和美醫療控股有限公司
HARMONICARE MEDICAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1509)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

2018 ANNUAL RESULTS HIGHLIGHTS

- Total revenue for the year ended 31 December 2018 amounted to approximately RMB1,015 million, representing an increase of 9.8% as compared with that of RMB924 million for the year ended 31 December 2017.
- The net loss attributable to owners of the Company was approximately RMB725 million for the year ended 31 December 2018, as compared with the net profit attributable to owners of the Company of RMB27 million for the year ended 31 December 2017.
- Basic loss per share for the year ended 31 December 2018 amounted to RMB98.18 cents (2017: basic earnings per share of RMB3.61 cents).

The Board of Directors of Harmonicare Medical Holdings Limited announces the audited consolidated financial results of the Group for the year ended 31 December 2018 together with the comparative figures for the year ended 31 December 2017 as set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** **RMB'000**	2017 *RMB'000*
Revenue	*4*	**1,014,990**	924,151
Cost of sales and services		**(621,388)**	(496,548)
Gross profit		**393,602**	427,603
Other income	*6*	**7,812**	13,063
Other gains and losses, net	*7*	**18,602**	(14,078)
Selling and distribution expenses		**(300,023)**	(242,422)
Administrative and other operating expenses		**(257,703)**	(143,118)
Impairment losses on various assets	*10*	**(558,626)**	(2,476)
Provision for onerous leases		**(41,337)**	–
Share of loss of associates		**(6,460)**	(4,625)
Operating (loss)/profit		**(744,133)**	33,947
Finance costs	*8*	**(5,220)**	–
(Loss)/profit before income tax		**(749,353)**	33,947
Income tax expense	*9*	**(35,858)**	(4,509)
(Loss)/profit for the year	*10*	**(785,211)**	29,438
Other comprehensive income:			
Item that may be reclassified to profit or loss:			
Share of other comprehensive income of associates		**138**	42
Total other comprehensive income for the year		**138**	42
Total comprehensive (loss)/income for the year		**(785,073)**	29,480

	Notes	**2018** **RMB'000**	2017 RMB'000
(Loss)/profit for the year attributable to:			
Owners of the Company		**(725,299)**	27,394
Non-controlling interests		**(59,912)**	2,044
		(785,211)	29,438
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(725,161)**	27,436
Non-controlling interests		**(59,912)**	2,044
		(785,073)	29,480
(Loss)/earnings per share			
Basic and diluted (RMB cents)	*12*	**(98.18)**	3.61

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
Non-current assets			
Property, plant and equipment		**369,183**	300,784
Land use right		**116,713**	119,156
Goodwill		**22,444**	122,283
Other intangible assets		**56,536**	136,180
Interest in associates		**7,465**	27,342
Rental deposits		**11,921**	10,299
Deferred tax assets		**2,595**	54,277
Financial assets at fair value through profit or loss ("**FVTPL**")		**165,845**	99,723
Contingent consideration receivables		**4,087**	–
Other long-term assets		**57,801**	81,989
		814,590	952,033
Current assets			
Inventories		**33,746**	22,300
Contingent consideration receivables		**6,903**	–
Loan receivables		**–**	130,957
Trade receivables	*13*	**54,299**	46,295
Prepayment, deposits and other receivables		**166,821**	134,162
Amounts due from related parties		**–**	29,378
Time deposits		**–**	45,000
Cash and cash equivalents		**133,846**	466,995
		395,615	875,087
Current liabilities			
Trade payables	*14*	**33,056**	16,020
Other payables and accruals		**261,487**	128,543
Amount due to a related party		**1,225**	924
Tax payable		**14,332**	21,990
Other borrowings		**32,770**	–
Provision		**44,238**	900
		387,108	168,377
Net current assets		**8,507**	706,710
Total assets less current liabilities		**823,097**	1,658,743

	Notes	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Accrued rental expenses		**40,113**	28,710
Other borrowings		**69,396**	–
Deferred tax liabilities		**35,417**	47,925
		144,926	76,635
NET ASSETS		**678,171**	1,582,108
Capital and reserves			
Share capital	*15*	**598**	598
Reserves		**560,444**	1,353,507
Equity attributable to owners of the Company		**561,042**	1,354,105
Non-controlling interests		**117,129**	228,003
TOTAL EQUITY		**678,171**	1,582,108

1. GENERAL INFORMATION

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 26 August 2014. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, and its principal place of business is located in the PRC. The Company is an investment holding company and the Group are principally engaged in provision of specialised hospital services, especially in obstetrics and gynaecology and supply chain business in the PRC.

The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with the effect from 7 July 2015.

Reference to the announcement dated on 1 April 2019, the trading of ordinary shares of the Company on the Stock Exchange has been suspended with effect from 1 April 2019 pending the publication of the annual results of the Group for the year ended 31 December 2018.

Reference to the announcement dated on 12 June 2019, the Company received a letter from the Stock Exchange on 15 May 2019 in relation to resumption guidance for the Company including (i) publish all outstanding financial results and address any audit modifications; (ii) conduct an independent internal control review and demonstrate that the Company has in place adequate internal control and procedures to comply with the Listing Rules; and (iii) announce all material information for the Company's shareholders and other investors to appraise the Company's position. If the Company fails to remedy the issues causing the suspension and fully comply with the Listing Rules to the Stock Exchange's satisfaction and resume trading in the Shares by 30 September 2020, the Listing Department of the Stock Exchange will recommend the Listing Committee of the Stock Exchange (the "**Listing Committee**") to proceed with the cancellation of the Company's listing, subject to the Stock Exchange's right to impose a shorter specific remedial period under Rule 6.10 of the Listing Rules where appropriate.

On 26 November 2020, the Listing Committee considered the Company's resumption and listing status. The Company received a letter from the Stock Exchange dated 27 November 2020 stating that the Listing Committee has decided to cancel the Company's listing under Rule 6.01A of the Listing Rules (the "**Delisting Decision**"). It is indicated in the letter that unless the Company applies for a review of the Delisting Decision pursuant to Chapter 2B of the Listing Rules, the last day of listing of the Shares would be on 11 December 2020, and the listing of the Shares would be cancelled with effect from 9:00 a.m. on 14 December 2020.

The Company has submitted an application on 4 December 2020 requesting the Delisting Decision be referred to the Listing Review Committee for review.

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is also the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise stated.

2. GOING CONCERN BASIS

The Group incurred a loss of approximately RMB785,211,000 for the year ended 31 December 2018 and as at 31 December 2018, the capital commitments for acquisition of property, plant and equipment of the Group was approximately RMB258,301,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The directors of the Company have prepared the consolidated financial statements based on going concern on the assumptions and measures that:

(a) The Group is actively disposing certain subsidiaries including but not limited to Nantong Hemeijia Hospital. The management of the Group is confident that such disposals would generate at least RMB150 million cash inflow to the Group and significantly reduce overall capital commitments of the Group in 2021;

(b) The management has ceased or delayed nearly all construction of new hospitals and new investments until the Group's net current liabilities situation is resolved;

(c) The Group applies cost control measures in cost of sales, administrative expenses and capital expenditures;

(d) The Group is also maximising its sale effort and implementing comprehensive policies to improve operating cash flows.

The directors of the Company have reviewed the Group's cash flow projections prepared by the management. The cash flow projections cover a period of not less than twelve months from 31 December 2018. After taking into account the above assumptions and measures, the directors of the Company consider that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2018 and believe that the Group will continue as a going concern and consequently have prepared the consolidated financial statements on a going concern basis.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. IFRSs comprise International Financial Reporting Standards (“IFRS”); International Accounting Standards (“IAS”); and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current year and prior years except as stated below.

