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New Century Healthcare Holding Co. Limited 新世紀醫療控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1518)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2020

2020 INTERIM RESULTS HIGHLIGHTS

	Six months ended June 30,		
	2020	2019	
	(RMB'000)	(RMB'000)	
Revenue	216,691	342,488	-36.7%
(Loss)/profit for the period	(319,270)	4,006	NM ⁽¹⁾
Adjusted EBITDA ⁽²⁾⁽³⁾	20,960	89,926	-76.7%
Adjusted (loss)/profit for the period ⁽³⁾	(68,641)	7,923	NM ⁽¹⁾
Further adjustments excluding New Institutions ⁽⁴⁾			
Adjusted EBITDA ⁽²⁾⁽³⁾	40,128	98,967	-59.5%
Adjusted profit for the period ⁽³⁾	9,778	54,013	-81.9%

⁽¹⁾ NM = Not meaningful.

⁽²⁾ EBITDA = profit before income tax + interest expense + depreciation and amortization.

⁽³⁾ Adjustment includes RSA Scheme, impairment losses on intangible assets and exchange gains and losses.

⁽⁴⁾ The institutions (the “**New Institutions**”) that were recently acquired or set up were BNC Ao-dong Clinic, BNC Chaowai Clinic, Chengdu New Century, BNC Qingnian Road Clinic, BNC Hong Kong Clinic, New Century Healthcare Technology, Beijing New Century Wenyu Clinic Outpatient Service Co., Ltd. and Chengdu Qingyang New Century Shangjin Xinyi Clinic.

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the six months ended June 30, 2020 together with the comparative figures for the six months ended June 30, 2019 as set out below.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended June 30,	
		2020	2019
	Notes	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	3	216,691	342,488
Cost of revenue	3	(174,360)	(223,400)
Gross profit		42,331	119,088
Selling expenses		(20,018)	(19,135)
Administrative expenses		(57,146)	(69,280)
Research and development expenses		(5,399)	—
Impairment losses on intangible assets		(251,461)	—
Other income		1,005	52
Other gains – net		7,055	1,881
Operating (loss)/profit		(283,633)	32,606
Finance income		3,929	691
Finance costs		(7,841)	(10,456)
(Loss)/profit before income tax		(287,545)	22,841
Income tax expense	4	(31,725)	(18,835)
(Loss)/profit for the period		(319,270)	4,006
Other comprehensive income		—	—
Total comprehensive(loss)/income		(319,270)	4,006
(Loss)/profit and total comprehensive (loss)/income attributable to:			
Owners of the Company		(308,036)	(9,392)
Non-controlling interests		(11,234)	13,398
		(319,270)	4,006
Losses per share attributable to owners of the Company (expressed in RMB per share)			
Basic and diluted losses per share	5	(0.63)	(0.02)

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment		206,759	217,552
Right-of-use assets		302,302	311,584
Intangible assets		432,877	692,901
Investments accounted for using the equity method		12,985	12,985
Deferred tax assets		38	2,244
Long-term deposits and prepayments		8,546	10,248
Total non-current assets		963,507	1,247,514
Current assets			
Inventories		14,501	15,687
Trade receivables	6	17,371	30,829
Other receivables, deposits and prepayments		16,098	13,970
Amounts due from related parties		160,062	158,421
Financial assets at fair value through profit or loss		40,000	61,122
Cash and cash equivalents		308,137	349,125
Total current assets		556,169	629,154
Total assets		1,519,676	1,876,668
EQUITY			
Equity attributable to owners of the Company			
Share capital		335	335
Share premium		2,606,495	2,606,262
Other reserves		(1,499,167)	(1,507,673)
(Accumulated losses)/retained earnings		(203,300)	111,881
		904,363	1,210,805
Non-controlling interests		(31,864)	22,723
Total equity		872,499	1,233,528

		June 30, 2020	December 31, 2019
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities		314,920	316,648
Deferred tax liabilities		53,997	32,030
Total non-current liabilities		368,917	348,678
Current liabilities			
Trade payables	7	24,297	26,353
Accruals, other payables and provisions		164,035	171,168
Lease liabilities		43,731	39,753
Contract liabilities		34,292	45,160
Current tax liabilities		5,022	7,536
Amounts due to related parties		6,883	4,492
Total current liabilities		278,260	294,462
Total liabilities		647,177	643,140
Total equity and liabilities		1,519,676	1,876,668

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

New Century Healthcare Holding Co. Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) are principally engaged in provision of pediatrics and obstetrics and gynecology specialty services in the People’s Republic of China (the “**PRC**”). The Group also provides hospital consulting services to related parties of the Group and online healthcare services.

The Company is a limited liability company incorporated in the Cayman Islands on July 31, 2015. The address of its registered office is c/o Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands.

The ordinary shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (“**the Listing**”) on January 18, 2017.

