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.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2.9 Right-of-use assets – land use right

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 profit or loss on a straight-line basis over the remaining period of the lease.

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.10 Impairment of non-current assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("CGU"s). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.11 Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses ("ECL"s) on financial assets measured at amortised cost (including cash and cash equivalents, trade receivables, other receivables and amounts due from related parties).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls between and contractual and expected amounts.

The expected cash shortfalls are discounted using the following rates if the effect is material:

– fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are the portion of ECLs that are expected to result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and

– lifetime ECLs: these are the ECLs that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and amounts due from related parties (trade in nature) are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instrument, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.11 Credit losses and impairment of assets – *continued*

(i) Credit losses from financial instruments – continued

Significant increases in credit risk

When determining whether the credit risk of a financial instrument has increased significantly since initial recognition and when measuring ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the group's historical experience and informed credit assessment, that includes forward-looking information.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.11 Credit losses and impairment of assets – *continued*

(i) Credit losses from financial instruments – continued

Credit-impaired financial assets

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

– the restructuring of a loan or advance by the Group on terms that the group would not consider otherwise;

– it is probable that the debtor will enter bankruptcy or other financial reorganisation;

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off to the extent that there is no realistic prospect of recovery. This is generally the case when the Group otherwise determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.12 Inventories

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

2.13 Trade and other receivables

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

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost (see note 2.11(i)).

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL (see note 2.11(i)).

2.15 Share capital

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 MATERIAL ACCOUNTING POLICIES – *continued*

2.16 Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

2.17 Borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequently, these borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with note 2.19.

2.18 Convertible notes

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 the consolidated statement of profit or loss.

A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.19 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

2.20 Income tax

Income tax expense comprises current tax and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

Current tax comprises the estimated tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

– temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences;

– temporary differences related to investment in subsidiaries, associates and joint venture to the extent that the group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

– taxable temporary differences arising on the initial recognition of goodwill.

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.20 Income tax – *continued*

The Group recognised deferred tax assets and deferred tax liabilities separately in relation to its lease liabilities and right-of-use assets.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Where investment properties are carried at their fair value, the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date, unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

2.21 Employee benefits

(i) Short-term employee benefits and contributions to defined contribution plans

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Obligations for contributions to defined contribution retirement plans are expensed as the related service is provided.

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.21 Employee benefits – *continued*

(ii) Defined benefit plan obligations

Certain subsidiary of the Group provided defined benefit plan to its certain emplyees after retirement. The liability or asset recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated statement of profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the statement of financial position.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in the consolidated statement of profit or loss as past service costs.

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.22 Share-based payments

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).

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 profit or loss, with a corresponding adjustment to equity.

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.23 Revenue recognition

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

– Does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of the performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services.

The progress towards complete satisfaction of performance obligation is measured based on one of the following methods that best depicts the Group's performance in satisfying the performance obligation:

– Direct measurements of the value of individual services transferred by the Group to the customer; or

– The Group's efforts or inputs to the satisfaction of the performance obligation.

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.23 Revenue recognition – *continued*

If contracts involve the sale of multiple goods, goods followed by related services, or multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

(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 certain 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 also offers supply chain service to certain hospitals, revenue is recognised when the customer takes possession of and accepts the products.

The Group receives the payment according to the contracts. Any unconditional rights to consideration of the contract is presented as a receivable. If the Group performs by transferring services to the customer before the customer pays consideration or before payments is due, the Group presents the contract as a contract asset, excluding any amounts presented as a receivable. If a customer pays consideration before the Group transfer services to the customer, the Group presented the contract as a contract liability when the payment is made or the payment is due.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.23 Revenue recognition – *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. 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 recognised at a point in time, i.e. when the services are provided.

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 the sale of pharmaceuticals products is recognised when the control of the product is transferred to the customer, i.e. when the products is delivered and simultaneously accepted by the customer.

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 MATERIAL ACCOUNTING POLICIES – *continued*

2.24 Interest income

Interest income from financial assets at FVPL is included in the net fair value gains on these assets, see Note 7 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 profit or loss 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 8(a) below. Any other interest income is included in other income.

2.25 Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. This is the case if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected to separate lease components from non-lease components and allocated the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. If not capitalised, the associated lease payments are recognised in profit or loss on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability, and are charged to profit or loss as incurred.

2 MATERIAL ACCOUNTING POLICIES – *continued*

2.25 Leases – *continued*

As a lessee – continued

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 2.11).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a lease modification, which means a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract, if such modification is not accounted for as a separate lease. In this case, the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

2.26 Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

3 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.

(i) Estimation of goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a CGU or a group of CGUs is determined based on fair value less costs of disposal calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering an eight-year period for general hospital services segment, hospital management services segment and sale of pharmaceutical products segment ("Forecast Period"). When applying valuation technique, the Group relies on a number of factors and judgements, including, among others, historical results, business plans, forecasts and market data.

Cash flows beyond the forecast period are extrapolated using the estimated growth rates stated in Note 14. These growth rates are consistent with management's research and analysis based on industry information and data provided by an independent industry consultant specific to the industry in which each CGU operates.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 14.

(a) Revenue (% compound growth rates)

The revenue compound growth rates over the Forecast Period is based on the relevant CGUs past performance and management's expectation for the market development.

(b) Long-term growth rate

The long-term growth rate after the Forecast Period is estimated on the basis of the inflation rate of China. It is a commonly used valuation assumption that the long-term growth rate of a company will converge with the long-term growth rate of the country in which it operates.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

(i) Estimation of goodwill impairment – *continued*

(c) 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 details, please refer to Note 14.

(ii) Assessment of control over not-for-profit hospitals

Certain not-for-profit hospitals were founded by subsidiaries of the Company. Despite the fact that the subsidiaries founded the not-for-profit hospitals, the subsidiaries are not entitled to the dividend of the not-for-profit hospitals in accordance with relevant PRC laws and regulations. The subsidiaries have entered into agreements with the not-for-profit hospitals in which the subsidiaries obtained contractual rights to provide management services for certain periods and were entitled to receive performance-based management fees for the years ended 31 December 2023 and 2022.

The Group has exercised significant judgements in determining whether the Group has control over the not-for-profit hospitals. In exercising such judgement, the Group considers the purpose and design of the 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 not-for-profit hospitals, and whether the Group has the ability to use its power over the not-for-profit hospitals to affect the amount of the Group's returns.

After assessment of control over not-for-profit hospitals, the management has concluded that the Group has control over Shanghai Yangsi Hospital* ("Yangsi Hospital")（上海楊思醫院）starting from 6 December 2021 and thus has consolidated it. For other not-for-profit hospitals, based on the assessment, the Group does not have the decision making power over internal governance body to direct the relevant activities of the not-for-profit hospitals, the Group does not control and thus does not consolidate the not-for-profit hospitals. Instead, relevant agreements are considered as management contracts to generate management services income.

* *For identification purpose only*

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

(iii) Convertible bonds

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 30.

(iv) Estimation of defined benefit obligation

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. Details of key assumptions and impact of possible changes in key assumptions are disclosed in Note 28.

4 SEGMENT INFORMATION

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

(i) General hospital services

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

(ii) Hospital management services

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

(iii) Sale of pharmaceutical products

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

4 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"), which is measured consistently with the Group's profit/loss before tax except that depreciation, amortisation, finance income and costs and other unallocated expenses and losses are excluded from such measurement.

Segment assets exclude goodwill, financial assets at FVPL and other unallocated head office and corporate assets as these assets are managed on a Group basis. Segment liabilities exclude borrowings and other unallocated head office and corporate liabilities as these liabilities are managed on a Group basis.

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

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

	General hospital services RMB'000	Hospital management services RMB'000	Sale of pharmaceutical products RMB'000	Elimination RMB'000	Unallocated RMB'000	Total RMB'000
2023						
Segment revenue	1,326,280	257,860	11,476	(170,941)	3,058	1,427,733
Inter-segment revenue	–	(170,941)	–	170,941	–	–
Revenue from external customers	1,326,280	86,919	11,476	–	3,058	1,427,733
EBITDA	193,107	7,620	2,367	(386)	–	202,708
Depreciation	(41,218)	(3,279)	(49)	–	(627)	(45,173)
Amortisation	(10,048)	(7,509)	–	–	(132)	(17,689)
Finance (costs)/income	(1,033)	90	(21)	–	2,670	1,706
Unallocated income, net					74,652	74,652
Profit/(loss) before income tax	140,808	(3,078)	2,297	(386)	76,563	216,204
As at 31 December 2023						
Segment assets	811,188	588,770	16,236	(134,474)	470,512	1,752,232
Goodwill	58,495	687,373	–	–	–	745,868
Total assets	869,683	1,276,143	16,236	(134,474)	470,512	2,498,100
Total liabilities	526,095	189,412	3,222	(134,474)	1,322,642	1,906,897