IFRS 15 “Revenue from Contracts with Customers”

The Group had applied IFRS 15 in accordance with the transition provisions and methods not to restate comparative information for prior period and resulted in changes in the consolidated amounts reported in the consolidated financial statements as follows:

	1 January 2018 *RMB’000*
Decrease in other payables	(75,173)
Increase in contract liabilities	75,173

The Group has not applied the new IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new IFRSs. Except for the following new IFRS 16 “Leases” to be effective from 1 January 2019, the Group expects that these IFRSs except for IFRS 16 “Leases” would have no material impact on its results of operations and financial position.

IFRS 16 “Leases”

The Group as lessee

Leases are recognized as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset’s useful life and the lease term on a straight-line basis.

Right-of-use assets are measured at cost comprising the amount the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group’s incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognized as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less.

On adoption of IFRS 16, the Group recognized right-of-use assets and lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under IAS 17 “Leases”.

As at 31 December 2018, the Group has non-cancellable operating lease commitments in respect of premises leased for hospitals and offices amounted to RMB972 million. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon the application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

4. REVENUE

Revenue represents the amount received or receivable from provision of specialised hospital services and supply of pharmaceuticals and medical devices business, net of discount and sales related taxes, are as follows:

The Group's revenue is analysed as follows:

	2018	2017
	RMB'000	*RMB'000*
Specialised hospital services:		
Provision of healthcare services	**870,438**	792,731
Sales of pharmaceuticals and medical devices	**111,526**	95,071
Supply of pharmaceuticals and medical devices business	**33,026**	36,349
Revenue from contracts with customers	**1,014,990**	924,151

For the years ended 31 December 2018 and 2017, all revenue is recognised at a point in time.

Provision of healthcare services

The Group provides healthcare services to the customers. Revenue from provision of healthcare services are recognised when the services are rendered and there is no unfulfilled obligation that could affect the customer's acceptance of the services.

Supply of pharmaceuticals and medical devices business

The Group sells pharmaceuticals and medical devices to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products.

Sales to customers are normally made with credit terms of 30 days. Deposits received are recognised as a contract liability.

A receivable is recognised when the products are delivered to the customers 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.

5. SEGMENT INFORMATION

Mr. Lin Yuming, Mr. Zhao Xingli and Mr. Fang Zhifeng, the directors of the Company, are identified as the chief operating decision maker (the "**CODM**") of the Group for the purposes of resources allocation and performance assessment. The CODM reviews operating results and financial information on a company by company basis. This is also the basis upon which the Group is organised. Accordingly, each company is identified as an operating segment. When the group companies are operating in similar business model with similar target group of customers, and under the same regulatory environment, the Group's operating segment are aggregated and the Group's reportable segments for segment reporting purposes are as follows:

Specialised hospital services	provision of specialised hospital services, especially in obstetrics and gynecology, provided at hospitals within the Group
Supply of pharmaceuticals and medical devices business	sales of pharmaceuticals and medical devices other than those supply as part of the specialised hospital services

The following is an analysis of the Group's revenue and results by operating and reportable segment.

For the year ended 31 December 2018

	Specialised hospital services *RMB'000*	**Supply of pharmaceuticals and medical devices business** *RMB'000*	**Total** *RMB'000*
External revenue	981,964	33,026	1,014,990
Inter-segment revenue	-	53,059	53,059
Segment revenue	981,964	86,085	1,068,049
Eliminations	-	(53,059)	(53,059)
Consolidated revenue	981,964	33,026	1,014,990
Segment results	(697,198)	(6,003)	(703,201)
Unallocated results			(46,152)
Loss before income tax			(749,353)

For the year ended 31 December 2017

	Specialised hospital services *RMB'000*	Supply of pharmaceuticals and medical devices business *RMB'000*	Total *RMB'000*
External revenue	887,802	36,349	924,151
Inter-segment revenue	–	46,678	46,678
Segment revenue	887,802	83,027	970,829
Eliminations	–	(46,678)	(46,678)
Consolidated revenue	887,802	36,349	924,151
Segment results	74,458	8,972	83,430
Unallocated results			(49,483)
Profit before income tax			33,947

The following is an analysis of the Group's assets and liabilities by operating and reportable segment.

As at 31 December 2018

	Specialised hospital services *RMB'000*	**Supply of pharmaceuticals and medical devices business** *RMB'000*	**Total** *RMB'000*
Segment assets	650,524	57,572	708,096
Goodwill	22,444	–	22,444
Unallocated assets			479,665
Consolidated assets			1,210,205
Segment liabilities	388,943	5,194	394,137
Unallocated liabilities			137,897
Consolidated liabilities			532,034

As at 31 December 2017

	Specialised hospital services *RMB'000*	Supply of pharmaceuticals and medical devices business *RMB'000*	Total *RMB'000*
Segment assets	791,700	64,125	855,825
Goodwill	122,283	-	122,283
Unallocated assets			849,012
Consolidated assets			1,827,120
Segment liabilities	123,290	15,195	138,485
Unallocated liabilities			106,527
Consolidated liabilities			245,012

Other segment information

For the year ended 31 December 2018

	Specialised hospital services *RMB'000*	**Supply of pharmaceuticals and medical device business** *RMB'000*	**Unallocated** *RMB'000*	**Total** *RMB'000*
Depreciation and amortisation	83,566	642	598	84,806
Loss on disposal of property, plant and equipment	552	1	–	553
Addition to non-current assets *(note)*	404,133	46	449	404,628
Impairment losses on property, plant and equipment	107,189	–	–	107,189
Impairment losses on goodwill	189,978	–	–	189,978
Impairment losses on other intangible assets	135,199	–	–	135,199
Fair value gain on contingent consideration receivables	10,990	–	–	10,990
Impairment losses on trade receivables	2,015	–	–	2,015

For the year ended 31 December 2017

	Specialised hospital services *RMB'000*	Supply of pharmaceuticals and medical device business *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Depreciation and amortisation	55,155	697	3,821	59,673
Loss on disposal of property, plant and equipment	356	1	-	357
Addition to non-current assets *(note)*	339,080	31	1,141	340,252

Note:

Non-current assets consist of property, plant and equipment, land use right, other intangible assets and goodwill.

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment results represent the profit before tax earned by each segment, without allocation of central administration costs, directors' emoluments and share of loss of associates not directly related to the respective segment, which represents the internally generated financial information regularly reviewed by the CODM. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performances and allocating resources between segments, all assets, liabilities and expenses of the Company and other holding companies are presented as unallocated.

Income tax expenses have been allocated to segments as additional information regularly provided to the CODM but not included in the measure of segment results while the relevant deferred tax assets, deferred tax liabilities and tax payables have been allocated into the segment assets and liabilities.

No geographical information is presented as all of the Group's revenue is derived from activities in the PRC, and all of the Group's operations and major non-current assets are located in the PRC.

No revenue from individual external customer contributing over 10% of total revenue of the Group.

6. OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Interest income from bank deposits	**1,321**	8,301
Government grants	**1,227**	1,602
Interest income from loan receivables	**631**	774
Interest income from amount due from an associate	**3,454**	539
Others	**1,179**	1,847
	7,812	13,063

7. OTHER GAINS AND LOSSES, NET

	2018	2017
	RMB'000	*RMB'000*
Foreign exchange gain/(loss)	**222**	(20,336)
Fair value gain on contingent consideration receivables	**10,990**	–
Net gain arising on financial assets at FVTPL	**6,222**	3,391
Net gain arising on bank financial products	**1,734**	3,283
Loss on disposal of property, plant and equipment	**(553)**	(357)
Others	**(13)**	(59)
	18,602	(14,078)

8. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest on other borrowings	**5,220**	–

9. INCOME TAX EXPENSE

	2018	2017
	RMB'000	*RMB'000*
The PRC Enterprise Income Tax		
Current tax in the PRC	**13,013**	26,924
Under provision in prior years	**–**	242
	13,013	27,166
Deferred tax	**22,845**	(22,657)
Income tax expense	**35,858**	4,509

The Company is a tax exempted company incorporated in the Cayman Islands.