The interim condensed consolidated financial information is presented in Renminbi (“**RMB**”) and rounded to nearest thousand yuan, unless otherwise stated.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This interim condensed consolidated financial information for the six months ended June 30, 2020 has been prepared in accordance with Hong Kong Accounting Standard 34 (“**HKAS 34**”), ‘Interim financial reporting’.

The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, this interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), and any public announcements made by the Company during the six months ended June 30, 2020.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not change its accounting policies or make retrospective adjustments as a result of adopting these standards.

3 SEGMENT INFORMATION

Mr. Jason ZHOU in his role as the executive director and chairman of the Company, serves as the chief operating decision-maker (the “**CODM**”) of the Group. Management has determined the operating segments based on the information reviewed by the CODM for the purposes of allocating resources and assessing performance.

In the view of the CODM, the Group is principally engaged in four distinct segments: (i) pediatric services, (ii) obstetrics and gynecology services, (iii) hospital consulting services and (iv) others, which are subject to different business risks and economic characteristics.

The Group's segment information is shown as follows:

(i) Segment information

	Pediatrics RMB'000	Obstetrics and gynecology RMB'000	Hospital consulting services RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
(Unaudited)						
Six months ended June 30, 2020						
Revenue	146,943	62,344	4,176	3,228	–	216,691
Cost of revenue	114,892	51,803	2,115	5,550	–	174,360
Segment results	(87,134)	(149,162)	(12,902)	(42,397)	–	(291,595)
Unallocated income	–	–	–	–	7,558	7,558
Unallocated cost	–	–	–	–	(3,508)	(3,508)
(Loss)/profit before income tax	(87,134)	(149,162)	(12,902)	(42,397)	4,050	(287,545)
Income tax expense					(31,725)	(31,725)
Loss after income tax						(319,270)
As at June 30, 2020						
Total segment assets	608,496	351,590	151,895	1,985	405,710	1,519,676
Total segment liabilities	304,605	232,103	5,664	2,608	102,197	647,177
	Pediatrics RMB'000	Obstetrics and gynecology RMB'000	Hospital consulting services RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
(Unaudited)						
Six months ended June 30, 2019						
Revenue	255,755	63,454	19,214	4,065	–	342,488
Cost of revenue	150,070	61,969	7,337	4,024	–	223,400
Segment results	50,166	(21,724)	36	41	–	28,519
Unallocated income					2,624	2,624
Unallocated cost					(8,302)	(8,302)
Profit/(loss) before income tax	50,166	(21,724)	36	41	(5,678)	22,841
Income tax expense					(18,835)	(18,835)
Profit after income tax						4,006
As at December 31, 2019						
Total segment assets	691,632	510,904	162,391	37,487	474,254	1,876,668
Total segment liabilities	315,260	229,023	5,452	5,852	87,553	643,140

(ii) Disaggregation of revenue from contracts with customers

	Pediatrics <i>RMB'000</i>	Obstetrics and gynecology <i>RMB'000</i>	Hospital consulting services <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
(Unaudited)					
Six months ended June 30, 2020					
Revenue from external customers					
At a point in time	146,943	62,344	2,256	3,228	214,771
Over time	—	—	1,920	—	1,920
	<u>146,943</u>	<u>62,344</u>	<u>4,176</u>	<u>3,228</u>	<u>216,691</u>
	Pediatrics <i>RMB'000</i>	Obstetrics and gynecology <i>RMB'000</i>	Hospital consulting services <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
(Unaudited)					
Six months ended June 30, 2019					
Revenue from external customers					
At a point in time	255,755	63,454	17,214	4,065	340,488
Over time	—	—	2,000	—	2,000
	<u>255,755</u>	<u>63,454</u>	<u>19,214</u>	<u>4,065</u>	<u>342,488</u>

4 INCOME TAX EXPENSE

	Six months ended June 30,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income taxation:		
– PRC corporate income tax	7,552	18,466
Deferred income tax	<u>24,173</u>	<u>369</u>
	<u>31,725</u>	<u>18,835</u>

5 LOSSES PER SHARE

(a) Basic

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

	Six months ended June 30,	
	2020	2019
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company (<i>RMB'000</i>)	<u>(308,036)</u>	<u>(9,392)</u>
Weighted average number of ordinary shares in issue (<i>in thousands</i>) (i)	<u>485,238</u>	<u>484,491</u>
Basic losses per share (<i>in RMB</i>)	<u>(0.63)</u>	<u>(0.02)</u>

- (i) The Company granted 9,000,000 restricted shares to employees on July 25, 2017 pursuant to the RSA Scheme. During the six months ended June 30, 2020, 747,000 shares which were vested on July 25, 2019 have been included in the calculation of basic losses per share. As at June 30, 2020, 4,213,000 restricted shares have been vested which have been included in the calculation of basic losses per share. The remaining 4,787,000 shares, including the forfeited shares, have not been included in the calculation of basic losses per share.

(b) Diluted

The Group had potential dilutive shares during the six months ended June 30, 2020 in relation to the shares held for RSA Scheme. Due to the Group's negative financial results during the six months ended June 30, 2020, shares held for RSA Scheme has anti-dilutive effect on the Group's losses per share. Thus, diluted losses per share is equivalent to the basic losses per share.