4 SEGMENT INFORMATION – *continued*

	General hospital services RMB'000	Hospital management services RMB'000	Sale of pharmaceutical products RMB'000	Elimination RMB'000	Unallocated RMB'000	Total RMB'000
2022						
Segment revenue	1,053,374	191,087	11,124	(113,484)	850	1,142,951
Inter-segment revenue	(4,000)	(109,484)	–	113,484	–	–
Revenue from external customers	1,049,374	81,603	11,124	–	850	1,142,951
EBITDA	123,962	(446,748)	5,949	–	–	(316,837)
Depreciation	(42,050)	(3,622)	(67)	–	(743)	(46,482)
Amortisation	(8,382)	(8,379)	–	–	(36)	(16,797)
Finance (costs)/income	(1,185)	138	(25)	–	6,432	5,360
Unallocated expense, net					(157,872)	(157,872)
Profit/(loss) before income tax	72,345	(458,611)	5,857	–	(152,219)	(532,628)
As at 31 December 2022						
Segment assets	784,635	674,829	19,603	(86,688)	297,317	1,689,696
Goodwill	58,495	687,373	–	–	–	745,868
Total assets	843,130	1,362,202	19,603	(86,688)	297,317	2,435,564
Total liabilities	506,604	151,755	3,415	(86,688)	1,417,050	1,992,136

5 REVENUE

Disaggregated revenue information

	2023 RMB'000	2022 RMB'000
Types of goods or services		
General healthcare services	**1,326,280**	1,049,374
Hospital management services	**86,919**	81,603
Sale of pharmaceutical products and others	**14,534**	11,974
Total	**1,427,733**	1,142,951
Timing of revenue recognition		
Point in time	**680,262**	583,394
Over time	**747,471**	559,557
Total	**1,427,733**	1,142,951

For general hospital services, revenue primarily derives from highly diversified individual patients and no single patient contributed 1% or more of the Group's respective revenue for the years ended 31 December 2023 and 2022, respectively.

The Group takes advantage of practical expedient in IFRS15 and does not disclose the remaining performance obligation as the Group's sales contracts either have an original expected duration of less than one year or the revenue is performance-based.

6 OTHER INCOME

	2023 RMB'000	2022 RMB'000
Government grants and subsidies (a)	**15,624**	4,810
Others	**1,009**	1,132
	16,633	5,942

(a) The government grants and subsidies were income related and credited to the consolidated statement of profit or loss when received.

7 OTHER GAINS/(LOSSES), NET

	2023 RMB'000	2022 RMB'000
Net fair value losses on convertible bonds	**(134,662)**	(119,491)
Net gains on the extension of convertible bonds	**222,920**	–
Net fair value gains on financial assets at FVPL	**2,230**	5,722
Others	**(2,067)**	(23,387)
	88,421	(137,156)

8 PROFIT/(LOSS) BEFORE TAXATION

(a) Finance income and costs

	2023 RMB'000	2022 RMB'000
Finance income		
Interest income on bank deposits	**5,077**	4,461
Interest income on loan to related parties	**4,664**	4,529
Foreign exchange gains, net	**83**	5,609
	9,824	14,599

	2023 RMB'000	2022 RMB'000
Finance costs		
Interest expense on bank borrowings	**(2,455)**	(4,501)
Interest expense on lease liabilities	**(383)**	(408)
Finance expense on redeemed convertible bond	**(3,673)**	(4,273)
Interest on defined benefit obligations (Note 28)	**(1,579)**	–
Others	**(28)**	(57)
	(8,118)	(9,239)

(b) Employee benefit expense

	2023 RMB'000	2022 RMB'000
Wages, salaries, bonuses and other benefits	**394,139**	350,475
Defined benefit obligation (Note 28)	**7,630**	3,532
Share-based compensation expenses (Note 23)	**230**	(621)
Contribution to pension plans and others	**28,480**	27,448
	430,479	380,834

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.

8 PROFIT/(LOSS) BEFORE TAXATION – *continued*

(b) Employee benefit expense – *continued*

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one director (2022: two directors) of the Company whose emolument is reflected in the analysis shown in Note 39. The emoluments payables to the remaining four (2022: three) individuals during the year are as follows:

	2023	2022
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**3,366**	2,350
Contribution to pension scheme	**189**	173
Discretionary bonuses	**1,432**	1,157
	4,987	3,680

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

	2023	2022
	no. of individual	no. of individual
Emolument band		
HKD1,000,000 – HKD1,499,999	**3**	2
HKD1,500,000 – HKD1,999,999	**1**	1
	4	3

8 PROFIT/(LOSS) BEFORE TAXATION – *continued*

(c) Other items

	2023 RMB'000	2022 RMB'000
Cost of inventories	**722,926**	556,113
Amortisation and depreciation	**62,862**	63,279
Operating lease rental expenses	**6,341**	5,015
Auditor's remuneration		
– audit service	**2,359**	2,144
Impairment loss on intangible assets	**–**	460,283

9 SUBSIDIARIES

The Group's principal subsidiaries at 31 December 2023 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.

Name of entity	Place and date of incorporation/establishment/ kind of legal entity	Principal activities/ place of operation	Registered/ Issued and paid-up capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2023 %	2022 %	2023 %	2022 %
Directly owned:							
Acute Sky Holdings Limited	The BVI, on January 2, 2014	Investment holding, the BVI	US$1	**100%**	100%	**-**	-
Ever Surpass Investments Limited	The BVI, on December 10, 2013	Investment holding, the BVI	US$1	**100%**	100%	**-**	-
Oriental Ally Holdings Limited ("Oriental Ally")	The BVI, on May 2, 2014	Investment holding, the BVI	US$1	**100%**	100%	**-**	-
Indirectly owned:							
Bliss Success Holdings Limited	Hong Kong, on December 20, 2011	Investment holding, Hong Kong	HK$1	**100%**	100%	**-**	-
New Pride Holdings Limited	Hong Kong, on April 11, 2012	Investment holding, Hong Kong	HK$1	**100%**	100%	**-**	-
Impeccable Success Limited ("Impeccable Success")	Hong Kong, on June 9, 2014	Investment holding, Hong Kong	US$1	**100%**	100%	**-**	-

(Expressed in RMB unless otherwise indicated)

9 SUBSIDIARIES – *continued*

Name of entity	Place and date of incorporation/establishment/ kind of legal entity	Principal activities/ place of operation	Registered/ Issued and paid-up capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2023	2022	**2023**	2022
				%	%	**%**	%
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 (note 1)	Investment holding, the PRC	RMB30,000,000	**100%**	100%	**-**	–
Tibet Honghe Zhiyuan Business Management Co., Ltd.* ("Honghe Zhiyuan") (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	RMB30,000,000	**100%**	100%	**-**	–
Tibet Dazi Honghe Ruixin Business Management Co., Ltd.* ("Honghe Ruixin") (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	RMB500,000	**77%**	77%	**23%**	23%
Shanghai Weikang Investment Management Co., Ltd.* ("Weikang Investment") (上海維康投資管理有限公司)	The PRC, limited liability company, joint venture, on April 15, 2002 (note 2)	Hospital management, the PRC	RMB30,000,000	**77%**	77%	**23%**	23%
Yangsi Hospital	The PRC, limited liability company, joint venture, on April 15, 2002 (note 3)	Hospital management, the PRC	RMB30,000,000	**-**	–	**100%**	100%
Shanghai Pudong Siyang Optical Equipment Co., LTD* (上海浦東思楊光學器材有限公司)	The PRC, limited liability company, joint venture, on October 29, 2020	Hospital management, the PRC	RMB2,000,000	**-**	–	**100%**	100%
Zhejiang Honghe Zhiyuan Medical Technology Co., Ltd.* ("Zhejiang Honghe Zhiyuan") (浙江弘和致遠醫療科技有限公司)	The PRC, limited liability company, joint venture, on October 29, 2014 (note 2)	Hospital management, the PRC	RMB200,000,000	**75%**	75%	**25%**	25%
Jiande Heyue Enterprise Management Co., Ltd. * ("Jiande Heyue") (建德和悅企業管理有限公司)	The PRC, limited liability company, on September 20, 2017	Investment holding, the PRC	RMB80,000,000	**100%**	100%	**-**	–
Jiande Hexu Enterprise Management Co., Ltd.*("Jiande Hexu") (建德和煦企業管理有限公司)	The PRC, limited liability company, on September 19, 2017 (note 1)	Investment holding, the PRC	RMB80,000,000	**100%**	100%	**-**	–
Jiande Hospital	The PRC, limited liability company, joint venture, on September 19, 2016	General hospital services, the PRC	RMB10,000,000	**100%**	100%	**-**	–

(Expressed in RMB unless otherwise indicated)