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profit subject to Hong Kong Profits Tax during the current year (2017: Nil).

Under the EIT Law and Implementation Regulation of the EIT Law in the PRC, the statutory EIT rate in the PRC is 25% (2017: 25%). In accordance with the approval from the local taxation bureau in the PRC, certain PRC subsidiaries of the Group were entitled to a preferential income tax rate of 15% for the years ended 31 December 2018 and 2017.

10. (LOSS)/PROFIT FOR THE YEAR

The Group's (loss)/profit for the year is stated after charging/(crediting) the following:

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories recognised as expense	**168,699**	140,351
Auditor's remuneration	**2,230**	2,610
Depreciation of property, plant and equipment	**70,605**	51,200
Amortisation of other intangible assets	**11,758**	7,454
Amortisation of land use right	**2,443**	1,019
Total depreciation and amortisation	**84,806**	59,673
Impairment losses on various assets		
Property, plant and equipment	**107,189**	–
Goodwill	**189,978**	–
Other intangible assets	**135,199**	–
Amounts due from related parties	**1,280**	–
Trade receivables	**2,015**	2,476
Loan receivables	**6,500**	–
Prepayments, deposits and other receivables	**116,465**	–
	558,626	2,476

	2018	2017
	RMB'000	*RMB'000*
Operating lease rentals in respect of rental premises	**139,915**	78,461
Directors' emoluments	**2,017**	348
Other staff costs		
Salaries, bonus and allowances	**409,319**	312,772
Retirement benefits scheme contributions	**42,993**	31,762
Reversal of share-based payments	**–**	(3,165)
	452,312	341,369

11. DIVIDENDS

	2018	2017
	RMB'000	*RMB'000*
Dividends recognised as distributions during the year		
2017 Final – Nil (2016: RMB5.0 cents per share)	**–**	37,921

Subsequent to the end of the reporting period, the Board doesn't recommend any payment of a final dividend for the year ended 31 December 2018.

12. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately RMB725,299,000 (2017: profit for the year attributable to owners of the Company of approximately RMB27,394,000) and the weighted average number of ordinary shares of 738,776,000 (2017: 758,402,000) in issue during the year.

Diluted loss per share

There is no dilution factor for the year ended 31 December 2018. The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2017. The computation of diluted earnings per share in 2017 is same with basic earnings per share.

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share has been adjusted with taking into account the shares purchased and held by the trustee of Company's Restricted Share Incentive Scheme for the year ended 31 December 2018 and 2017.

13. TRADE RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**58,279**	48,260
Less: allowance for doubtful debts	**(3,980)**	(1,965)
Trade receivables, net	**54,299**	46,295

The Group allows a credit period of approximately 60 days to 180 days (2017: 60 days to 180 days) for the specialised hospital services to the patients which are due from medical and commercial insurance program, and 0 day to 90 days (2017: 0 days to 90 days) for the sale of pharmaceuticals and medical devices after issuing invoice.

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 90 days	**21,095**	42,255
91 to 180 days	**3,218**	635
181 days to 1 year	**11,445**	2,726
Over 1 year	**18,541**	679
	54,299	46,295

Reconciliation of loss allowance for trade receivables:

	2018	2017
	RMB'000	*RMB'000*
At the beginning of year	**1,965**	783
Increase in loss allowance for the year	**2,015**	1,224
Amounts written off	**–**	(42)
At the end of year	**3,980**	1,965

The Group applies the simplified approach under IFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the invoice date aging. The expected credit losses also incorporate forward looking information.

	Within 90 days	**91 to 180 days**	**181 days to 1 year**	**Over 1 year**	**Total**
At 31 December 2018					
Weighted average expected loss rate	**0%**	**0%**	**0.4%**	**17.5%**	
Receivable amount (RMB'000)	**21,095**	**3,218**	**11,494**	**22,472**	**58,279**
Loss allowance (RMB'000)	**–**	**–**	**49**	**3,931**	**3,980**

	Within 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
At 31 December 2017					
Weighted average expected loss rate	0%	0%	33.3%	47.0%	
Receivable amount (RMB'000)	42,255	635	4,088	1,282	48,260
Loss allowance (RMB'000)	–	–	1,362	603	1,965

14. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2018	2017
	RMB'000	*RMB'000*
Within 90 days	**19,413**	13,342
91 to 180 days	**2,674**	924
181 days to 1 year	**8,301**	811
Over 1 year	**2,668**	943
	33,056	16,020

15. SHARE CAPITAL

The Company and the Group

	Number of shares	**Nominal value per share**	**Share capital**
		HK$	***HK$***
Authorised			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	1,140,000,000	0.001	1,140,000
Issued and fully paid			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	758,418,085	0.001	758,418

	2018	2017
	RMB'000	*RMB'000*
Presented as:	**598**	598

The Board announced that on 21 December 2017, it resolved to adopt the Restricted Share Incentive Scheme as a means to recognise the contribution of and provide incentives for the key management of the Group and persons who made special contribution to the Group. As at 31 December 2018 and 2017, no award has been made under the Restricted Share Incentive Scheme.

Details of shares of the Company purchased by the trustee of the Restricted Share Incentive Scheme pursuant to the Restricted Share Incentive Scheme are as follows:

Month of purchase	Number of ordinary shares	Price per share Highest HK$	Lowest HK$	Aggregate consideration paid HK$'000
December 2017	**5,404,000**	**3.15**	**2.86**	**16,081**
January 2018	**6,291,000**	**3.19**	**3.00**	**19,691**
March 2018	**3,050,000**	**2.80**	**2.60**	**8,407**
April 2018	**198,000**	**2.68**	**2.65**	**529**
July 2018	**4,812,000**	**2.23**	**1.88**	**9,728**
August 2018	**880,000**	**2.15**	**2.10**	**1,864**
September 2018	**4,847,000**	**2.29**	**2.04**	**10,568**
October 2018	**5,171,000**	**2.34**	**2.19**	**11,597**
November 2018	**6,718,000**	**2.30**	**2.02**	**14,801**
December 2018	**487,000**	**2.23**	**2.10**	**1,054**
Total	**37,858,000**			**94,320**
				RMB'000
Presented as:				**81,552**

During the year, apart from the above transaction, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which includes other borrowings, net of cash and cash equivalents, and equity attributable to the owner of the Company, comprising issued share capital, share premium and reserves.

The Group's management review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the repayment of existing debt.

16. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2018

(a) Acquisition of Beijing Baiziwan HarMoniCare Hospital (the "Beijing Baiziwan")

On 31 March 2018, the Group acquired 51% of equity interests of Beijing Baiziwan for cash consideration of RMB12,043,000. This acquisition has been accounted for using the purchase method. Beijing Baiziwan is engaged in the provision of obstetrics and gynecology specialty hospital services. It was acquired so as to continue the expansion of the Group's obstetrics and gynecology specialty hospital services.

Acquisition-related costs amounting to RMB878,000 have been excluded from the consideration transferred and have been recognised as an expense within the "administrative expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

The fair value of the identifiable assets and liabilities of Beijing Baiziwan acquired as at its date of acquisition is as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	19,502
Other intangible assets	64,800
Rental deposits	3,049
Inventories	2,129
Trade receivables	939
Prepayments, deposits and other receivables	13,483
Cash and cash equivalents	4,280
Trade payables	(5,402)
Other payables	(203,453)
Deferred tax liabilities	(16,329)
Total identifiable net liabilities at fair value	(117,002)
Non-controlling interests	57,331
Goodwill	71,714
Cash consideration transferred	12,043

The cash consideration of RMB12,043,000 was paid in 2017.

