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 2019

2019 ANNUAL RESULTS HIGHLIGHTS

- Total revenue for the year ended 31 December 2019 amounted to approximately RMB826 million, representing a decrease of 18.6% as compared with that of RMB1,015 million for the year ended 31 December 2018.

- The net loss attributable to owners of the Company was approximately RMB334 million for the year ended 31 December 2019, as compared with the net loss attributable to owners of the Company of RMB725 million for the year ended 31 December 2018.

- Basic loss per share for the year ended 31 December 2019 amounted to RMB46.36 cents (2018: basic loss per share of RMB98.18 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 2019 together with the comparative figures for the year ended 31 December 2018 as set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	4	**826,143**	1,014,990
Cost of sales and services		**(584,117)**	(621,388)
Gross profit		**242,026**	393,602
Other income	6	**3,988**	7,812
Other gains and losses, net	7	**70,102**	18,602
Selling and distribution expenses		**(195,123)**	(300,023)
Administrative and other operating expenses		**(218,532)**	(257,703)
Impairment losses on various assets, net	11	**(290,195)**	(558,626)
Provision for onerous leases		**–**	(41,337)
Share of loss of associates		**(173)**	(6,460)
Operating loss		**(387,907)**	(744,133)
Finance costs	8	**(34,857)**	(5,220)
Loss before income tax		**(422,764)**	(749,353)
Income tax expense	10	**(2,319)**	(35,858)
Loss for the year	11	**(425,083)**	(785,211)
Other comprehensive income:			
Item that may be reclassified to profit or loss:			
Share of other comprehensive income of associates		**–**	138
Total other comprehensive income for the year		**–**	138
Total comprehensive loss for the year		**(425,083)**	(785,073)

	Notes	**2019**	2018
		RMB'000	*RMB'000*
Loss for the year attributable to:			
Owners of the Company		**(334,048)**	(725,299)
Non-controlling interests		**(91,035)**	(59,912)
		(425,083)	(785,211)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(334,048)**	(725,161)
Non-controlling interests		**(91,035)**	(59,912)
		(425,083)	(785,073)
Loss per share			
Basic and diluted *(RMB cents)*	*13*	**(46.36)**	(98.18)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Notes	2019 *RMB'000*	2018 *RMB'000*
Non-current assets			
Property, plant and equipment		**338,728**	369,183
Land use right		**–**	116,713
Right-of-use assets		**428,942**	–
Goodwill		**22,444**	22,444
Other intangible assets		**52,507**	56,536
Interest in associates		**7,292**	7,465
Rental deposits		**11,996**	11,921
Deferred tax assets		**1,412**	2,595
Financial assets at fair value through profit or loss ("**FVTPL**")		**185,766**	165,845
Contingent consideration receivables		**–**	4,087
Other long-term assets		**13,931**	57,801
		1,063,018	814,590
Current assets			
Inventories		**23,437**	33,746
Contingent consideration receivables		**12,419**	6,903
Loan receivables		**–**	–
Trade receivables	*14*	**51,944**	54,299
Prepayment, deposits and other receivables		**196,956**	166,821
Cash and cash equivalents		**33,853**	133,846
		318,609	395,615
Current liabilities			
Trade payables	*15*	**47,169**	33,056
Other payables and accruals		**295,359**	261,487
Amount due to a related party		**1,225**	1,225
Tax payable		**12,365**	14,332
Other borrowings		**36,008**	32,770
Lease liabilities		**73,424**	–
Provision		**1,656**	44,238
		467,206	387,108
Net current (liabilities)/assets		**(148,597)**	8,507
Total assets less current liabilities		**914,421**	823,097

	Notes	**2019** **RMB'000**	2018 *RMB'000*
Non-current liabilities			
Accrued rental expenses		**–**	40,113
Other borrowings		**37,577**	69,396
Lease liabilities		**584,493**	–
Deferred tax liabilities		**34,413**	35,417
		656,483	144,926
NET ASSETS		**257,938**	678,171
Capital and reserves			
Share capital	*16*	**598**	598
Reserves		**226,396**	560,444
Equity attributable to owners of the Company		**226,994**	561,042
Non-controlling interests		**30,944**	117,129
TOTAL EQUITY		**257,938**	678,171

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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 RMB425,083,000 for the year ended 31 December 2019 and as at 31 December 2019, the Group had net current liabilities of approximately RMB148,597,000. As at 31 December 2019, the capital commitments for acquisition of property, plant and equipment of the Group was approximately RMB233,911,000. 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 2019. 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 2019 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 2019. 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 consolidated financial statements and consolidated amounts reported for the current year and prior years except as stated below.

IFRS 16 "Leases"

The Group was initially applied IFRS 16 "Leases" with effect from 1 January 2019 and has taken transitional provisions and methods not to restate comparative information for prior period.

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities in relation to leases which had previously been classified as 'operating leases' under IAS 17 "Leases", resulted in changes in the consolidated amounts reported in the consolidated financial statements as follows:

	1 January 2019 *RMB'000*
Increase in right-of-use assets	800,444
Increase in lease liabilities	(739,101)
Decrease in provision for onerous lease	41,337
Decrease in land use right	(116,713)
Decrease in other long-term assets	(6,289)
Decrease in prepayment, deposits and other receivables	(24,380)
Decrease in other payables and accruals	4,589
Decrease in accrued rental expense	40,113

The reconciliation of operating lease commitment to lease liabilities as at 1 January 2019 is set out below:

	1 January 2019 *RMB'000*
Operating lease commitment at 31 December 2018	971,973
Less:	
Discounting at 4.75%	(232,872)
Lease liability as at 1 January 2019	739,101

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 but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial position.