9 SUBSIDIARIES – *continued*

Name of entity	Place and date of incorporation/establishment/ kind of legal entity	Principal activities/ place of operation	Registered/ Issued and paid-up capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2023 %	2022 %	2023 %	2022 %
DJ Pharmaceutical Technology	The PRC, limited liability company, joint venture, on November 12, 2014	Property management provided to Jiande Hospital, the PRC	RMB40,000,000	100%	100%	-	–
DJ Medicines	The PRC, limited liability company, joint venture, on August 11, 2005	Wholesale of pharmaceutical products, the PRC	RMB10,000,000	100%	100%	-	–
Cixi Hongai Medical Management Company Limited* ("Cixi Hongai") (慈溪弘愛醫療管理有限公司)	The PRC, limited liability company, on November 22, 2017 (note 1)	Investment holding, the PRC	RMB24,500,000	100%	100%	-	–
Cixi Honghe Medical Management Company Limited* ("Cixi Honghe") (慈溪弘和醫療管理有限公司)	The PRC, limited liability company, joint venture, on November 22, 2017	Hospital management, the PRC	RMB35,000,000	70%	70%	30%	30%
Xinlin Pharmacy	The PRC, limited liability company, on October 10, 2015	Sale of pharmaceutical products, the PRC	RMB5,000,000	100%	100%	-	–
Cixi Honghe Hospital Company Limited* (慈溪弘和醫院有限公司)	The PRC, limited liability company, on March 1, 2019	General hospital services, the PRC	RMB35,000,000	70%	70%	30%	30%
Tibet Hongai Business Management Co., Ltd.* ("Tibet Hongai") (西藏弘愛企業管理有限公司)	The PRC, limited liability company, on December 13, 2019	Management services, the PRC	RMB1,000,000	100%	100%	-	–
Jinhua Pharmacy	The PRC, limited liability company, on March 18, 2020	Sale of pharmaceutical products, the PRC	RMB100,000	100%	100%	-	–
Beijing Hongyuan Zhiying Enterprise Management Consulting Co., Ltd.* ("Beijing Hongyuan Zhiying") (北京弘遠智盈企業管理諮詢有限公司)	The PRC, limited liability company, on September 10, 2020	Management services, the PRC	RMB1,000,000	100%	100%	-	–
Honghe Medicines (Zhejiang) Co., Ltd* (弘和醫藥(浙江)有限公司)	The PRC, limited liability company, on February 22, 2021	Wholesale of pharmaceutical products, the PRC	RMB10,000,000	100%	100%	-	–
Honghe (Yongkang) Medical Instrument Co., Ltd. * ("Yongkang Hospital") (弘和(永康)醫療器械有限公司)	The PRC, limited liability company, on October 10, 2021	Wholesale of medical consumables, the PRC	RMB100,000	100%	100%	-	–

(Expressed in RMB unless otherwise indicated)

9 SUBSIDIARIES – *continued*

Name of entity	Place and date of incorporation/establishment/ kind of legal entity	Principal activities/ place of operation	Registered/ Issued and paid-up capital	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2023	2022	**2023**	2022
				%	%	**%**	%
Hangzhou Jingyouzhi Enterprise Management Company Limited* ("Hangzhou Jingyouzhi") (杭州靜有智企業管理有限公司)	The PRC, limited liability company, on March 31, 2022	Investment holding, the PRC	RMB500,000	**100%**	100%	**-**	-
Hangzhou Jinhoupu Management Company Limited* ("Hangzhou Jinhoupu") (杭州金厚樸企業管理有限公司)	The PRC, limited liability company, on March 31, 2022	Investment holding, the PRC	RMB500,000	**100%**	100%	**-**	-
Shanghai Honghe Zhiyuan Medical Management Co., Ltd. (上海弘和致遠醫療管理有限公司)	The PRC, limited liability company, on December 15, 2023	Investment holding, the PRC	RMB100,000	**77%**	0%	**-**	-

Note 1 Registered as wholly foreign owned enterprises under PRC law.

Note 2 Registered as sino-foreign equity joint venture under PRC law.

Note 3 Yangsi Hospital is a not-for-profit hospital and Weikang Investment is the founder of the hospital. Given that no part of the earnings of a not-for-profit hospital registered in China constitutes "distributable profits" and no entity or individual may occupy, privately share or misappropriate the assets of not-for-profit hospital, Weikang Investment is not entitled to the dividends and the residual assets upon the liquidation of Yangsi Hospital in accordance with relevant PRC laws and regulations. Therefore, the operating profits and net assets of Yangsi Hospital are not distributable to its founder and thus presented as attributable to non-controlling interests.

9 SUBSIDIARIES – *continued*

(i) Investment in subsidiaries

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

(ii) Significant restrictions

Cash and cash equivalents of RMB514,451,000 (2022: RMB454,924,000) is held in the PRC and is subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

(iii) Material non-controlling interests ("NCI")

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

	Shanghai Weikang As at 31 December		Zhejiang Honghe Zhiyuan As at 31 December	
	2023 RMB'000	2022 RMB'000	**2023 RMB'000**	2022 RMB'000
Current assets	**562,856**	421,165	**14,692**	18,859
Current liabilities	**(386,385)**	(340,260)	**(109,567)**	(109,530)
Current net assets/(liabilities)	**176,471**	80,905	**(94,875)**	(90,671)
Non-current assets	**69,791**	91,106	**327,407**	328,938
Non-current liabilities	**(45,660)**	(49,111)	**(49,594)**	(51,031)
Non-current net assets	**24,131**	41,995	**277,813**	277,907
Net assets	**200,602**	122,900	**182,938**	187,236
Accumulated NCI	**148,677**	109,814	**45,733**	46,808

9 SUBSIDIARIES – *continued*

(iii) Material non-controlling interests ("NCI") – *continued*

	Shanghai Weikang		Zhejiang Honghe Zhiyuan	
	2023	2022	**2023**	2022
	RMB'000	RMB'000	**RMB'000**	RMB'000
Revenue	**1,202,594**	855,685	**–**	4,656
Profit/(loss) before income tax	**113,714**	(35,335)	**(5,732)**	(99,919)
Income tax	**(37,696)**	(3,704)	**1,432**	24,980
Profit/(loss) for the year	**76,018**	(39,039)	**(4,300)**	(74,939)
Other comprehensive income	**13,184**	(2,781)	**–**	–
Total comprehensive income	**89,202**	(41,820)	**(4,300)**	(74,939)
Profit/(loss) allocated to NCI	**41,508**	(50,378)	**(1,075)**	(18,735)
Dividends paid to NCI	**2,645**	5,766	**–**	–

	Shanghai Weikang		Zhejiang Honghe Zhiyuan	
	2023	2022	**2023**	2022
	RMB'000	RMB'000	**RMB'000**	RMB'000
Net cash generated from/ (used in) operating activities	**118,874**	107,219	**(14,215)**	(6,332)
Net cash generated from/ (used in) investing activities	**48,422**	110,506	**14,369**	2,402
Net cash used in from financing activities	**(1,748)**	(41,731)	**–**	–
Net increase/(decrease) in cash and cash equivalents	**165,548**	175,994	**154**	(3,930)

10 INCOME TAX

Subsidiaries established and operating in the PRC are subject to the PRC corporate income tax at the rates of 25% or 15% for the year ended 31 December 2023 (2022: 25% or 15%).

	2023	2022
	RMB'000	RMB'000
Current income tax:		
– PRC corporate income tax	**50,627**	23,682
Deferred income tax (Note 29)	**(2,767)**	(27,713)
	47,860	(4,031)

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:

	2023	2022
	RMB'000	RMB'000
Profit/(loss) before income tax	**216,204**	(532,628)
Calculated at taxation rate of 25%	**54,051**	(133,157)
Effect of different tax rates and income tax exemption available to different entities of the Group	**(32,424)**	(9,435)
Expenses not tax deductible	**2,869**	90,803
Tax effect of unrecognised tax losses	**18,586**	41,921
Utilisation of tax losses in previous years	**(9)**	(28)
Others	**4,787**	5,865
Income tax	**47,860**	(4,031)

10 INCOME TAX – *continued*

(i) Cayman Islands Income Tax

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

(ii) Hong Kong Profits Tax

Hong Kong profits tax rate was 16.5% for the year ended 31 December 2023 (2022: 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 31 December 2023 and 2022.

(iii) PRC Corporate Income Tax ("CIT")

The income tax rate of Honghe Zhiyuan, Honghe Ruixin and Tibet Hongai was 15% for the year ended 31 December 2023 (2022: 15%). The income tax rate of other subsidiaries was 25% for the year ended 31 December 2023 (2022: 25%).

11 EARNINGS/(LOSSES) PER SHARE

(i) Basic earnings/(losses) per share

Basic earnings/(losses) per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year ended 31 December 2023 and 2022.

	2023 **RMB'000**	2022 RMB'000
Total profit/(loss) attributable to owners of the Company (RMB'000)	**131,384**	(480,948)
Weighted average number of ordinary shares in issue (in thousands)	**137,467**	138,194
Basic profit/(loss) per share (in RMB)	**0.956**	(3.480)

11 EARNINGS/(LOSSES) PER SHARE – *continued*

(ii) Diluted earnings/(losses) per share

Diluted earnings/(losses) per share is calculated by adjusting the profit/(loss) attributable to owners of the Company to assume conversion of the convertible bonds issued at 5 March 2018 and 7 August 2018 and adjusting the weighted average number of ordinary shares in issue considering conversion of the convertible bonds.