Net cash inflow on acquisition for the year ended 31 December 2018:

Cash and cash equivalents acquired	4,280

(b) Acquisition of Hibaby Healthcare Co., Ltd. ("Hibaby")

As at 31 December 2017, the Group owned 49.47% of equity interest of Hibaby and recognised as associate which the Group has significant influence. On 8 November 2018, the Group acquired 48.53% of equity interests of Hibaby for cash consideration of approximately RMB30,242,000. The Group increased the shareholding of Hibaby to 98% upon the completion of the acquisition. This acquisition has been accounted for using the step acquisition method. Hibaby is engaged in the provision of assisted maternity consultant management consulting. It was acquired so as to continue the expansion of the Group's obstetrics and gynecology specialty hospital services.

The fair value of the identifiable assets and liabilities of Hibaby acquired as at its date of acquisition is as follows:

	RMB'000
Net assets acquired:	
Property, plant and equipment	83,525
Other non-current assets	5,000
Inventories	2,457
Trade receivables	24
Prepayments, deposits and other receivables	49,711
Cash and bank balances	4,294
Trade payables	(4,469)
Other payables and accruals	(8,947)
Amount due to the parent company	(77,293)
Other borrowings	(22,700)
Total identifiable net assets at fair value	31,602
Fair value of consideration given for controlling interests (48.53%)	30,242
Fair value of previously-held interest (49.47%)	19,016
Non-controlling interests	769
Sub-total	50,027
Less: fair value of net assets of acquiree	(31,602)
Goodwill	18,425

The cash consideration of approximately RMB30,242,000 had yet been settled up to the date of the announcement and recorded in other payables and accruals.

Net cash inflow on acquisition for the year ended 31 December 2018:

Cash and cash equivalents acquired	4,294

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to confirm to the current year's presentation. The Directors consider that the new reclassification of the accounting item is more appropriate presentation to reflect the financial results and position of the Company.

RESULTS

For the year ended 31 December 2018, the Group recorded a revenue of approximately RMB1,014,990,000 (2017: approximately RMB924,151,000), representing an increase of about 9.8% compared to that of 2017. The Group's loss attributable to owners of the Company was approximately RMB725,299,000 as compared to a gain attributable to owners of the Company of RMB27,394,000 in 2017. Gross profit margin was approximately 38.8% as compared to 46.3% in last year.

For 2018, due to the increase of the number of hospitals, the Group recorded a revenue higher than 2017, but administrative costs generated from some newly constructed hospitals which were in the later stage of preparation were much higher for 2018 as compared with the 2017. Further, as more hospitals were running at a loss, additional impairment losses on various assets and provision for onerous leases were made in the year ended 31 December 2018. As a result, the net loss attributable to owners of the Company amounted to RMB725.30 million for the year ended 31 December 2018, as compared with the net profit attributable to owners of the Company of RMB27.39 million for the year ended 31 December 2017.

BUSINESS OVERVIEW AND OUTLOOK

Business Overview for 2018

Year 2018 is the third year since the implementation of the "two-child policy" in China. As the cost of living continues to rise, the fertility desire of the age-appropriate population declines, and the birth rate shows a downward trend. According to data released by the National Bureau of Statistics, the number of newborns in China in 2018 was 15.23 million, representing an 11.6% decrease compared to 17.23 million in 2017. In recent years, capital has been entering the private maternity medical industry and the number of medical institutions has been continuing to increase. These dual factors put many market participants under pressure.

By the end of 2018, the Group had operated a total of 14 mid to high-end ob-gyn and pediatrics specialty hospitals in 9 first and second-tier cities in China, with a total number of 748 operating beds. Moreover, Wuxi HarMoniCare Hospital, Zhengzhou HarMoniCare Hospital and Xiamen HarMoniCare Hospital were in the preparation stage. Benefiting from the increasing number of hospitals, during 2018, the number of newborns in the Group reached 10,856, representing an increase of 2.8% year-on-year. The total number of outpatient visits provided by hospitals of the Group reached 667,244 in the full year (2017: 625,470), representing a 6.7% increase year-on-year; the total number of inpatient visits provided by hospitals of the Group reached 25,643 (2017: 25,556), representing a 0.3% increase year-on-year. The average charge per diagnosis and treatment was RMB1,408.9 (2017: RMB1,363.7), representing an increase of 3.3% year-on-year. Nantong Hemeijia Hospital and Beijing Baiziwan HarMoniCare Hospital that were consolidated into the Group in August 2017 and April 2018, respectively, are included in the above figures.

In 2018, the Group faced many challenges. Although it benefited from an increase in the number of hospitals and overall income growth, the costs of operation continued to rise, leading to a significant reduction in the profit level of the Group's original hospitals, coupled with higher upfront costs in some new hospital projects, such as the newly acquired Beijing Baiziwan HarMoniCare Hospital and Hibaby. Further losses were contributed to additional impairment of various assets and provision for onerous leases as more and more hospitals were running into operating losses in 2018. As a result, the Group suffered a significant overall loss for the year ended 31 December 2018.

We recognize that in the increasingly competitive environment, we need to constantly improve aspects such as the Group's management and control, talent mechanism, brand building and transformation of old hospitals. At the end of 2018, Shenzhen HarMoniCare Hospital of the Group was involved in the "gene-edited baby" incident, which resulted in a large number of negative reports from the media and had a huge impact on the Company's brand image. The Company conducted an internal review and verification on this incident, made clarifications immediately and actively sought investigation from public security organs. At present, Shenzhen Municipal Health Commission has found out that the ethics review letter alleged by the media to have been issued by Shenzhen HarMoniCare Hospital was a forgery. After the incident, the Group focused on strengthening the internal review of the implementation of the relevant systems so as to root out the occurrence of adverse events in the future and maintain the Group's brand reputation.

In 2018, the Group advanced the preparatory work for each new hospital as planned. The jointly established Wuxi HarMoniCare Hospital, with a construction area of about 11,500 square meters and 50 registered beds, had obtained the medical institution practice license in December 2018 and plans to start trial operation in the near future. The Group's self-built Zhengzhou HarMoniCare Hospital has a planned construction area of about 14,800 square meters and 150 registered beds. It had obtained the medical institution practice license in January 2019 and plans to start trial operation in the near future. The construction of the new hospital area of Nantong Hemeijia Hospital is also progressing steadily. Currently, the construction of the above-ground part of the main building is underway. It is expected that the new hospital area will be put into trial operation in 2021. The new portion of the hospital, with a planned gross construction area of approximately 80,000 square meters and 400 planned beds, will be built into a Grade III specialty hospital featuring obstetrics and gynaecology. All new hospitals of the Group adhere to the international Joint Commission International ("**JCI**") standard as the preparation standard, and will provide customers with high-quality personalized medical experience by creating an intelligent medical system.

For 2018, the Group's upstream and downstream industrial chain business proceeded as planned. The Group has carried out medical cosmetology services in three of its hospitals. Meanwhile, the Group's newly acquired subsidiary, Hibaby, is going to set up four Hibaby maternal and infant health centers in Qingdao, Wuxi and Nanchang. As they are in the early stage of operation, they have not yet generated profits. We believe that the postpartum maternal and infant health services and the medical beauty services have great market potential and are part of the important strategic extended layout of the Group in the industrial chain.

Industry Outlook

Since the implementation of the "two-child policy" in China, the number of births has shown a trend of decline for two consecutive years. The reasons are as follows: on the one hand, the number of women of reproductive age continues to decrease; on the other hand, affected by the increase of living costs, the fertility desire is low. The aging trend of the population and the decline of the birth population have become important challenges faced by China. At the same time, a series of policies to guarantee fertility will be implemented in early 2019. In the Interim Measures for Special Additional Deduction for Individual Income Tax, children's education expenses are included in the special deduction for fixed deduction. In response to the high cost of preschool education, the General Office of the State Council also issued policies to effectively guide and regulate. We believe that in the future, the government will fully relax the family planning restrictions and introduce various measures to encourage more births. Although the decrease in the number of births leads to the decline in the total market demand of the maternity and children's medical industry, more and more people are willing to experience high-end medical services due to the upgrading of consumption and the higher requirements of the younger generation for service quality. Although in the short term, the Group faces increasing market competition, the large-scale operation and long-term accumulation of brand advantage will help the Group obtain a more favorable competitive position. In this context, the Group maintains a cautiously optimistic view on the future development of the private maternity medical service market in first and second-tier cities.