6 TRADE RECEIVABLES

	As at June 30, 2020 RMB'000 (Unaudited)	As at December 31, 2019 RMB'000 (Audited)
Trade receivables from contracts with customers	17,889	31,202
Less: allowance for impairment of trade receivables	<u>(518)</u>	<u>(373)</u>
Trade receivables – net	<u>17,371</u>	<u>30,829</u>

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

The majority trade receivables were due from commercial insurance companies and social insurance bureau, with credit terms of 30 to 60 days based on their collaboration arrangement with the Group.

The aging analysis of the trade receivables based on demand note date was as follows:

	As at June 30, 2020 <i>RMB'000</i> (Unaudited)	As at December 31, 2019 <i>RMB'000</i> (Audited)
Up to 3 months	8,898	25,765
4 – 6 months	2,579	2,313
7 months – 1 year	3,367	744
Over 1 year	<u>3,045</u>	<u>2,380</u>
	<u>17,889</u>	<u>31,202</u>

7 TRADE PAYABLES

As at June 30, 2020 and December 31, 2019, the aging analysis of the trade payables based on demand note date was as follows:

	As at June 30, 2020 <i>RMB'000</i> (Unaudited)	As at December 31, 2019 <i>RMB'000</i> (Audited)
Up to 3 months	10,146	19,394
4 – 6 months	6,001	4,435
7 months – 1 year	6,115	1,121
Over 1 year	<u>2,035</u>	<u>1,403</u>
	<u>24,297</u>	<u>26,353</u>

8 DIVIDENDS

The board of directors of the Company does not resolve to declare an interim dividend for the six months ended June 30, 2020 (June 30, 2019: Nil).

A dividend of RMB43,353,000 related to the earnings of BNC Children's Hospital for the year ended December 31, 2019 was paid to Beijing Children's Hospital on June 10, 2020 (June 30, 2019: RMB35,894,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW AND OUTLOOK

Business Overview for the First Half of 2020

According to the strategic development plan at the beginning of the year, the Company comprehensively promoted the integration of medical services and the internet. Chengdu New Century passed the inspection conducted by the local health commission and obtained an internet hospital license, and internally upgraded to the internet hospital of New Century Healthcare Group (新世紀醫療集團互聯網醫院). The technology company (previously named as Jiarun Yunzhong Health Technology Co., Ltd.) officially changed its name to New Century Healthcare Technology (Beijing) Co., Ltd. (新世紀醫療科技(北京)有限公司), integrating IT research and development, member services and marketing resources at the group level to further upgrade its member service system and optimize its management organization structure and personnel structure, and enhance operation capability, which enabled implementation of tiered medical services more efficiently and consolidated the leading position of New Century Healthcare in the field of pediatric services.

Affected by the outbreak of the COVID-19 pandemic (“**COVID-19 Outbreak**”), business revenue of the Company showed a negative growth in the first half of 2020 for the first time since its listing in January 2017. The business revenue amounted to RMB216.7 million, representing a 36.7% YoY decrease, and the revenue from medical services amounted to RMB209.3 million, representing a 34.4% YoY decrease. Taking into account the impact of the pandemic and uncertainty of future economic growth, the Company made impairment adjustment to goodwill and other intangible assets of certain subsidiaries by reducing RMB251.5 million, resulting in a net loss of RMB319.3 million and EBITDA of RMB(230.1) million of the Company in the first half of 2020. Excluding the impact of the RSA Scheme, impairment losses on intangible assets, exchange gains and losses, the adjusted net profit and the adjusted EBITDA for the first half of 2020 was RMB9.8 million and RMB40.1 million, respectively.

During the reporting period, the contribution of online medical services to the Company’s business gradually emerged, with the total number of online and offline visits reaching 79,510, of which online consultations reached 8,017, accounting for 10.1% of the Company’s total consultation visits. The rapid improvement of online service capability ensured that the Company could continue to provide customers with customary medical services during the pandemic. During the pandemic, 10% of customers have chosen to use our online portal to make self-service appointments.

Due to the pandemic, the Company's offline pediatric business has been affected to a larger extent. Services provided by our medical institutions have been greatly restricted because of the government's requirements for anti-epidemic prevention and control, resulting in a temporary suppression of customers' demand for routine outpatient and inpatient diagnosis and treatments. However, the rigid demand for pediatric specialist outpatient and inpatient services remains unchanged. Revenue from pediatric business recorded a 42.5% YoY decrease to RMB146.9 million. Revenue from offline pediatric outpatient services recorded a 49.0% YoY decrease to RMB69.2 million; there were 49,903 outpatient visits, representing a 56.1% YoY decrease. Due to the increase in the specialist outpatients, the average outpatient spending per visit had a 16.3% YoY increase to RMB1,388. Revenue from pediatric inpatients recorded a 41.4% YoY decrease to RMB53.3 million; number of discharge was 1,944, representing a YoY decrease of 50.3%. Due to the increase in the specialist inpatients, the average inpatient spending per visit had a 17.9% YoY increase to RMB27,428. For the month of August 2020 and up to the date of this announcement, the number of the Group's pediatric outpatient visits had resumed to 90% of the same month last year, and the number of pediatric discharge was close to 70% of the same month last year.