	As at 31 December 2023 RMB'000
Total profit attributable to owners of the Company	**131,384**
Less:	
Net fair value losses on convertible bonds	**(134,662)**
Net gains on the extension of convertible bonds	**222,920**
Total profit used to determine diluted earnings/(losses) per share	**43,126**
Weighted average number of ordinary shares in issue (in thousands)	**137,467**
Adjustment for calculation of diluted earnings per share	
– Convertible bonds (in thousands)	**64,694**
Weighted average number of ordinary shares in issue and potential ordinary shares (in thousands)	**202,161**
Diluted earnings per share (in RMB)	**0.213**

Due to the Group's negative financial results during the period ended 31 December 2022, relative convertible bonds and shares held for share based payment scheme have anti-dilutive effect on the Group's losses per share. Thus, diluted losses per share is equivalent to the basic losses per share for the year ended 31 December 2022.

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Medical equipment RMB'000	Office equipment, furniture and vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2022						
Cost	140,870	19,849	123,729	18,440	750	303,638
Accumulated depreciation	(22,631)	(4,278)	(19,137)	(6,877)	–	(52,923)
Net book amount	118,239	15,571	104,592	11,563	750	250,715
Year ended 31 December 2022						
Net book value						
Opening net book amount	118,239	15,571	104,592	11,563	750	250,715
Additions	–	6,656	5,778	2,853	757	16,044
Disposals	(1,584)	–	(711)	(1,687)	–	(3,982)
Transfer upon completion	–	356	–	–	(356)	–
Depreciation charge	(6,424)	(6,404)	(26,910)	(4,106)	–	(43,844)
Closing net book amount	110,231	16,179	82,749	8,623	1,151	218,933
At 31 December 2022						
Cost	139,286	26,861	128,796	19,606	1,151	315,700
Accumulated depreciation	(29,055)	(10,682)	(46,047)	(10,983)	–	(96,767)
Net book amount	110,231	16,179	82,749	8,623	1,151	218,933
Year ended 31 December 2023						
Net book value						
Opening net book amount	**110,231**	**16,179**	**82,749**	**8,623**	**1,151**	**218,933**
Additions	**–**	**1,672**	**9,055**	**2,158**	**492**	**13,377**
Disposals	**–**	**–**	**(5,817)**	**(707)**	**(418)**	**(6,942)**
Transfer upon completion	**–**	**339**	**–**	**–**	**(339)**	**–**
Depreciation charge	**(8,997)**	**(5,259)**	**(22,147)**	**(5,961)**	**–**	**(42,364)**
Closing net book amount	**101,234**	**12,931**	**63,840**	**4,113**	**886**	**183,004**
At 31 December 2023						
Cost	**139,286**	**28,872**	**132,034**	**21,057**	**886**	**322,135**
Accumulated depreciation	**(38,052)**	**(15,941)**	**(68,194)**	**(16,944)**	**–**	**(139,131)**
Net book amount	**101,234**	**12,931**	**63,840**	**4,113**	**886**	**183,004**

13 LEASES

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

(i) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Right-of-use assets		
Properties	**9,399**	9,164
Land use right	**34,034**	35,713
	43,433	44,877
Lease Liabilities		
Current	**1,783**	1,527
Non-current	**7,237**	6,240
	9,020	7,767

Additions to the right-of-use assets for the year ended 31 December 2023 were RMB3,044,000 (2022: nil).

(ii) The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2023	2022
	RMB'000	RMB'000
Depreciation charge		
– properties	**2,809**	2,638
– land use right	**1,679**	943
Interest expense on lease liabilities	**383**	408
Expense relating to short-term leases, other leases with remaining lease term ending on or before 31 December and leases of low-value assets	**6,341**	4,950

The total cash outflow for leases for the year ended 31 December 2023 was RMB1,860,000 (2022: RMB1,762,000).

14 INTANGIBLE ASSETS

	Goodwill RMB'000	Contractual rights to provide management services RMB'000	Medical licenses RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2022					
Cost	1,717,047	1,042,200	186,900	5,293	2,951,440
Accumulated amortisation and impairment	(608,357)	(677,583)	(26,995)	(1,197)	(1,314,132)
Net book amount	1,108,690	364,617	159,905	4,096	1,637,308
Year ended 31 December 2022					
Opening net book amount as at 1 January 2022	1,108,690	364,617	159,905	4,096	1,637,308
Additions	–	–	–	1,066	1,066
Amortisation charge	–	(8,413)	(6,474)	(967)	(15,854)
Impairment charge	(362,822)	(97,461)	–	–	(460,283)
Closing net book amount as at 31 December 2022	745,868	258,743	153,431	4,195	1,162,237
At 31 December 2022					
Cost	1,717,047	1,042,200	186,900	6,359	2,952,506
Accumulated amortisation and impairment	(971,179)	(783,457)	(33,469)	(2,164)	(1,790,269)
Net book amount	745,868	258,743	153,431	4,195	1,162,237
Year ended 31 December 2023					
Opening net book amount as at 1 January 2023	**745,868**	**258,743**	**153,431**	**4,195**	**1,162,237**
Additions	**–**	**–**	**–**	**6,018**	**6,018**
Amortisation charge	**–**	**(7,405)**	**(6,474)**	**(2,131)**	**(16,010)**
Closing net book amount as at 31 December 2023	**745,868**	**251,338**	**146,957**	**8,082**	**1,152,245**
At 31 December 2023					
Cost	**1,717,047**	**1,042,200**	**186,900**	**12,377**	**2,958,524**
Accumulated amortisation and impairment	**(971,179)**	**(790,862)**	**(39,943)**	**(4,295)**	**(1,806,279)**
Net book amount	**745,868**	**251,338**	**146,957**	**8,082**	**1,152,245**

14 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill

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

	Opening RMB'000	Impairment RMB'000	Closing RMB'000
Year ended 31 December 2023			
General hospital services segment			
– Jiande CGU	**58,495**	**–**	**58,495**
Hospital management services segment			
– Weikang CGU Group	**687,373**	**–**	**687,373**
	745,868	**–**	**745,868**
Year ended 31 December 2022			
General hospital services segment			
– Jiande CGU	58,495	–	58,495
Hospital management services segment			
– Weikang CGU Group	1,050,195	(362,822)	687,373
	1,108,690	(362,822)	745,868

Management reviews business performance of each CGU and CGU groups. The recoverable amount of each CGU and CGU groups is determined based on the higher of fair value less costs of disposal (FVLCOD) and value in use (VIU) calculations of the underlying assets. The valuation is considered to be level 3 in fair value hierarchy due to unobservable inputs used in the valuation. These calculations use cash flow projections based on forecasts approved by management covering an eight-year-forecast-period since 1 January 2024. The management considers that the eight-year-forecast-period that has been used in the goodwill impairment test is appropriate because the investment cycle in the healthcare industry is longer than other industries, and the useful lives of the licenses of related subsidiaries are longer than eight years. Cash flows beyond the eight-year period are extrapolated using the estimated long-term growth rate of 2.5% by reference to the long-term inflation rate of China as at 31 December 2023 (2022: 2.5%).

As at 31 December 2023 and 2022, the key assumptions used for Weikang CGU Group were as follows:

	2023	2022
Revenue (% compound growth rate)	**5.11%**	6.10%
Post-tax discount rate	**13.50%**	13.50%

(Expressed in RMB unless otherwise indicated)

14 INTANGIBLE ASSETS – *continued*

(i) Impairment tests for goodwill – *continued*

As at 31 December 2023 and 2022, the key assumptions used for Jiande CGU were as follows:

	2023	2022
Revenue (% compound growth rate)	**5.00%**	5.75%
Post-tax discount rate	**15.00%**	15.00%

As at 31 December 2023, the recoverable amount of Weikang CGU Group and Jiande CGU were estimated to be RMB1,091,400,000 and RMB256,600,000 respectively, which exceeded the carrying amount of the Weikang CGU Group and Jiande CGU by RMB79,516,000 and RMB19,172,000 respectively, accordingly, no impairment of goodwill was recognised during the year ended 31 December 2023 (2022: RMB362,822,000 impairment loss of Weikang CGU Group).

In the opinion of the Company's directors, as at 31 December 2023, save as above, any reasonably possible change in the key assumption on which the recoverable amount is based would not cause the CGU's or CGU Group's carrying amount to exceed its recoverable amount.

(ii) Impairment tests for contractual rights to provide management services

Contractual rights to provide management services are the rights to provide management services to Zhejiang Jinhua Guangfu Oncological Hospital*("Jinhua Hospital")(浙江金華廣福腫瘤醫院)and Cixi Union Hospital*("Cixi Hospital")(慈溪弘和醫院)with finite useful life. These contractual rights acquired in business combinations are recognised at fair value as at the acquisition date.

Management estimated the future cash flows in determining the recoverable amount of contractual rights to provide management services to Jinhua Hospital and Cixi Hospital as at 31 December 2023. As at 31 December 2023, no impairment was recognised for contractual rights (2022: RMB97,461,000).