The Group's Strategy

In 2019, the Group will strive to ensure the stable development of its existing hospitals, gradually restore the profit margin, and take measures to reduce the impact of the new hospitals on the Group's overall profit as soon as possible so as to maximize the interests of shareholders. Our strategies include:

- strictly control medical safety, maintain brand reputation, and safeguard its rights and interests against counterfeit brands in the market;

- strengthen operation controls, strengthen the Group's operation assessment of the affiliated hospitals, optimize the incentive and supervision systems, and improve the human resource management and talent development plans;

- transform business model, expand marketing channels, adhere to word-of-mouth marketing, and reduce advertising expenses;

- strengthen the business guidance on newly built hospitals and newly acquired hospitals, utilize the successful operation experience of the original hospitals, reduce the financial impact of newly built hospitals on the Group as a whole, strengthen the operation management of newly acquired hospitals, improve the synergistic effect between each hospital and the Group, and realize resource sharing;

- adjust the asset structure, dispose of the assets of mid-end hospitals which do not conform to the strategic planning and hospitals with losses, and concentrate resources to strengthen the competitive advantages of core hospitals; and

- strengthen the layout and extension of the upstream and downstream industrial chain to enrich and expand the business areas of the Group. Actively carry out business in the fields of assisted reproduction, maternity centers, postpartum rehabilitation and medical cosmetology, and provide all-round services of maternal and child health care.

EMOLUMENT POLICY

As at 31 December 2018, the Group had 3,983 employees (2017: 3,689 employees). The remuneration policy and packages are reviewed annually by the management and the Remuneration Committee. The Group remunerates its employees based on their performance, work experience and the prevailing market rate. The remuneration packages include basic salary, double pay, commission, insurance and mandatory provident fund. The Group has adopted a share option scheme and a restricted share incentive scheme to provide incentives or rewards to eligible participants for their contribution or potential contribution to the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the total cash and bank balances of the Group were approximately RMB133,846,000 (2017: approximately RMB466,995,000). The cash and bank balances consisted majority in Renminbi.

As at 31 December 2018, the Group had total assets of approximately RMB1,210,205,000 (2017: approximately RMB1,827,120,000) and total liabilities of approximately RMB532,034,000 (2017: approximately RMB245,012,000). As at 31 December 2018, the current ratio was 1.02 (2017: 5.20), calculated on the basis of current assets of approximately RMB395,615,000 (2017: approximately RMB875,087,000) over current liabilities of approximately RMB387,108,000 (2017: approximately RMB168,377,000).

The Group's borrowings amounted to approximately RMB102,166,000 (2017: Nil). The Group's borrowings are denominated in Renminbi, bearing fixed interest rates. The Group's gearing ratio, being the ratio of the total debts to total assets, was 8.44% (2017: Nil).

CHARGE ON ASSETS

As at 31 December 2018, the Group with a total net book value of approximately RMB20,610,000 were charged as collateral for the Group's borrowings (31 December 2017: approximately RMB Nil).

EVENTS AFTER THE REPORTING PERIOD

(a) Disposal of the 92% equity interest of Shenzhen Harmonicare Hospital

On 28 April 2019, Guiyang HarMoniCare Obstetrics and Gynecology Hospital Co., Ltd. (the "Guiyang HarMoniCare Hospital"), a wholly-owned subsidiary of the Company, as vendor (the "Vendor"), and HarMoniCare Medical Management and Consulting Co., Ltd. (the "HarMoniCare Medical Management") and Beijing He An Da Management Consulting Co., Ltd. (the "Beijing HAD"), as creditors, entered into the disposal agreement with Shenzhen Renzheng Medical Management Co., Ltd., as purchaser, pursuant to which the purchaser agreed to acquire the 92% equity interests in Shenzhen Harmonicare Hospital from the Vendor for a total consideration of RMB63,000,000 (including a cash consideration of RMB1,000,000 and the purchaser agreed to settle an amount of RMB62,000,000 of outstanding debts owed by Shenzhen Harmonicare Hospital to the creditors).

(b) Disposal of the entire equity interest of three subsidiaries

On 24 July 2019, Guiyang HarMoniCare Hospital, a wholly-owned subsidiary of the Company, as vendor, and HarMoniCare Medical Management, as creditor, entered into the disposal agreement with Zhenjiang Kelida Information Technology Service Center (limited partnership), as purchaser, pursuant to which the purchaser agreed to acquire the entire equity interests of each of Wuhan Modern Obstetrics and Gynecology Hospital Co., Ltd., Chongqing Wanzhou HarMoniCare Obstetrics and Gynecology Hospital Co., Ltd. and Chongqing Dushi Liren Hospital Co., Ltd. (collectively, the "Target Companies") from the vendor for a total consideration of RMB22,000,000 (including a cash consideration of RMB2,200,000 and the purchaser agreed to settle an amount of RMB19,800,000 of outstanding debts owed by the Target Companies to the creditor).

(c) Resumption Guidance

The Company announced that there would be a delay in the release of the 2018 Annual Results and despatch of its 2018 Annual Report. Such a delay was due to the Company requiring time to negotiate on and approve the proposed settlement of Hibaby and consider implications, if any, on its financial statements, and to provide the former auditors of the Company, Deloitte Touche Tohmatsu ("Deloitte"), with further information in connection with the foregoing when available. The equity transfer agreement was given to Deloitte, for their consideration near to the finalization of the 2018 Annual Results in March 2019. An audit committee meeting was convened on 26 March 2019 and it was resolved that the Company would be preparing to engage an independent internal control consultant to review the internal control procedures of the Company. There were additional steps that Deloitte would need to take before signing off on the 2018 Annual Results, and it was expected that the Company would not be able to (1) publish the 2018 Annual Results on or before 31 March 2019; and (2) despatch the 2018 Annual Report to the Shareholders on or before 30 April 2019 (the "Delay").

On 15 May 2019, the Company received a letter from the Stock Exchange, in which the Stock Exchange stated the following resumption guidance for the Company ("Resumption Guidance"):

(i) publish all outstanding financial results and address any audit modifications;

(ii) conduct an independent internal control review and demonstrate that the Company has in place adequate internal control and procedures to comply with the Listing Rules; and

(iii) announce all material information for the Company's shareholders and other investors to appraise the Company's position.

Consequently, the Audit Committee engaged BDO Financial Services Limited ("BDO") as an independent internal control consultant to independently review (the "Initial IC Review") certain internal control procedures of the Company. The scope of the Initial IC Review included an independent assessment of the internal control systems of the Group, covering the transaction process of the Equity Transfer, anti-fraud management, the administration of contracts and seals, the management of fund and investment; and the management of cash and payment during the period of 1 January 2018 to 31 March 2019, the results of which were published by the Company in its announcement dated 25 March 2020.