For the obstetric and gynecologic business, particularly the obstetrics business was not affected during the pandemic, and hence has maintained its relatively stable performance. The decline in offline outpatient visits were due to the reduced demand for customary gynaecology business. The obstetric and gynecologic business recorded a 1.7% YoY decrease to RMB62.3 million. Revenue from offline obstetric and gynecologic outpatient services recorded a 6.0% YoY decrease to RMB21.2 million; there were 21,590 outpatient visits, representing a 13.8% YoY decrease, and the average outpatient spending per visit had a 9.1% YoY increase to RMB981. Revenue from obstetric and gynecologic inpatients was RMB41.2 million, with the number of discharge reaching 1,459, and the average discharge spending per capita was RMB28,210, all of which remained stable as compared with those in the corresponding period last year.

Industry Outlook and the Group's Strategies

The cumulative effect from the increased population and the shortage of medical resources continue to drive the growth of demand for pediatric healthcare services. The consumption upgrade of emerging customers and the increased awareness of health management result in a consistently strong demand for high-quality medical services. By 2022, the pediatric healthcare market is expected to reach RMB224 billion in terms of total revenue, with private medical institutions accounting for 6.1%. In particular, the pediatric healthcare market in Beijing is expected to reach RMB21.5 billion, with the proportion of private medical institutions increasing to 14.0%.

Over recent years, residents' awareness of health management is increasing. Meanwhile, the aging population also drives the continuous growth in demand for quality medical resources. To better meet the medical needs of people, the Chinese central and local governments continue to deepen and advance the "Internet + Healthcare" model, launch various policies, guidance and standards for online healthcare services, and incorporate online consultation and treatment into the social insurance system, thereby encouraging and supporting the development of online healthcare sector. For example, the government made it clear that health technology is a strategic area of development for China. It also features heavily in both the 13th Five-Year Plan (2016-2020) and its Healthy China 2030 strategy. In April 2018, the State Council also issued new guidelines to promote internet-based healthcare, encouraging medical institutions to leverage internet-based technologies to improve the efficiency of medical services.

The Company intends to seize business opportunities in the industry by implementing the following measures in the second half of 2020:

- Building the internet platform for its gynecologic and pediatric medical services, strengthening the integration of its online and offline medical services and promoting the digital upgrading of the offline servicescape;
- Optimizing its management organization structure and personnel structure and adopting a new share incentive scheme in accordance with the Group's development objectives;
- Actively exploring opportunities for strategic synergy and cooperation in different industries.

FINANCIAL REVIEW

Segment Revenue

We generate revenue primarily from providing (i) medical services, including pediatric services and obstetric and gynecologic services; and (ii) hospital consulting services. The following table sets forth a breakdown for the periods indicated:

	Six months ended June 30,			
	2020		2019	
	(in thousands of RMB, except percentages)			
Medical services	209,287	96.6%	319,209	93.2%
Hospital consulting services	4,176	1.9%	19,214	5.6%
Others ⁽¹⁾	3,228	1.5%	4,065	1.2%
Total	216,691	100.0%	342,488	100.0%

(1) Include revenue from cafeteria and gift shop sales at our medical institutions and online healthcare services.

Medical Services

Our revenue from the provision of medical services consists of healthcare services fees and revenue from pharmaceutical sales. The following table sets forth the revenue, cost of revenue, gross profit and gross profit margin of our medical services for the periods indicated:

	Six months ended June 30,	
	2020	2019
	<i>(in thousands of RMB, except percentages)</i>	
Revenue	209,287	319,209
Cost of revenue	166,695	212,039
Gross profit	42,592	107,170
Gross profit margin	20.4%	33.6%

The following table sets forth the composition of our revenue from pediatric and obstetric and gynecologic services for the periods indicated:

	Six months ended June 30,			
	2020		2019	
	(in thousands of RMB, except percentages)			
Pediatric services	146,943	67.8%	255,755	74.7%
Obstetric and gynecologic services	<u>62,344</u>	<u>28.8%</u>	<u>63,454</u>	<u>18.5%</u>
Total	<u>209,287</u>	<u>96.6%</u>	<u>319,209</u>	<u>93.2%</u>

Our medical services can also be classified by service and sale to inpatients and outpatients. The following table sets forth revenue and certain data relating to such classification for the periods indicated:

	Six months ended June 30,	
	2020	2019
The Group		
Inpatients services		
Inpatient visits	3,403	5,374
Average inpatient spending per visit (<i>RMB</i>)	27,764	24,561
Outpatients services		
Outpatient visits	71,493	138,817
Average outpatient spending per visit (<i>RMB</i>)	1,265	1,140
Revenue from medical services attributable to inpatients <i>(in thousands of RMB)</i>	94,480	131,992
Revenue from medical services attributable to outpatients <i>(in thousands of RMB)</i>	90,433	158,310
Revenue recognized for membership card sales <i>(in thousands of RMB)</i>	24,374	28,907
Pediatric Services		
Inpatient services		
Inpatient visits	1,944	3,913
Average inpatient spending per visit (<i>RMB</i>)	27,428	23,273
Outpatient services		
Outpatient visits	49,903	113,768
Average outpatient spending per visit (<i>RMB</i>)	1,388	1,193
Revenue from medical services attributable to inpatients <i>(in thousands of RMB)</i>	53,321	91,066
Revenue from medical services attributable to outpatients <i>(in thousands of RMB)</i>	69,248	135,782
Revenue recognized for membership card sales <i>(in thousands of RMB)</i>	24,374	28,907

Six months ended June 30,
2020 2019

Obstetric and gynecologic services

Inpatient services

Inpatient visits	1,459	1,461
Average inpatient spending per visit (<i>RMB</i>)	28,210	28,012

Outpatient services

Outpatient visits	21,590	25,049
Average outpatient spending per visit (<i>RMB</i>)	981	899

Revenue from medical services attributable to inpatients

<i>(in thousands of RMB)</i>	41,159	40,926
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Revenue from medical services attributable to outpatients

<i>(in thousands of RMB)</i>	21,185	22,528
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Revenue from provision of our medical services amounted to RMB209.3 million for the six months ended June 30, 2020, representing a 34.4% YoY decrease and accounting for 96.6% of the Group's total revenue. This decrease was primarily due to the restriction and control on the provision of medical services and the temporary suppression on the customers' demand for regular medical services, both of which were due to the implementation of various epidemic prevention policies and preventive measures amid the COVID-19 Outbreak. As a result of such impact, (i) the revenue from medical services attributable to the outpatients and inpatients decreased YoY by 42.9% and 28.4%, respectively; and (ii) the revenue recognized for membership card sales decreased YoY by 15.7%.

For the six months ended June 30, 2020, there were 1,944 pediatric services inpatient visits, representing a YoY decrease of 50.3%. There were also 49,903 pediatric services outpatient visits, representing a YoY decrease of 56.1%. For obstetric and gynecologic services, there were 1,459 inpatient visits, remaining stable, and 21,590 outpatient visits, representing a YoY decrease of 13.8%. All such decreases were primarily due to the COVID-19 Outbreak.

The cost of revenue of our medical services consists primarily of employee benefits expenses, cost of inventories and consumables, consultation fees, outsourced examination and inspection fees and utilities, maintenance fees and office expenses. The cost of revenue of our medical services for the six months ended June 30, 2020 reached RMB166.7 million, representing a YoY decrease of 21.4%. This decrease was primarily a result of (i) decrease in personnel wages due to adjustment of personnel structure, optimization of human resources costs such as employees' working hours arrangement, and government relief on social security contribution in response to the COVID-19 Outbreak; and (ii) decreased costs of medicines, consumables and specialists due to decreased medical business.

Hospital Consulting Services

We also generate a portion of our revenue from providing hospital consulting services. The following table sets forth the revenue, cost of revenue, gross profit and gross profit margin of our hospital consulting services for the periods indicated:

	Six months ended June 30,	
	2020	2019
	<i>(in thousands of RMB, except percentages)</i>	
Revenue	4,176	19,214
Cost of revenue	2,115	7,337
Gross profit	2,061	11,877
Gross profit margin	49.4%	61.8%

The revenue and the gross profit margin of our hospital consulting services amounted to RMB4.2 million and 49.4%, respectively.

Gross Profit and Gross Profit Margin

Our gross profit for the six months ended June 30, 2020 amounted to RMB42.3 million, representing a YoY decrease of 64.5%. This was primarily because of the reduced business volume due to COVID-19. Our gross profit margin decreased from 34.8% in the six months ended June 30, 2019 to 19.5% in the six months ended June 30, 2020.

Selling Expenses

Our selling expenses for the six months ended June 30, 2020 amounted to RMB20.0 million, representing a YoY increase of 4.6%, which was primarily due to the increased sales expenses resulting from the continuous strengthening and expansion of the marketing team for the online businesses as well as the expanded network since the second half of last year.

Administrative Expenses

Our administrative expenses for the six months ended June 30, 2020 amounted to RMB57.1 million, a decrease from RMB69.3 million for the six months ended June 30, 2019. Such decrease was mainly a result of (i) decrease in personnel wages due to optimization of personnel structure and employees' working hours arrangement, and government relief on social security contribution due to the COVID-19 Outbreak, and (ii) the decrease of depreciation and amortization expenses due to the decreased rental area in certain clinics.

Research and Development Expenses

The Company incurred research and development expenses of RMB5.4 million, as compared to nil for the same period last year. These expenses related to the development of new online platform technologies as part of the Company's continuous investment in online medical services technologies and facilities.