(Expressed in RMB unless otherwise indicated)

14 INTANGIBLE ASSETS – *continued*

(ii) Impairment tests for contractual rights to provide management services – *continued*

As at 31 December 2023 and 2022, the key assumptions for contractual right to provide management service by Zhejiang Honghe Zhiyuan to Jinhua Hospital were as follows.

	2023	2022
Revenue (% compound growth rate)	**5.93%**	6.11%
Post-tax discount rate	**14.00%**	14.00%

As at 31 December 2023 and 2022, the key assumptions for contractual right to provide management service by Cixi Honghe to Cixi Hospital were as follows.

	2023	2022
Revenue (% compound growth rate)	**2.02%**	2.96%
Post-tax discount rate	**14.00%**	14.00%

15 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Financial assets		
Financial assets at amortised cost		
Trade receivables	**133,652**	71,543
Other receivables and deposits	**5,124**	2,714
Amounts due from related parties	**241,876**	228,183
Cash and cash equivalents	**523,027**	497,061
Term deposits	**50,708**	696
Financial assets at FVPL		
Financial products	**94,156**	129,848
	1,048,543	930,045

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Financial liabilities		
Financial liabilities at amortised cost		
Borrowings	**82,100**	69,429
Trade payables	**150,543**	136,855
Accruals, other payables and provisions (excluding accrued employee benefits, share-based payments and other tax liabilities)	**357,637**	367,570
Amounts due to related parties	**7,690**	10,757
Lease liabilities	**9,020**	7,767
Financial liabilities at FVPL		
Convertible bonds	**938,149**	1,026,407
	1,545,139	1,618,785

16 TRADE RECEIVABLES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Trade receivables	**134,436**	79,179
Less: loss allowance (Note 34(i)(a))	**(784)**	(7,636)
Trade receivables, net of loss allowance	**133,652**	71,543

As at 31 December 2023 and 2022, the aging analysis based on invoice date of the trade receivables was as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
1 – 90 days	**129,112**	78,040
91 – 180 days	**3,871**	221
181 days – 1 year	**739**	619
Over 1 year	**714**	299
	134,436	79,179

17 INVENTORIES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Pharmaceuticals	**27,459**	51,533
Medical consumables	**23,966**	5,535
	51,425	57,068

The cost of inventories recognised as expense and included in "cost of revenue" during the year ended 31 December 2023 amounting to RMB722,926,000 (2022: RMB556,113,000).

18 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Prepayments for service fee	**2,533**	9,693
Other prepayments	**5,924**	3,399
Advances to employees	**319**	584
Deposits for rental	**521**	466
Interest receivables from fixed deposits	**648**	648
Others	**3,636**	1,016
	13,581	15,806
Less: non-current portion	**(805)**	(466)
Current portion	**12,776**	15,340

19 BALANCES WITH RELATED PARTIES

As at 31 December 2023 and 2022, the balances with related parties are unsecured, receivable/payable on demand unless otherwise and are denominated in RMB.

(i) Amounts due from related parties

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
– Trade in nature (a)		
Jinhua Hospital	**167,090**	154,022
Cixi Hospital	**6,098**	5,999
Yongkang Hospital	**1,373**	854
	174,561	160,875
– Others		
Jinhua Hospital (b)	**100,000**	100,000
Vanguard Glory Limited	**371**	365
Yongkang Hospital	**8**	7
	274,940	261,247
Less: provision for impairment of amounts due from related parties (Note 34(i)(a))	**(33,064)**	(33,064)
Amounts due from related parties, net	**241,876**	228,183
Less: non-current portion	**(160,944)**	(156,726)
Current portion	**80,932**	71,457

19 BALANCES WITH RELATED PARTIES – *continued*

(i) Amounts due from related parties – *continued*

(a) As at 31 December 2023 and 2022, the aging analysis based on trading date of the amount due from related parties which are trade in nature was as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Within 90 days	**17,944**	11,311
90 to 180 days	**315**	478
Over 180 days	**156,302**	149,086
	174,561	160,875

(b) Honghe Zhiyuan, as a lender, entered into four loan agreements with Jinhua Hospital in July, November, December of 2019 and March of 2022 with the principal amounting to RMB40,000,000, RMB20,000,000, RMB20,000,000, RMB20,000,000 respectively. The loan lended in 2022 bears an interest rate of 4.07% per annum. Other loans 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. These loans were extended and will mature in 2024 and 2025. As at 31 December 2023, the outstanding principal amounted to RMB100,000,000 have not been recovered.

(ii) Amounts due to related parties

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
– Trade in nature		
Jinhua Hospital	**–**	3,145
– Others		
Jinhua Hospital	**6,087**	6,028
Vanguard Glory Limited	**1,540**	1,514
Cixi Hospital	**63**	70
	7,690	10,757

* *For identification purpose only*

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Classification of financial assets at FVPL

Financial assets mandatorily measured at FVPL include the following:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current assets		
Financial products	**94,156**	129,848

Financial products are the Group's various subscriptions of wealth management products in banks and financial institutions in the PRC.

(ii) Amounts recognised in the consolidated statement of profit or loss

	2023	2022
	RMB'000	RMB'000
Fair value gains on financial products recognised in other gains	**2,230**	5,722

(iii) Risk exposure and fair value measurements

For information about the methods and assumptions used in determining fair value please refer to Note 34(v).

21 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Cash at banks	**365,716**	254,032
Cash on hand	**2,711**	1,496
Term deposits with initial terms within three months	**–**	28,933
Deposits held at call with financial institutions	**154,600**	212,600
	523,027	497,061

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
US dollars	**2,092**	2,215
Hong Kong dollars	**450**	16,752
RMB	**520,485**	478,094
	523,027	497,061

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.

22 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Nominal value of shares HKD
Authorised		
Ordinary shares	500,000,000	500,000

	Number of shares	Share Capital RMB'000	Share premium RMB'000
Issued and Paid			
As at 1 January and 31 December 2023	**138,194,000**	**123**	**435,304**

23 SHARE-BASED PAYMENTS

Pre-IPO Share Appreciation Rights Scheme

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 30 June 2016. As at 31 December 2023, all notional shares were vested for the Pre-IPO SARs Grantees.

The fair value of the notional shares granted to the Pre-IPO SARs Grantee as at 31 December 2023, as determined using the Black-Scholes model by a professional valuation firm, was RMB370,000.

Share-based compensation expenses related to the Pre-IPO SARs Scheme of RMB230,000 was recognised as "cost of revenue" for the year ended 31 December 2023 (2022: RMB749,000 was derecognised as "cost of revenue").

24 RESERVES

(a) Other reserves

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Total RMB'000
At 1 January 2022	883,856	45,489	929,345
Share-based payments			
–share incentive scheme (Note 24(b))	130	–	130
Transfer of reserves (Note)	–	2,749	2,749
Acquisition of non-controlling interests of subsidiaries	(61,445)	–	(61,445)
At 31 December 2022	822,541	48,238	870,779
At 1 January 2023	**822,541**	**48,238**	**870,779**
Transfer of reserves (Note)	**–**	**5,179**	**5,179**
At 31 December 2023	**822,541**	**53,417**	**875,958**

Note: Statutory surplus reserve

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 as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional.

(b) Treasure shares

As of 31 December 2023, the Company has purchased 1,079,000 shares through a trust deed with a total amount of RMB8,000,000, which were treated as treasury shares. The shares are to be granted under a share award scheme.

25 TRADE PAYABLES

An aging analysis, based on invoice date, of trade payables as at the consolidated statement of financial position dates are as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Within 90 days	**127,353**	119,820
91 to 180 days	**14,236**	8,383
181 days to 1 year	**82**	3,775
Over 1 year	**8,872**	4,877
	150,543	136,855

26 BORROWINGS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Bank borrowing		
– Secured but unguaranteed (a)	**62,100**	59,000
– Unsecured but guaranteed (b)	**20,000**	–
– Unsecured and unguaranteed	**–**	10,429
Total borrowings	**82,100**	69,429

Note:

(a) Jiande Hospital entered into four one-year loan agreements with Agricultural Bank of China Bank Jiande Branch respectively on 30 June, 7 July, 20 September and 23 November 2023. The outstanding amount of these loans was RMB62,100,000, which consists of the loans amounting to RMB9,500,000, RMB9,500,000, and RMB30,000,000 beared fixed interest rates of 3.400%, RMB13,100,000 beared fixed interest rates of 3.200%. These bank loans were secured by trade receivables held by Jiande Hospital.

(b) On 4 May 2023, Jiande Hospital entered into an one-year loan agreement with Bank of Communications Hangzhou Jiande Branch guaranteed by DJ Pharmaceutical Technology. The amount of this loan was RMB20,000,000 with fixed interest rates of 3.400%.