On 17 July 2020, the Company appointed Netis Advisory Limited ("Netis") as its internal control consultant (the "Internal Control Consultant") to conduct a comprehensive review (the "Comprehensive IC Review") of the Group's internal control procedures which will cover all of the Group's significant subsidiaries and to the extent practicable, its major associated companies, for the period between 1 January 2018 and 31 July 2020 in order to comprehensively evaluate the Group's internal control systems. Netis issued a draft Comprehensive IC Review report (the "Comprehensive IC Review Report") containing its findings of the review and internal control recommendations. The Company has since implemented the internal control recommendations in accordance with the draft Comprehensive IC Review Report in consultation with Netis. The Audit Committee reviewed the draft Comprehensive IC Review Report and agreed with its findings and internal control recommendations in a meeting of the Audit Committee attended by Netis. The final Comprehensive IC Review Report was issued on 3 December 2020. For more details regarding the Initial IC Review, the Comprehensive IC Review, the Resumption Guidance and the resumption progress, please refer to the announcements of the Company dated 12 June 2019, 28 June 2019, 3 July 2019, 31 July 2019, 29 September 2019, 31 October 2019, 31 March 2020, 30 June 2020, 17 July 2020, 30 September 2020, 4 December 2020, 4 January 2021 and 8 January 2021. The Company will keep the public informed of the latest developments by making further announcement(s) as and when appropriate.

(d) Others

Reference are made to announcements of the Company dated 21 November 2019, 15 June 2020, 2 July 2020 and 16 October 2020. Terms used hereinafter shall have the same meaning as defined in the announcements.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the years ended 31 December 2018 and 2017.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2018, none of the Directors, the controlling shareholders or their respective associates had engaged in or had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. Save as disclosed in this annual results announcement, the Company has, to the best knowledge of the Board, complied with all applicable code provisions of the CG Code during the year ended 31 December 2018. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. In 2018, Mr. Lin Yuming was the chairman and chief executive officer of the Company. In view of Mr. Lin Yuming being one of the founders of the Group, and his responsibilities in corporate strategic planning and overall business development, the Board believed that it was in the interests of both the Group and the shareholders to have Mr. Lin Yuming taking up both roles for effective management and business development. The Board also met regularly on a quarterly basis to review the operation of the Group led by Mr. Lin Yuming. Accordingly, the Board believed that this arrangement will not impact on the balance of power and authorisations between the Board and the management of the Company. Having said that, as announced on 11 August 2020, Mr. Yang Guo is appointed as an executive director and chief executive officer of the Company, and the Group now is in compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its code of conduct regarding securities transactions by the Directors.

Having made specific enquiry to all Directors, the Directors confirmed that they had complied with the Model Code throughout the year ended 31 December 2018.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has discussed with the independent auditor of the Company, Messrs. ZHONGHUI ANDA CPA Limited ("ZHONGHUI ANDA"), and reviewed the Group's annual results for the year ended 31 December 2018, including the accounting principles and practices adopted by the Group.

The Audit Committee is of the opinion that the Group's annual results comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements. The Audit Committee therefore recommended for the Board's approval of the Group's annual results for the year ended 31 December 2018.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2018:

"DISCLAIMER OF OPINION

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

1. Limited accounting books and records of subsidiary disposed

As disclosed in note 45(a) to the consolidated financial statements, Shenzhen HarMoniCare Gynecology and Paediatrics Hospital Co., Ltd, a subsidiary of the Company (the "**Shenzhen HariMoniCare Hospital**") have been disposed subsequent to the year ended 31 December 2018. Due to the insufficiency of supporting documentation and explanations for accounting books and records in respect of Shenzhen HariMoniCare Hospital for the years ended 31 December 2018 and 2017, we were unable to carry out audit procedures to satisfy ourselves as to whether the following income and expenses for the years ended 31 December 2018 and 2017 and the assets and liabilities as at those dates, as included in the consolidated financial statements of the Group, have been accurately recorded and properly accounted for in the consolidated financial statements:

	2018	2017
	RMB'000	*RMB'000*
Income and expenses		
Revenue	**75,893**	89,020
Cost of sales and services	**(57,522)**	(49,731)
Gross profit	**18,371**	39,289
Other income	**335**	1,071
Other gains and losses	**(37)**	(17)
Selling and distribution expenses	**(38,205)**	(36,514)
Administrative and other operating expenses	**(12,004)**	(10,623)
Impairment on various assets	**(42)**	–
Loss for the year	**(31,582)**	(6,794)

	2018	2017
	RMB'000	*RMB'000*
Assets and liabilities		
Property, plant and equipment	**31,477**	26,922
Other intangible assets	**117**	143
Rental deposits	**2,712**	3,098
Other long-term assets	**1,340**	3,500
Inventories	**2,553**	1,883
Trade receivables	**1,015**	1,601
Prepayment, deposits and other receivables	**2,375**	1,613
Cash and cash equivalents	**437**	1,386
Trade payables	**(511)**	(690)
Other payables and accruals	**(22,030)**	(21,457)
Accrued rental expenses	**(12,674)**	(15,145)
Net assets	**6,811**	2,854

2. Limited accounting books and records of the Hibaby Healthcare Co., Ltd. ("Hibaby") and its subsidiaries ("Hibaby Group")

As at 31 December 2017, the Group owned 49.47% of equity interest of Hibaby and recognised as associate which the Group has significant influence. On 8 November 2018, the Group, as the purchaser, entered into an equity transfer agreement with other shareholders of Hibaby, as the sellers, on acquisition of 48.53% of equity interests of Hibaby from other shareholders of Hibaby for cash consideration in aggregate of approximately RMB30,242,000 (the "**Acquisition**"). The Group holds 98% of equity interests of Hibaby upon the completion of acquisition. The Acquisition of 48.53% equity interests of Hibaby by the Group was accounted for the acquisition of subsidiaries in a business combination achieved in stages in the Group's consolidated financial statement.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to (i) whether the carrying amount of interest in an associate of approximately RMB21,007,000 as at 31 December 2017 are fairly stated; and (ii) whether share of loss of an associate of approximately RMB1,991,000 and RMB2,967,000 respectively for the year ended 31 December 2018 and 2017 are properly stated.

Also, we have not been provided with sufficient evidence about the fair value of identifiable assets and liabilities of Hibaby Group arising from the acquisition of 48.53% equity interests of Hibaby at the date of acquisition and we were unable to evaluate whether the acquisition method has been appropriately applied on the acquisition and after acquisition. Further, we were unable to satisfy ourselves as to whether the income and expenses from acquisition date to 31 December 2018 and the following assets and liabilities as at 31 December 2018, as included in the consolidated financial statements of the Group, have been accurately recorded and properly accounted for in the consolidated financial statements:

	From acquisition date to 31 December 2018 *RMB'000*
Income and expenses	
Revenue	**5,757**
Cost of sales and services	**(8,072)**
Gross loss	**(2,315)**
Other income	**1**
Selling and distribution expenses	**(1,626)**
Administrative and other operating expenses	**(10,166)**
Finance costs	**(4,484)**
Loss for the year	**(18,590)**

	2018 *RMB'000*
Assets and liabilities	
Property, plant and equipment	**80,423**
Goodwill	**18,425**
Other non-current assets	**5,000**
Inventories	**406**
Trade receivables	**34**
Prepayments, deposits and other receivables	**49,471**
Cash and bank balances	**3,546**
Trade payables	**(7,883)**
Other payables	**(15,658)**
Other loans	**(23,700)**
Net assets	**110,064**

3. Property, plant and equipment and land use right

Apart from the property, plant and equipment mentioned in points 1 and 2 above, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the (i) carrying amount of the certain property, plant and equipment and land use right of approximately RMB257,283,000 and RMB116,713,000 respectively as at 31 December 2018 and of approximately RMB75,519,000 and RMB119,156,000 as at 31 December 2017 are fairly stated; (ii) whether provision for impairment losses on such property, plant and equipment and land use right of approximately RMB107,189,000 and RMBnil for the year ended 31 December 2018 are properly stated; (iii) whether provision for impairment losses on such property, plant and equipment and land use right of RMBnil and RMBnil respectively for the year ended 31 December 2017 are properly stated; (iv) whether the depreciation of property, plant and equipment and amortisation of land use right of approximately RMB8,162,000 and RMB2,443,000 respectively for the year ended 31 December 2018 are properly stated; and (v) the accuracy of the disclosures in relation to the property, plant and equipment and land use right.