Impairment Losses on Intangible Assets

During the reporting period, the Company recorded a significant impairment loss on goodwill and other intangible assets amounted to RMB251.5 million, including the goodwill impairment loss of Chengdu New Century amounted to RMB220.1 million and the goodwill and other intangible assets impairment loss of New Century Healthcare Technology amounted to RMB14.4 million and RMB17.0 million, respectively. With respect to Chengdu New Century, this was primarily due to the impact of the COVID-19 Outbreak and the increasing uncertainty of macroeconomic environment, both of which were believed to adversely affect consumer confidence in the near to medium term, which may lead to more severe competition affecting its future business performance. With respect to New Century Healthcare Technology, in response to the COVID-19 Outbreak, it continued to make structural adjustments and planned to invest in the development of new online platform technologies. The Company carried out the impairment assessment and the impairment losses were recorded based on the assessment results.

Other Gains – Net

Our other net gains for the six months ended June 30, 2020 amounted to RMB7.1 million, as compared to other net gains of RMB1.9 million for the six months ended June 30, 2019. Our other net gains for the six months ended June 30, 2020 were mainly a result of (i) the gain of RMB0.8 million on change in fair value of our wealth management products; (ii) the gain of RMB1.6 million from disposal of non-current assets and office equipment, etc. following the early termination of leases of certain institutions; and (iii) the gain of RMB4.7 million from the acquisition of new clinics.

Finance Income and Costs

Our finance income for the six months ended June 30, 2020 increased from RMB0.7 million for the six months ended June 30, 2019 to RMB3.9 million which was mainly because (i) the interests related with cash and cash equivalents and borrowing to related parties increased by RMB1.4 million; and (ii) the exchange income increased by RMB1.8 million. Our finance costs for the six months ended June 30, 2020 amounted to RMB7.8 million, primarily due to interest expenses as a result of the adoption of HKFRS 16.

Income Tax Expense

Our income tax expense for the six months ended June 30, 2020 amounted to RMB31.7 million, representing a YoY increase of 68.4%, which was mainly due to the reverse of certain accumulated tax losses (relating to deferred tax assets) which could not have been utilized as expected because it had expired.

Our effective tax rate was -11.0% and 82.5% for the six months ended June 30, 2020 and for the six months ended June 30, 2019, respectively.

Loss for the six months ended June 30, 2020

Our loss for the six months ended June 30, 2020 amounted to RMB319.3 million, as compared to a profit of RMB4.0 million for the six months ended June 30, 2019.

FINANCIAL POSITION

Inventories

Our inventories decreased by 7.6% from RMB15.7 million as of December 31, 2019 to RMB14.5 million as of June 30, 2020, primarily due to more inventories being reserved at year-end peak of medical service demand.

Trade Receivables

Our trade receivables decreased by 43.7% from RMB30.8 million as of December 31, 2019 to RMB17.4 million as of June 30, 2020, primarily driven by the decrease of revenue during the first half year of 2020 due to the COVID-19 Outbreak comparing the year-end peak of medical service demand of December 31, 2019.

Trade Payables

Our trade payables decreased by 7.8% from RMB26.4 million as of December 31, 2019 to RMB24.3 million as of June 30, 2020, primarily due to the decreased purchases of medicine and consumables as the services demand declined.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents

As of June 30, 2020, we had cash and cash equivalents of RMB308.1 million (December 31, 2019: RMB349.1 million). We did not have any interest-bearing borrowings as of June 30, 2020 (December 31, 2019: Nil).

Significant Investments, Acquisitions and Disposals

On February 20, 2020, the Group through its subsidiary Beijing New Century Women's and Children's Hospital Co., Ltd. acquired 100% equity interest of Beijing Phoenix UMP Wenyu Clinic Outpatient Service Co., Ltd., a clinic for the provision of pediatric and gynecologic healthcare services in Beijing, with zero consideration. Upon completion of the acquisition, the entity's name was changed into Beijing New Century Wenyu Clinic Outpatient Service Co., Ltd.. The provisional fair value of net identifiable assets acquired was RMB4,674,000 and the gain on bargain purchase was RMB4,674,000.

Save for the above, we did not have any significant investment, material acquisitions or material disposals during the six months ended June 30, 2020.

Capital Expenditures

Our capital expenditures primarily include expenditures on (i) property, plant and equipment which are leasehold improvements, medical equipment, furniture and office equipment, motor vehicles and construction in progress; and (ii) intangible assets such as computer software relating to our operations. The amount of our capital expenditures in the six months ended June 30, 2020 was RMB3.1 million, which was mainly a result of upgrading the pre-existing medical institutions.

INDEBTEDNESS

Borrowings

As of June 30, 2020, we did not have any borrowings (December 31, 2019: Nil).