27 ACCRUALS, OTHER PAYABLES AND PROVISIONS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Accrued employee benefits	**112,901**	138,885
Payables for redeemed convertible bonds	**81,834**	99,346
Payables of undertaking letter (Note)	**239,788**	239,788
Share-based payments	**370**	140
Duty and tax payables other than corporate income tax	**15,464**	14,162
Other payables to suppliers for purchase of plant and equipment	**12,454**	10,678
Accrued professional service fee	**4,246**	3,939
Others	**19,315**	13,819
	486,372	520,757
Less: non-current portion		
Payables for redeemed convertible bonds	**(45,310)**	–
	(45,310)	–
Current portion	**441,062**	520,757

Note:

In 29 May 2018, The Company granted a put option to the minority shareholders of Zhejiang Honghe Zhiyuan under a undertaking letter, pursuant to which the Company undertook to acquire the remaining 25% equity interests of Zhejiang Honghe Zhiyuan at the purchase price of not less than RMB210 million plus other reasonable expenses incurred by the minority shareholders in connection with their investment in Zhejiang Honghe Zhiyuan.

28 DEFINED BENEFIT PLAN OBLIGATION

The Group operates unfunded defined benefit plan for qualifying staff of a hospital. Under the plan, the qualifying staff are entitled to retirement benefits.

(a) Statement of financial position amounts

The amounts recognised in the statement of financial position and the movement in the defined benefit obligation in 2023 are as follows:

	Present value of obligation RMB'000
At 1 January 2022	42,798
Current service cost	3,532
Remeasurement of defined benefit plan obligation	2,781
	6,313
At 31 December 2022	49,111
At 1 January 2023	**49,111**
Current service cost	**7,630**
Interest on defined benefit plan obligation	**1,579**
Remeasurement of defined benefit plan obligation	**(13,184)**
	(3,975)
Benefit paid	**(487)**
At 31 December 2023	**44,649**

The latest independent actuarial valuation of the plan was at 31 December 2023 and was prepared by qualified staff of Valuelink Asia (Beijing) Enterprise Management Consulting Co., Ltd., who are members of the China Association of Actuaries, using the projected unit credit method.

(Expressed in RMB unless otherwise indicated)

28 DEFINED BENEFIT PLAN OBLIGATION – *continued*

(b) The significant actuarial assumptions were as follows:

	2023	2022
Discount rate	**2.85%**	3.20%
Growth rate of adjusted net profit	**3.00%**	3.00%
Life expectancy	**87**	87

(c) The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

		Impact on defined benefit obligation	
	Change in assumption 2023	**Increase in assumption 2023**	**Decrease in assumption 2023**
Discount rate	**0.25%**	**Decrease by 4.69%**	**Increase by 5.01%**
Growth rate of adjusted net profit	**0.25%**	**Increase by 8.25%**	**Decrease by 7.78%**
Life expectancy	**+/– 1 year**	**Increase by 5.77%**	**Decrease by 5.66%**

		Impact on defined benefit obligation	
	Change in assumption 2022	Increase in assumption 2022	Decrease in assumption 2022
Discount rate	0.25%	Decrease by 4.69%	Increase by 5.02%
Growth rate of adjusted net profit	0.25%	Increase by 7.89%	Decrease by 7.43%
Life expectancy	+/– 1 year	Increase by 5.28%	Decrease by 5.19%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

29 DEFERRED INCOME TAX

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Deferred income tax assets:		
– Deferred income tax assets to be recovered after more than 12 months	**8,087**	8,087
– Deferred income tax assets to be recovered within 12 months	**78**	1,225
	8,165	9,312
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after more than 12 months	**(101,254)**	(105,168)
– Deferred income tax liabilities to be settled within 12 months	**(45,888)**	(45,888)
	(147,142)	(151,056)

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Fair value adjustments on buildings and intangible assets and subsequent depreciation, amortisation and impairment	Withholding tax	Interest capitalisation	Depreciation charge of right-of-use assets	Lease liabilities	Provisions	Changes in fair value	Total
At 1 January 2022	(139,413)	(38,941)	(387)	(1,992)	1,992	9,236	48	(169,457)
Credited/(charged) to profit or loss	27,661	–	24	182	(182)	28	–	27,713
At 31 December 2022 and 1 January 2023	**(111,752)**	**(38,941)**	**(363)**	**(1,810)**	**1,810**	**9,264**	**48**	**(141,744)**
Credited/(charged) to profit or loss	**3,973**	**–**	**24**	**(113)**	**30**	**(1,147)**	**–**	**2,767**
At 31 December 2023	**(107,779)**	**(38,941)**	**(339)**	**(1,923)**	**1,840**	**8,117**	**48**	**(138,977)**

29 DEFERRED INCOME TAX – *continued*

The Group did not recognise deferred income tax assets of RMB44,542,000 in 2023 (2022: RMB47,287,000) in respect of tax losses amounting to RMB247,150,000 (2022: RMB246,893,000) which can be carried forward against future taxable income. The tax losses without recognising deferred income tax as at 31 December 2023 are mainly accumulated by DJ Pharmaceutical Technology, DJ Medicines, Zhejiang Honghe Zhiyuan and Beijing Hongyuan Zhiying based on management's forecast for their future taxable income.

At 31 December 2023, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB158,620,000 (2022: RMB95,230,000). Deferred tax liabilities of RMB15,862,000 (2022: RMB9,523,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

30 CONVERTIBLE BONDS

The Company issued certain convertible bonds in 2018, which were accounted for financial liabilities at FVPL.

The movement of the convertible bonds is as follows:

	Convertible bonds RMB'000
As at 1 January 2022	906,916
Amortisation of premium/(discount) with principal amount at initial recognition	(1,527)
Fair value change	121,018
As at 31 December 2022	1,026,407
As at 1 January 2023	**1,026,407**
Amortisation of premium/(discount) with principal amount at initial recognition	**(890)**
Fair value change	**(87,368)**
As at 31 December 2023	**938,149**

(Expressed in RMB unless otherwise indicated)

30 CONVERTIBLE BONDS – *continued*

On 6 June 2023, in accordance with the terms and conditions of the convertible bonds by reference to latest capital market development, the Group renegotiated with Hony Capital Fund VIII (Cayman), L.P. and Vanguard Glory, and entered into the deeds of amendment to alter certain terms of the convertible bonds (the “Deeds of Amendment”). Pursuant to the Deeds of Amendment, (i) the convertible bonds issued on 5 March 2018 shall be extended from 29 December 2023 to 30 September 2025; and (ii) the maturity date of the convertible bonds issued on 7 August 2018 shall be extended from 7 August 2023 to 30 September 2025. Save as revised by the Deeds 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 31 December 2023.

As at 31 December 2023, the fair value of the convertible bonds is approximately HKD1,035,206,000, equivalent to approximately RM938,149,000 (2022: HKD1,148,021,000, RMB1,025,492,000), which is determined by an independent qualified valuer.

The fair value of convertible bonds is determined using the binomial model and the significant unobservable inputs were listed below:

	As at 31 December	
	2023	2022
Volatility	**47%**	12%
Time to expiration (years)	**1.75**	0.60 ~ 0.99
Risk free rate of interest	**3.52%**	4.11% ~ 4.35%
Dividend yield	**0.00%**	0.00%

31 DIVIDENDS

No dividend has been declared by the Company for the year ended 31 December 2023 (2022: nil).

32 CASH GENERATED FROM OPERATIONS

(i) Cash flow information

	2023 RMB'000	2022 RMB'000
Profit/(loss) before taxation	**216,204**	(532,628)
Adjustments for:		
– Foreign exchange gains, net	**(83)**	(5,609)
– Interest income, net	**(5,965)**	(4,024)
– Finance cost on other financial liability at amortised cost	**3,673**	4,273
– Impairment losses on financial assets, net	**(884)**	1,867
– Amortisation and depreciation	**62,862**	63,279
– Share-based compensation expenses	**230**	(621)
– Fair value gains/(losses) on convertible bonds (Note 7)	**(88,258)**	119,491
– Gains on disposal of financial assets at FVPL (Note 7)	**(2,230)**	(5,722)
– Impairment losses on intangible assets	**–**	460,283
– Net losses on disposal of property, plant and equipment (Note 7)	**59**	650
Change in operating assets and liabilities and net of effects from business combination		
– Change in inventories	**5,643**	(9,035)
– Change in trade receivables	**(61,226)**	41,384
– Change in other receivables, deposits and prepayments	**2,226**	(3,457)
– Change in amounts due from related parties	**(13,693)**	13,902
– Change in amounts due to related parties	**(3,067)**	(2,595)
– Change in trade payables	**9,582**	12,095
– Change in accruals, other payables and provision	**(15,873)**	16,952
Cash generated from operations	**109,200**	170,485

32 CASH GENERATED FROM OPERATIONS – *continued*

(ii) Net debt reconciliation

This section sets out an analysis of the reconciliation of the amounts in the cash flows within the equivalent items reported in the statement of financial position:

	Cash and cash equivalents RMB'000	Term deposits RMB'000	Financial products RMB'000	Borrowings RMB'000	Lease liabilities RMB'000	Amount due to related parties (non-trade) RMB'000	Convertible bonds RMB'000	Total RMB'000
Net debt as at 1 January 2022	440,428	638	338,905	(71,018)	(9,121)	(7,376)	(906,916)	(214,460)
Cash flows	50,955	58	(214,779)	13,410	1,762	(106)	103,128	(45,572)
Foreign exchange adjustment	5,678	–	–	(7,320)	–	(130)	(101,601)	(103,373)
Fair value change excluding foreign exchange adjustment	–	–	5,722	–	–	–	(121,018)	(115,296)
Interest expense	–	–	–	(4,501)	(408)	–	–	(4,909)
Net debt as at 31 December 2022	497,061	696	129,848	(69,429)	(7,767)	(7,612)	(1,026,407)	(483,610)
Net debt as at 1 January 2023	**497,061**	**696**	**129,848**	**(69,429)**	**(7,767)**	**(7,612)**	**(1,026,407)**	**(483,610)**
Cash flows	**25,558**	**50,012**	**(37,922)**	**(10,216)**	**1,860**	**–**	**22,858**	**52,150**
New leases	**–**	**–**	**–**	**–**	**(2,730)**	**–**	**–**	**(2,730)**
Foreign exchange adjustment	**408**	**–**	**–**	**–**	**–**	**(78)**	**(22,858)**	**(22,528)**
Fair value change excluding foreign exchange adjustment	**–**	**–**	**2,230**	**–**	**–**	**–**	**88,258**	**90,488**
Interest expense	**–**	**–**	**–**	**(2,455)**	**(383)**	**–**	**–**	**(2,838)**
Net debt as at 31 December 2023	**523,027**	**50,708**	**94,156**	**(82,100)**	**(9,020)**	**(7,690)**	**(938,149)**	**(369,068)**

33 CONTINGENCIES

Except for the guarantees given by the Group as set out in note 36(v), the Group does not have other contingencies at the end of the reporting period.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below:

(i) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and amounts due from related parties (trade in nature).The credit risk of cash and cash equivalents, term deposit is limited because the counterparties are mainly banks and financial institutions for which the Group considers to have low credit risk.

Except for the financial guarantee given by the Group as set out in Note 36(v), the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of this financial guarantee at the end of the reporting period is disclosed in Note 36(v).

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

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

To measure the ECLs, trade receivables and amounts due from related parties (trade in nature) have been grouped based on similar credit risk characteristics and ages.

The Group, being a provider of healthcare service to patients, has a highly diversified customer base, without any single customer contributing material revenue. However, the Group has concentrated debtor's portfolio, as majority patients will claim their medical bill from public medical insurance program. The reimbursement from these organisations may take one to twelve months. The Group has policy in place to ensure the treatments and medicines prescribed and provided to such insured patients are in line with respective organisations' policy.

The expected loss rates are based on the payment profiles of sales over a period before 31 December 2023 or 31 December 2022, 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.

(Expressed in RMB unless otherwise indicated)

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS – *continued*

(i) Credit risk – *continued*

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

On that basis, the loss allowance of trade receivable and amounts due from related parties (trade in nature) as at 31 December 2023 and 2022 was determined as follows:

	Lifetime expected credit loss rate	Gross carrying amount	Lifetime expected credit loss	Net carrying Amount
31 December 2023				
Provision on trade receivables	**0.58%**	**134,436**	**(784)**	**133,652**
Provision on amounts due from related parties (trade in nature)	**18.94%**	**174,561**	**(33,064)**	**141,497**
		308,997	**(33,848)**	**275,149**
31 December 2022				
Provision on trade receivables	9.64%	79,179	(7,636)	71,543
Provision on amounts due from related parties (trade in nature)	20.55%	160,875	(33,064)	127,811
		240,054	(40,700)	199,354

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS – *continued*

(i) Credit risk – *continued*

(a) 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 31 December 2023 and 2022 reconcile to the opening loss allowances as follows:

	Trade receivables	
	2023	2022
	RMB'000	RMB'000
Opening loss allowance as at 1 January	**7,636**	6,739
Impairment losses, net	**(884)**	1,150
Written off as uncollectible	**(5,968)**	(253)
Closing loss allowance as at 31 December	**784**	7,636

	Amounts due from related parties (trade in nature)	
	2023	2022
	RMB'000	RMB'000
Opening loss allowance as at 1 January	**33,064**	32,347
Impairment losses, net	**–**	717
Closing loss allowance as at 31 December	**33,064**	33,064

Trade receivables and amounts due from related parties (trade in nature) are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Impairment losses on trade receivables and amounts due from related parties (trade in nature) are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

(b) Other financial assets at amortised cost

Other financial assets at amortised cost mainly include cash and cash equivalents, term deposit, other receivables, deposits and amounts due from related parties (others). They are considered to be of low credit risk and the relevant expected credit loss is insignificant.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS – *continued*

(ii) Liquidity risk

The following table sets out the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on the undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on prevailing rates at the balance sheet date) and the earliest date the Group would be required to repay:

	Contractual undiscounted cash flows					
	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
At 31 December 2023						
Borrowing and interests	**84,680**	**–**	**–**	**–**	**84,680**	**82,100**
Lease liabilities	**1,783**	**4,339**	**3,251**	**519**	**9,892**	**9,020**
Trade payables	**150,543**	**–**	**–**	**–**	**150,543**	**150,543**
Accruals, other payables and provisions (excluding accrued employee benefits, share-based payments and other tax liabilities)	**312,327**	**45,310**	**–**	**–**	**357,637**	**357,637**
Amounts due to related parties	**7,690**	**–**	**–**	**–**	**7,690**	**7,690**
Convertible bonds	**–**	**938,149**	**–**	**–**	**938,149**	**938,149**
	557,023	**987,798**	**3,251**	**519**	**1,548,591**	**1,545,139**
At 31 December 2022						
Borrowing and interests	70,771	–	–	–	70,771	69,429
Lease liabilities	1,702	1,209	3,984	2,090	8,985	7,767
Trade payables	136,855	–	–	–	136,855	136,855
Accruals, other payables and provisions (excluding accrued employee benefits, share-based payments and other tax liabilities)	370,059	–	–	–	370,059	370,059
Amounts due to related parties	10,757	–	–	–	10,757	10,757
Convertible bonds	1,026,407	–	–	–	1,026,407	1,026,407
	1,616,551	1,209	3,984	2,090	1,623,834	1,621,274

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS – *continued*

(iii) Interest rate and fair value risk

The Group consistently monitors the current and potential fluctuation of interest rates in managing the interest rate risk on a reasonable level. As at 31 December 2023, the Group did not have any interest-bearing borrowings at variable rates (see note 26 for details of the borrowings). Cash flow interest rate risk in relation to bank balances is considered insignificant. Interest rate risk is managed by the management of the Group on an ongoing basis with the primary objective of limiting the extent to which interest expense could be affected by adverse movement in interest rates.

Since the Group has no borrowings with variable interest rates at the end of 2023, no sensitivity analysis about interest rates risk is prepared (2022: nil).

The carrying amount of the financial instruments carried at amortised cost are not materially different from their respective fair values at the end of the reporting period as they are readily convertible into cash or repayable on demand.

(iv) Foreign currency 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 recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

As at 31 December 2023, 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.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS – *continued*

(iv) Foreign currency risk – *continued*

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

	As at 31 December 2023		As at 31 December 2022	
	USD RMB'000	**HKD RMB'000**	USD RMB'000	HKD RMB'000
Amounts due from related parties	**371**	**–**	365	–
Cash and cash equivalents	**2,092**	**450**	2,215	16,752
Term deposits	**708**	**–**	696	–
Convertible bonds	**–**	**(938,149)**	–	(1,026,407)
Accruals, other payables and provisions	**–**	**(84,553)**	–	(102,294)
Amounts due to related parties	**(1,540)**	**–**	(1,514)	–
	1,631	**(1,022,252)**	1,762	(1,111,949)

As at 31 December 2023, 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 RMB77,000 higher/lower (2022: RMB88,000 lower/higher).

As at 31 December 2023, 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 RMB51,112,000 lower/higher (2022: RMB55,530,000 higher/lower).

(v) Fair value measurement of financial instruments

(a) Methods of determining fair value of financial instruments

The following table presents the fair value and fair value hierarchy of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: observable inputs which fail to meet Level 1, and not using significant unobservable inputs.

Level 3 valuations: fair value measured using significant unobservable inputs.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS – *continued*

(v) Fair value measurement of financial instruments – *continued*

(b) Assets measured at fair value on a recurring basis

The following table presents the Group's financial assets that are measured at fair value at 31 December 2023 and 2022.

At 31 December 2023	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Assets				
Financial assets at FVPL				
– Financial products (Note 20)	**–**	**94,156**	**–**	**94,156**
Total assets	**–**	**94,156**	**–**	**94,156**
Liabilities				
Financial liabilities at FVPL				
– Convertible bonds (Note 30)	**–**	**–**	**938,149**	**938,149**
Total liabilities	**–**	**–**	**938,149**	**938,149**

At 31 December 2022	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at FVPL				
– Financial products (Note 20)	–	129,848	–	129,848
Total assets	–	129,848	–	129,848
Liabilities				
Financial liabilities at FVPL				
– Convertible bonds (Note 30)	–	–	1,026,407	1,026,407
Total liabilities	–	–	1,026,407	1,026,407

During the years ended 31 December 2022 and 2023, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS – *continued*

(v) Fair value measurement of financial instruments – *continued*

(c) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments, and
- for convertible bonds – option pricing models (e.g. binomial model).