4. Goodwill and other intangible assets

Apart from the goodwill and other intangible assets mentioned in points 1 and 2 above, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to (i) whether the carrying amount of the goodwill and other intangible assets of approximately RMB4,019,000 and RMB56,419,000 respectively as at 31 December 2018 and of approximately RMB72,981,000 and RMB45,812,000 as at 31 December 2017 are fairly stated; (ii) whether provision for impairment losses on goodwill and other intangible assets of approximately RMB68,962,000 and RMB135,199,000 respectively for the year ended 31 December 2018 are properly stated; (iii) whether provision for impairment losses on goodwill and other intangible assets of RMBnil and RMBnil respectively for the year ended 31 December 2017 are properly stated; (iv) whether the amortisation of other intangible assets of approximately RMB1,864,000 for the year ended 31 December 2018 are properly stated; and (v) the accuracy of the disclosures in relation to the goodwill and other intangible assets.

5. Financial assets at fair value through profit or loss and contingent consideration receivables

Included in the consolidated financial statements were financial assets at fair value through profit or loss of approximately RMB165,845,000 and RMB99,723,000 as at 31 December 2018 and 2017 and contingent consideration receivables of approximately RMB10,990,000 as at 31 December 2018, which are measured based on valuation from an external valuer. In the absence of robust evidences for us to assess the appropriateness of the estimates, judgements and assumptions adopted in the valuation on the Group's financial assets at fair value through profit or loss and contingent consideration receivables, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to (i) the fair value measurement and recoverability of the financial assets at fair value through profit or loss and the contingent consideration receivables as at 31 December 2018 and 2017; (ii) fair value change of financial assets at fair value through profit or loss of approximately RMB6,222,000 and RMB3,391,000 respectively during the year ended 31 December 2018 and 2017 and fair value change of contingent consideration receivables of approximately RMB10,990,000 and RMBnil respectively for the year ended 31 December 2018 and 2017; and (iii) related disclosures of the fair value measurement in the consolidated financial statements.

6. **Trade receivables**

Apart from the trade receivables mentioned in points 1 and 2 above, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the (i) recoverability of and the carrying amount of the certain trade receivables of approximately RMB31,723,000 and RMB18,910,000 respectively as at 31 December 2018 and 2017 are fairly stated; and (ii) whether provision for impairment losses on above-stated trade receivables of RMBnil and RMBnil respectively for the year ended 31 December 2018 and 2017 are properly stated.

7. **Prepayment, deposits and other receivables, other long-term assets and loan receivables**

Apart from the prepayment, deposits and other receivables and other long-term assets mentioned in points 1 and 2 above, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the (i) recoverability of and the carrying amount of the certain prepayment, deposits and other receivables of approximately RMB47,818,000 and RMB15,000,000 respectively and other long-term assets of approximately RMB4,600,000 as at 31 December 2018 and 2017 are fairly stated; and (ii) whether provision for impairment losses on certain prepayment, deposits and other receivables and loan receivables of approximately RMB116,465,000 and RMB6,500,000 respectively for the year ended 31 December 2018 are properly stated.

8. **Deferred tax liabilities**

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the (i) the carrying amount of the deferred tax liabilities of approximately RMB35,417,000 and RMB33,555,000 respectively as at 31 December 2018 and 2017 respectively are fairly stated; and (ii) whether the income tax credit of approximately RMB28,837,000 for the year ended 31 December 2018 are properly stated.

9. **Provision for onerous contracts**

Due to the uncertainties in respect of the Group's financial position and financial performance during the year, we have been unable to obtain robust supportable evidence for us to assess whether the Group's various long term non-cancellable lease contracts of lease commitments of approximately RMB679,156,000 and RMB234,118,000 respectively as at 31 December 2018 and 2017 in relation to the Group's specialised hospital services are onerous contracts as defined under International Accounting Standard 37. If that executory lease contracts are onerous contracts, a provision is required to the extent for which the related unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received.

10. **Contingent liabilities**

No sufficient evidence has been provided to satisfy ourselves as to (i) the carrying amount of the provision for contingent liabilities and (ii) the existence and completeness of the disclosures of contingent liabilities as at 31 December 2018.

11. Material uncertainty related to going concern

We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred a loss of approximately RMB785,211,000 for the year ended 31 December 2018. Also, as at 31 December 2018, the capital commitments for acquisition of property, plant and equipment of the Group was approximately RMB258,301,000.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome that certain financing plans and measures as stated in note 2 of the consolidated financial statements to improve its consolidated financial position, to provide liquidity and cash flows. The consolidated financial statements do not include any adjustments that would result from the failure to fulfill the financing plans and measures. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements.

However, in view of the extent of the uncertainty relating to the successful outcome that certain financing plans and measures to improve its consolidated financial position, to provide liquidity and cash flows, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

Any adjustments to the figures as described from points 1 to 11 above might have a significant consequential effect on the Group's consolidated financial performance and its consolidated cash flows for the year ended 31 December 2018 and 2017 and the consolidated financial position of the Group as at 31 December 2018 and 2017, and the related disclosures thereof in the consolidated financial statements."

THE COMPANY AND AUDIT COMMITTEE'S VIEW ON THE DISCLAIMER OF AUDIT OPINION

The Board and Audit Committee have reviewed the Disclaimer Opinion as set out above, and are confident that the Group will have sufficient liquidity to finance its operations for the next twelve months and therefore is of the view that the Group would be able to continue its businesses and operations as a going concern and the qualification issues will be fully resolved in due course as follows:

1. Limited accounting books and records of subsidiary disposed

As disclosed in the Company's announcement dated 28 April 2019, the Group disposed 92% equity interest in Shenzhen HarMoniCare Gynecology and Paediatrics Hospital Co., Ltd. ("**Shenzhen HarMoniCare Hospital**"). Upon the completion of such disposal, the management of the Company (the "**Management**") ceased to involve in the management of Shenzhen HarMoniCare Hospital. When the Company's auditor performed their audit which covered the financial information of Shenzhen HarMoniCare Hospital before the disposal date (i.e 30 May 2019), the new management of the Shenzhen HarMoniCare Hospital refused to co-operate with our auditors, which resulted to such a scope limitation qualification by our auditors.

However, since Shenzhen HarMoniCare Hospital had already been disposed by the Group in 2019, such qualification is limited to the period on or before 30 May 2019. In other words, such qualification shall not have impact to the Company's consolidated financial position as at 31 December 2019 and any consolidated profit and loss period starting from 31 December 2019.

2. **Limited accounting books and records of the Hibaby Group**

The Group acquired additional 48.53% equity interest in Hibaby on 8 November 2018 (the "**Acquisition**"), which turned Hibaby Group from an investment in associated companies to an investment in subsidiaries and Hibaby Group's financial information was consolidated to the Company's consolidated financial statements starting from 8 November 2018. However, the Group was unable to complete its payment for the Acquisition when our auditors were performing their audit work, which resulted that the sellers of the 48.53% equity interest in Hibaby (the "**Vendors**") withheld certain accounting records and evidences related to Hibaby Group until the Group fully paid for its Acquisition. As a consequence, our auditors qualified for a scope limitation related to the financial information of Hibaby Group.

The Management is currently actively negotiating with the Vendors at this moment, and it is expected that the Company will settle the Acquisition consideration and regain all accounting records of Hibaby Group in the first quarter of 2021. Therefore, the Management expects that such qualification will not have impact in the financial year ending 31 December 2021, if not earlier.

3. **Property, plant and equipment and land use right**

Nearly all our hospitals were running at a loss, in particular, during the COVID-19 pandemic. Therefore, our auditors were concerned on the carrying value of our property, plant and equipment and land use rights, the amount of impairment and corresponding effects on depreciation during the periods of their audit.