Exposure to Fluctuations in Exchange Rates

We mainly operate in the PRC with most of the transactions settled in RMB. Foreign exchange rate risk arises when recognized assets and liabilities are denominated in a currency that is not the entity's functional currency. As of June 30, 2020, our assets and liabilities are primarily denominated in RMB, except for certain cash and cash equivalent denominated in USD or HKD and dividend payable denominated in HKD. We have not used any derivative financial instrument to hedge against our exposure to foreign exchange risk but will closely monitor such risk on an ongoing basis.

Contingent Liabilities

As of June 30, 2020, we did not have any contingent liabilities or guarantees that would have a material impact on our financial position or results of operations.

Pledge of Assets

As of June 30, 2020, none of our assets had been pledged.

Contractual Obligations

As of June 30, 2020, we did not have any contractual obligations that would have a material effect on our financial position or results of operations.

Financial Instruments

Our major financial instruments include financial assets carried at fair value through profit or loss, trade receivables, other receivables excluding prepayments, amounts due from related parties, cash and cash equivalents, trade payables, other payables excluding non-financial liabilities and amounts due to related parties. Our management manages such exposure to ensure appropriate measures are implemented on a timely and effect manner.

Gearing Ratio

As of June 30, 2020, our gearing ratio, calculated as total borrowings divided by total equity, was 0% as compared to 0% as of December 31, 2019.

EMPLOYEE AND REMUNERATION POLICY

As of June 30, 2020, the Group had 1,350 employees (June 30, 2019: 1,307 employees). Total staff remuneration expenses including Directors' remuneration for the six months ended June 30, 2020 amounted to RMB125.9 million (for the six months ended June 30, 2019: RMB149.9 million). Remuneration is determined with reference to performance, skills, qualifications and experience of the staff concerned and in accordance with the prevailing industry practice. On top of salary payments, other staff benefits include social insurance and housing provident contributions made by the Group, performance-based compensation and discretionary bonus. The Group also adopted RSA Scheme to attract, retain and monitor our key employees.

The remuneration of the Directors is reviewed by the Remuneration Committee and approved by the Board. The relevant Director's experience, duties and responsibilities, time commitment, the Company's performance and the prevailing market conditions are taken into consideration in determining the emolument of the Directors.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2020.

CORPORATE GOVERNANCE PRACTICE

The Board is committed to maintaining high corporate governance standards. The Company has applied the principles as set out in the CG Code contained in Appendix 14 to the Listing Rules which are applicable to the Company.

In the opinion of the Directors, the Company has complied with all applicable code provisions as set out in the CG Code during the six months ended June 30, 2020, save and except for code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Jason ZHOU is both our chairman and chief executive officer, and is responsible for the overall management of our Group and directing the strategic development and business plans of our Group. We believe that he is instrumental to our growth and business expansion since our establishment in 2002. The Board considers that the roles of chairman and chief executive officer being vested in the same person is beneficial to the business prospects, management and overall strategic direction of our Group by ensuring consistent leadership within our Group and facilitating more effective and efficient overall strategic planning and decision-making for our Group. After considering all the corporate governance measures that have been taken, the Board considers that the balance of power and authority will not be impaired by the present arrangement and the current

structure will enable the Company to make and implement decisions more promptly and effectively. Thus, the Company does not segregate the roles of chairman and chief executive officer. The Board will continue to review the situation and consider splitting the roles of chairman and chief executive officer of the Company in due course after taking into account of the then overall circumstances of the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct regarding securities transactions by the Directors. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company's securities for relevant employees (as defined in the Listing Rules).

The Company has made specific inquiries to all Directors about their compliance with the Model Code, and they all confirmed that they complied with the standards specified in the Model Code during the six months ended June 30, 2020. The Company has made specific inquiries of relevant employees about their compliance with the guidelines on transactions of the Company's securities, without noticing any violation of the guidelines.

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

During the six months ended June 30, 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive Directors, namely, Mr. SUN Hongbin and Mr. JIANG Yanfu, and a non-executive Director, Mr. GUO Qizhi. The chairman of the Audit Committee is Mr. SUN Hongbin.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended June 30, 2020 and was of the opinion that such interim results had been prepared in accordance with the relevant accounting standards and that adequate disclosures have been made in accordance with the requirements of the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

Reference is made to the announcement of the Company dated June 4, 2020 in relation to the legal proceedings between the Group and Serenium Inc. ("**Serenium**").

On August 14, 2020, Beijing Arbitration Commission made the arbitration award in favour of New Century Healthcare (International) Co., Ltd. (a wholly-owned subsidiary of the Company and as applicant to the arbitration) ("**New Century International**") to the effect that, among other things, (i) the framework agreement which was entered into by New Century International with Serenium in April 2018 for the proposed development of the pediatric sleep apnea screening and diagnosis business

(“**Framework Agreement**”) be terminated; and (ii) Serenium to repay the principal amount of the development cost of US\$500,000 that was pre-paid by New Century International under the Framework Agreement together with interest accrued thereon, as well as the legal fees incurred by New Century International for the arbitration.