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

The following table presents the changes in level 2 instruments for the years ended 31 December 2023 and 2022, respectively.

	Financial products RMB'000
Opening balance as at 1 January 2022	338,905
Additions	407,961
Settlements	(622,740)
Gains recognised in other gains/(losses), net*	5,722
Closing balance as at 31 December 2022	129,848
Opening balance as at 1 January 2023	**129,848**
Additions	**79,172**
Settlements	**(117,094)**
Gains recognised in other gains/(losses), net*	**2,230**
Closing balance as at 31 December 2023	**94,156**

* Includes unrealised gains recognised in the consolidated statement of comprehensive income attributable to balance held at the end of the reporting period

2023	**911**
2022	1,800

Financial instruments in level 2 were wealth management products treated as financial assets at FVPL held by the Group. The fair value of these investments are the estimated amount that the Group would receive at the end of the reporting period, taking into account current market interest rates of instruments with similar risk profile.

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS – *continued*

(v) Fair value measurement of financial instruments – *continued*

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

The following table presents the changes in level 3 instruments for the years ended 31 December 2023 and 2022, respectively.

	Convertible bonds (Note 30) RMB'000
Opening balance as at 1 January 2022	(906,916)
Losses recognised in other gains/(losses), net	(119,491)
Closing balance as at 31 December 2022	(1,026,407)
Opening balance as at 1 January 2023	**(1,026,407)**
Gains recognised in other gains/(losses), net	**88,258**
Closing balance as at 31 December 2023	**(938,149)**

35 CAPITAL COMMITMENTS

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

	2023 RMB'000	2022 RMB'000
Property, plant and equipment	**154**	580
Intangible assets	**1,990**	3,212
	2,144	3,792

36 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. 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 member of the Group are also considered as related parties.

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

Name	**Relationship with the Group**
Vanguard Glory Limited	Parent company
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
Dajia Medical Equipment Co., Ltd.* （浙江大佳醫療器械有限公司）(Note)	Related party which is controlled by a non-controlling shareholder of a subsidiary of the Group
Zhejiang Zhongyouli Medicines Co., Ltd.*（浙江中友力醫藥有限公司）(Note)	Related party which is controlled by a close family member of a non-controlling shareholder of a subsidiary of the Group
Yongkang Hospital	Founded by a subsidiary of the Group

The following significant transactions were carried out between the Group and its related parties for the years ended 31 December 2023 and 2022. 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.

Note:

Upon the completion of the acquisition of non-controlling interests on 2 April 2022, Dajia Medical Equipment Co, Ltd. and Zhejiang Zhongyouli Medicines Co, Ltd. were no longer be the related parties of the Group.

* *For identification purpose only*

36 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(i) Significant transactions with related parties

	2023 RMB'000	2022 RMB'000
Management Service fee		
– Cixi Hospital	**16,464**	21,036
– Jinhua Hospital	**–**	4,656
	16,464	25,692
Sales of pharmaceuticals, medical consumables and medical equipment		
– Cixi Hospital	**1,783**	2,271
– Jinhua Hospital	**49,437**	48,141
– Yongkang Hospital	**1,499**	4,394
	52,719	54,806
Purchase of pharmaceuticals, medical consumables and medical equipment		
– Zhejiang Zhongyouli Medicines Co., Ltd.	**–**	6,631
– Dajia Medical Equipment Co., Ltd.	**–**	3,946
	–	10,577

36 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(ii) Loans from related parties

	2023 RMB'000	2022 RMB'000
Beginning of the year	**7,612**	7,376
Loans advanced	**–**	119
Loans repaid	**–**	(13)
Others	**78**	130
End of the year	**7,690**	7,612

(iii) Loans to related parties

	2023 RMB'000	2022 RMB'000
Beginning of the year	**100,373**	80,350
Loans advanced	**–**	30,000
Loan repayments received	**–**	(10,000)
Interest charged	**4,943**	4,800
Interest received	**(4,943)**	(4,800)
Others	**6**	23
End of the year	**100,379**	100,373

36 SIGNIFICANT RELATED PARTY TRANSACTIONS – *continued*

(iv) Key management compensation

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

	2023	2022
	RMB'000	RMB'000
Wages, salaries and bonuses (a)	**6,325**	10,287
Welfare and other expense	**475**	434
Total	**6,800**	10,721

(a) Mr. Chen Shuai, appointed as the chairman of the Board and the acting Chief Executive Officer of the Company, works full-time for Hony Capital Fund V, L.P. and part-time for the Group. The compensation paid to him by the Group is nil for the year ended 31 December 2023 (2022: nil).

(v) Guarantees provided for a related party

As at 31 December 2023 and 2022, 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 the maximum amount of RMB412.5 million. 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. As at 31 December 2023, the principal amount of loan balance of Jinhua Hospital was RMB145 million.

As at 31 December 2023, the Company has provided a joint liability guarantee to Nanyang Commercial Bank to secure certain loans granted to Jinhua Hospital to the maximum amount of RMB50 million. As at 31 December 2023, the principal amount of loan balance of Jinhua Hospital was RMB40 million.

37 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

		As at 31 December	
		2023	2022
	Note	**RMB'000**	RMB'000
Assets			
Non-current assets			
Investments in subsidiaries		**1,701,609**	1,701,379
Interest in subsidiaries		**863,970**	824,861
Total non-current assets		**2,565,579**	2,526,240
Current assets			
Cash and cash equivalents		**6,366**	38,152
Total current assets		**6,366**	38,152
Total assets		**2,571,945**	2,564,392
Equity			
Share capital		**123**	123
Share premium		**435,304**	435,304
Other reserves	(a)	**843,087**	843,087
Accumulated gains/(losses)	(a)	**28,942**	(84,833)
Total equity		**1,307,456**	1,193,681

37 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY – *continued*

Statement of financial position of the Company – *continued*

	Note	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
Liabilities			
Non-current liabilities			
Convertible bonds	30	**938,149**	–
Accruals, other payables and provisions		**45,310**	–
Total non-current liabilities		**983,459**	–
Current liabilities			
Borrowing		**–**	429
Convertible bonds		**–**	1,026,407
Accruals, other payables and provisions		**279,490**	342,354
Amounts due to related parties		**1,540**	1,521
Total current liabilities		**281,030**	1,370,711
Total liabilities		**1,264,489**	1,370,711
Total equity and liabilities		**2,571,945**	2,564,392

The statement of financial position of the Company was approved by the Board of Directors on 26 March 2024 and was signed on its behalf.

Chen Shuai

Pu Chengchuan

37 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY – *continued*

	Accumulated (losses)/ Profits RMB'000	Other reserves RMB'000
At 1 January 2022	(103,012)	842,957
Loss for the year	18,179	–
Share-based payments	–	130
At 31 December 2022	(84,833)	843,087
At 1 January 2023	**(84,833)**	**843,087**
Profit for the year	**113,775**	**–**
At 31 December 2023	**28,942**	**843,087**

38 CAPITAL RISK MANAGEMENT

The Group's primary objectives of capital management are to maintain a reasonable capital structure and to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders. The Group actively and regularly reviews and manages its capital structure to stabilise the capital position and prevent operation risk. Meanwhile, the Group will maximize the shareholders' return and will make adjustment on the capital structure in accordance with the changes in economic conditions.

The Group monitors capital on the basis of liabilities-to-assets ratio. This ratio is calculated as total liabilities divided by total assets. At the end of reporting period, the Group's liability-to-asset ratio was 76% (2022: 82%).

39 BENEFITS AND INTERESTS OF DIRECTORS

(i) Directors' and chief executive officers' emoluments

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

	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
2023							
Executive directors							
Mr. Chen Shuai	–	–	–	–	–	–	–
Mr. Pu Chengchuan	–	–	–	–	–	–	–
Ms. Pan Jianli	–	1,225	571	16	–	–	1,812
Non-executive directors							
Ms. Liu Lu	–	–	–	–	–	–	–
Ms. Wang Nan	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Shi Luwen	150	–	–	–	–	–	150
Mr. Zhou Xiangliang	150	–	–	–	–	–	150
Mr. Dang Jinxue	150	–	–	–	–	–	150
	450	1,225	571	16	–	–	2,262
2022							
Executive directors							
Mr. Chen Shuai	–	–	–	–	–	–	–
Mr. Lu Wenzuo	–	437	3,770	–	–	–	4,207
Mr. Pu Chengchuan	–	–	–	–	–	–	–
Ms. Pan Jianli	–	1,105	612	15	–	–	1,732
Non-executive directors							
Ms. Liu Lu	–	–	–	–	–	–	–
Ms. Wang Nan	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Shi Luwen	150	–	–	–	–	–	150
Mr. Zhou Xiangliang	150	–	–	–	–	–	150
Mr. Dang Jinxue	150	–	–	–	–	–	150
	450	1,542	4,382	15	–	–	6,389

(ii) Directors' material interests in transactions, arrangements or contracts

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 31 December 2023 (2022: nil).