The Management is in the process of disposing all hospitals which are unlikely to regain profitability in a short period of time while adding new scope of services in order to improve profitability of all remaining hospitals. By doing so, the Management expects that all hospitals within the Group shall becomes profitable by the end of 2021. As such, the Management believes that such qualification shall cease to carry forward on and beyond 31 December 2021.

4. **Goodwill and other intangible assets**

The amount qualified by the auditors were mainly consisted of RMB4 million goodwill and RMB44 million other intangible assets related to Nantong Hemeijia Obstetrics and Gynecology Hospital Co., Ltd. ("**Nantong Hemeijia**") and RMB7.4 million other intangible assets related to Beijing Baiziwan. Since both hospitals ran into operating losses starting in 2019, our auditors were concerned on valuation of such assets.

The Management is in the process of disposing Nantong Hemeijia and is expected to complete by the 1st half of 2021. Once the disposal of Nantong Hemeijia is completed, such qualification related to Nantong Hemeijia shall cease to have carried forward impact in our consolidated financial statements. Further, based on the latest operating data, the Management believes that Beijing Baiziwan shall be profitable for the year ending 31 December 2021, which can then justify the carrying value of its intangible assets. In other words, the Management is confident that such qualification shall cease to have impact to our consolidated financial position as at 31 December 2021 and profit and loss for any period starting from 31 December 2021.

5. **Financial assets at fair value through profit or loss and contingent consideration receivables**

This qualification related to RMB165 million financial assets held by the Group against Wuxi HarMoniCare Obstetrics and Gynecology Hospital Co., Ltd. ("**Wuxi HarMoniCare**") and RMB11 million contingent consideration receivables from the minority interest in Nantong Hemeijia.

For the financial assets held by the Group, it is an amount due from Wuxi HarMoniCare, a new obstetrics and gynecology hospital owned by independent third party. This receivable allows the Group to convert into equity of Wuxi HarMoniCare and becomes the controlling shareholder of Wuxi HarMoniCare. The Management is in the process of disposing such financial assets to independent third parties at this moment and will consider to exercise its rights to convert such financial assets into equity of Wuxi HarMoniCare should the Management fails to dispose such financial assets in the next few months. Regardless of the outcome as described above, such financial assets shall cease to exist in the Group in 2021 and therefore, the Management believes that the qualification related to financial asset shall not carry forward to Company's consolidation financial position as at 31 December 2021 and profit or loss for any period starting from 31 December 2021.

Similarly to goodwill as described in 4 above, upon the disposal of Nantong Hemeijia as described above, this qualification related to contingent receivables shall not carry forward to Company's consolidation financial position as at 31 December 2021 and profit or loss for any period starting from 31 December 2021.

6. **Trade receivable**

This qualification is related to trade receivable in the books of Shanxi Taihetang Pharmaceutical Co., Ltd. The Management is confident that the Group should be able to collect the full amount of the trade receivable on or before 31 December 2021.

7. **Prepayment, deposits and other receivables, other long-term assets and loan receivables**

This qualification is related to RMB15 million in the books of Nantong Hemeijia and RMB4.6 million in the books of HarMoniCare Medical Management. Since the Management are in the process of disposing Nantong Hemeijia, therefore upon the disposal of Nantong Hemeijia, the qualification related to Nantong Hemeijia trade receivables shall not carry forward to Company's consolidation financial position as at 31 December 2021 and profit or loss for any period starting from 31 December 2021.

Further, the portion related to HarMoniCare Medical Management was related to a co-operation with an independent third party to set up a new IVF facilities in the Jiangxi province and the Group originally invested RMB36 million. This co-operation had been ceased in 2018 and RMB31 million had been refunded as of today. The Management is confident that the Group should be able to receive the full amount of RMB4.6 million on or before 31 December 2021.

8. Deferred tax assets and liabilities

This qualification exists due to the tax effect on other qualifications as described above. Therefore, once the other qualifications described above are resolved, this qualification will also be resolved. Therefore, the Management is confident that this qualification shall not have impact on the financial position as at 31 December 2021 and profit or loss for any period starting from 31 December 2021.

9. Provision for onerous contracts

This qualification is related to various long term non-cancellable leases contracts for lease commitments as at 31 December 2018. However, upon the adoption of new accounting standards on lease accounting in 2019 by the Group, all future lease commitments shall be recognized as liabilities and therefore, such provision for onerous contracts is no longer necessary. In other words, such qualification will not have any impact to our Company's consolidated financial position as at 31 December 2019 and profit or loss for any period starting from 31 December 2019.

10. Contingent liabilities

The Group is facing a number of litigation claims, which mainly represented by the litigation claims for unpaid acquisition consideration of Hibaby and unpaid construction and service contracts by the Group due to lack of funding in certain operations.

For all the cases related to Hibaby, the Management is confident to settle all the claims in the first quarter of 2021, and therefore, the Management believes the qualification related to Hibaby shall have no carried forward effect to the financial statements for the year ending 31 December 2021, if not earlier.

For all other cases, as those cases are related to loss making subsidiaries to be disposed by the Group in 2021, the Management is confident that such qualification shall be removed as of 31 December 2021 and profit and loss for any period starting from 31 December 2019.

11. Material uncertainty related to going concern

The directors of the Company have prepared the consolidated financial statements based on going concern on the assumptions and measures that:

(a) The Group is actively disposing certain subsidiaries including but not limited to Nantong Hemeijia Hospital. The management of the Group is confident that such disposals would generate at least RMB150 million cash inflow to the Group and significantly reduce overall capital commitments of the Group in 2021;

(b) The management has ceased or delayed nearly all construction of new hospitals and new investments until the Group's net current liabilities situation is resolved;

(c) The Group applies cost control measures in cost of sales, administrative expenses and capital expenditures; and

(d) The Group is also maximising its sale effort and implementing comprehensive policies to improve operating cash flows.

The Audit Committee has reviewed the Disclaimer Opinion and the basis thereof. The Management has reviewed the impact of the Disclaimer Opinion and the action plan above. There was no disagreement between the views of the Audit Committee and the Management in respect of (i) the Disclaimer Opinion, and (ii) the Company's plan to address the Disclaimer Opinion above.

AUDITORS

Reference is made to the announcement of the Company dated 14 January 2020 in relation to Deloitte had tendered their resignation as the auditors of the Company with effect from 13 January 2020. Pursuant to the note under Rule 13.51(4) of the Listing Rules, the Company confirmed that the Deloitte had indicated in the Resignation Letter that there were no circumstances connected with their resignation which they considered ought to be brought to the attention of the Shareholders or creditors of the Company in addition to those mentioned in the said announcement. Also, the Board was not aware of any other matter that should be brought to the attention of the Shareholders or creditors of the Company regarding the resignation of Deloitte.

On 17 January 2020, the Company announced that ZHONGHUI ANDA was appointed by the Board as the auditor of the Company to hold office until the conclusion of the next annual general meeting of the Company. The accompanying financial statements prepared in accordance with International Financial Reporting Standards have been audited by ZHONGHUI ANDA.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the HKEx (www.hkexnews.hk) and the Company (www.hemeiyl.com). The 2018 annual report of the Company 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.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2019. Trading in the Shares will remain suspended until further notice.

Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
Harmonicare Medical Holdings Limited
Lin Yuming
Chairman, Executive Director and President

Hong Kong, 8 January 2021

As at the date of this announcement, the executive directors of the Company are Mr. Lin Yuming, Mr. Yang Guo and Mr. Wei Rongda; the non-executive directors of the Company are Mr. Lin Yuguo, Mr. Qiu Jianwei and Mr. Xu Jun; and the independent non-executive directors of the Company are Ms. Fang Lan, Mr. Cai Jiangnan and Ms. Hsu Wai Man Helen.