Meanwhile, the Company has filed an application to United States District Court for the Northern District of California to dismiss Serenium’s action (allegedly relating to the same joint development project), which is still on-going.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the HKEx (www.hkexnews.hk) and the Company (www.ncich.com.cn). The interim report for the six months ended June 30, 2020 containing all the information required by the Listing Rules will be dispatched to the Shareholders and made available on the above websites in due course.

DEFINITIONS

“Audit Committee”	the audit committee of the Board;
“Beijing Children’s Hospital”	Beijing Children’s Hospital, Capital Medical University (首都醫科大學附屬北京兒童醫院), a connected person of the Company on the subsidiary level only due to its 35.0% interest in BNC Children’s Hospital;
“BNC Ao-dong Clinic”	Beijing New Century Ao-dong Clinic Outpatient Service Co., Ltd. (北京新世紀奧東門診部有限公司), formerly known as Beijing Meihua Women and Children Clinic Co., Ltd. (北京美華婦兒門診部有限公司), a company incorporated in the PRC with limited liability on May 15, 2014, which is a wholly-owned subsidiary of the Company;
“BNC Chaowai Clinic”	Beijing New Century Yide Chaowai Clinic of Beijing New Century Yide Consultancy Co., Ltd. (北京新世紀怡德諮詢有限公司新世紀怡德朝外診所), a clinic under BNC Yide Consultancy;
“BNC Children’s Hospital”	Beijing New Century Children’s Hospital Co., Ltd. (北京新世紀兒童醫院有限公司), a company incorporated in the PRC with limited liability, which is a non-wholly-owned subsidiary of the Company;
“BNC Hong Kong Clinic”	New Century Healthcare (Hong Kong) Co. Limited (新世紀醫療(香港)有限公司), a company incorporated in Hong Kong with limited liability, which is a wholly-owned subsidiary of the Company;

“BNC Qingnian Road Clinic”	Beijing New Century Qingnian Road Pediatric Clinic Co., Ltd. (北京新世紀青年路兒科診所有限公司), a company incorporated in the PRC with limited liability, which is a wholly-owned subsidiary of the Company;
“BNC Yide Consultancy”	Beijing New Century Yide Consultancy Co., Ltd. (北京新世紀怡德諮詢有限公司), formerly known as Renze (Beijing) International Corporation Management and Service Co., Ltd. (仁澤(北京)國際企業管理服務有限責任公司), is a company incorporated in the PRC with limited liability on October 27, 2014, which is a non-wholly owned subsidiary of the Company;
“Board”	the board of Directors of the Company;
“CG Code”	Corporate Governance Code as set out in Appendix 14 to the Listing Rules;
“Chengdu New Century”	Chengdu New Century Women’s and Children’s Hospital Co., Ltd. (成都新世紀婦女兒童醫院有限公司), a company incorporated in the PRC with limited liability on September 28, 2010, which is a non-wholly owned subsidiary of the Company;
“China” or “PRC”	the People’s Republic of China; for the purpose of this announcement only, references to “China” or the “PRC” do not include Taiwan, the Macau Special Administrative Region and Hong Kong;
“Company”	New Century Healthcare Holding Co. Limited (新世紀醫療控股有限公司), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange;
“Directors”	directors of the Company;
“Group”, “our Group”, “we” or “us”	the Company and its subsidiaries;
“HKEx”	Hong Kong Exchanges and Clearing Limited;
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended and supplemented from time to time;

“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules;
“New Century Healthcare Technology”	New Century Healthcare Technology (Beijing) Co., Ltd. (新世紀醫療科技(北京)有限公司) (previously named as Jiarun Yunzhong Health Technology Co., Ltd.), a company incorporated in the PRC with limited liability, which is a non-wholly-owned subsidiary of the Company;
“Remuneration Committee”	the remuneration committee of the Board;
“RMB”	Renminbi, the lawful currency of the PRC;
“RSA Scheme”	the restricted share award scheme approved and adopted by the Company on August 29, 2016;
“Shareholder(s)”	holder(s) of the Share(s);
“Shares(s)”	ordinary share(s) of US\$0.0001 each in the issued capital of the Company or if there has been a subsequent sub-division, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“YoY”	year-on-year; and
“%”	percent.

In this announcement, the terms “associate”, “connected person”, “connected transaction”, “controlling shareholder”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

By Order of the Board
New Century Healthcare Holding Co. Limited
Mr. Jason ZHOU
Chairman, Executive Director and Chief Executive Officer

Hong Kong, August 28, 2020

As of the date of this announcement, the Board comprises Mr. Jason ZHOU, Ms. XIN Hong and Mr. XU Han, as executive Directors; Mr. GUO Qizhi, Mr. WANG Siye, Dr. CHENG Chi-Kong, Adrian, Mr. YANG Yuelin and Mr. FENG Xiaoliang, as non-executive Directors; and Mr. WU Guanxiong, Mr. SUN Hongbin, Mr. JIANG Yanfu and Dr. MA Jing, as independent non-executive Directors.