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:

	2019	2018
	RMB'000	*RMB'000*
Specialised hospital services:		
Provision of healthcare services	**711,397**	870,438
Sales of pharmaceuticals and medical devices	**95,434**	111,526
Supply of pharmaceuticals and medical devices business	**19,312**	33,026
Revenue from contracts with customers	**826,143**	1,014,990

For the years ended 31 December 2019 and 2018, 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 2019

	Specialised hospital services *RMB'000*	**Supply of pharmaceuticals and medical devices business** *RMB'000*	**Total** *RMB'000*
External revenue	**806,831**	**19,312**	**826,143**
Inter-segment revenue	**–**	**23,834**	**23,834**
Segment revenue	**806,831**	**43,146**	**849,977**
Eliminations	**–**	**(23,834)**	**(23,834)**
Consolidated revenue	**806,831**	**19,312**	**826,143**
Segment losses	**(364,666)**	**(608)**	**(365,274)**
Unallocated results			**(57,490)**
Loss before income tax			**(422,764)**

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 losses	(697,198)	(6,003)	(703,201)
Unallocated results			(46,152)
Loss before income tax			(749,353)

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

As at 31 December 2019

	Specialised hospital services *RMB'000*	**Supply of pharmaceuticals and medical devices business** *RMB'000*	**Total** *RMB'000*
Segment assets	**936,117**	**54,594**	**990,711**
Goodwill	**22,444**	**–**	**22,444**
Unallocated assets			**368,472**
Consolidated assets			**1,381,627**
Segment liabilities	**1,002,836**	**1,927**	**1,004,763**
Unallocated liabilities			**118,926**
Consolidated liabilities			**1,123,689**

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

Other segment information

For the year ended 31 December 2019

	Specialised hospital services *RMB'000*	**Supply of pharmaceuticals and medical devices business** *RMB'000*	**Unallocated** *RMB'000*	**Total** *RMB'000*
Depreciation and amortisation	**117,966**	**719**	**3,843**	**122,528**
Loss on disposal of property, plant and equipment	**6,075**	**–**	**105**	**6,180**
Additions to non-current assets *(note)*	**109,529**	**–**	**3,085**	**112,614**
Impairment losses on right-of-use assets	**267,266**	**–**	**–**	**267,266**
Impairment losses on property, plant and equipment	**21,381**	**–**	**–**	**21,381**
Impairment losses on other intangible assets	**528**	**–**	**–**	**528**
Fair value gain on contingent consideration receivables	**1,429**	**–**	**–**	**1,429**
Reversal of impairment losses on trade receivables	**(1,315)**	**–**	**–**	**(1,315)**

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
Additions 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

Note:

Non-current assets consist of property, plant and equipment, right-of-use assets (2018: 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

	2019	2018
	RMB'000	*RMB'000*
Interest income from bank deposits	**126**	1,321
Government grants	**361**	1,227
Interest income from loan receivables	**520**	631
Interest income from amount due from an associate	**–**	3,454
Others	**2,981**	1,179
	3,988	7,812

7. OTHER GAINS AND LOSSES, NET

	2019	2018
	RMB'000	*RMB'000*
Foreign exchange (loss)/gain	**(160)**	222
Fair value gain on contingent consideration receivables	**1,429**	10,990
Net gain arising on financial assets at FVTPL	**7,614**	6,222
Net gain arising on bank financial products	**640**	1,734
Loss on disposal of property, plant and equipment	**(6,180)**	(553)
Gain on disposal of subsidiaries *(note 9)*	**66,176**	–
Gain upon cancellation of leases	**128**	–
Others	**455**	(13)
	70,102	18,602

8. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest on lease liabilities	**26,658**	–
Interest on other borrowings	**8,199**	5,220
	34,857	5,220

9. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2019

By the end of May 2019, the Group had entered into disposal agreement with independent third party, in which the Group would dispose 3,680 shares among 4,000 shares, being the entire shares owned by the Group, in issue of Shenzhen HarMoniCare Gynecology and Paediatrics Hospital Co., Ltd (the "**Shenzhen HarMoniCare**") at a total cash consideration of RMB1,000,000 (the "**Shenzhen HarMoniCare Disposal**"). The disposal was completed in May 2019.

Shenzhen HarMoniCare was principally engaged in the provision of obstetrics and gynecology specialty hospital services.

By the end of July 2019, the Group had entered into disposal agreement with independent third party, in which the Group would dispose the entire equity interest of Wuhan Modern Obstetrics and Gynecology Hospital Co., Ltd., Chongqing Wanzhou HarMoniCare Obstetrics and Gynecology Hospital Co., Ltd. ("**Chongqing Wanzhou**") and Chongqing Dushi Liren Hospital Co., Ltd. ("**Chongqing Dushi**"), the wholly-owned subsidiaries of the Group (collectively referred as to the "**Disposal Subsidiaries**"), at cash consideration of RMB1,400,000, RMB400,000 and RMB400,000 respectively. The disposal of Chongqing Wanzhou and Chongqing Dushi were completed in August 2019.

Disposal Subsidiaries were principally engaged in provision of obstetrics and gynecology specialty hospital services.

The assets and liabilities of the Shenzhen HarMoniCare, Chongqing Wanzhou, Chongqing Dushi at the date of the disposal were as follows:

	Shenzhen HarMoniCare *RMB'000*	**Chongqing Wanzhou** *RMB'000*	**Chongqing Dushi** *RMB'000*	**Total** *RMB'000*
Property, plant and equipment	27,584	1,389	5,775	34,748
Right-of-use assets	51,988	1,141	6,575	59,704
Other intangible assets	101	242	364	707
Other non-current assets	15	–	107	122
Rental deposits	2,703	123	–	2,826
Inventories	1,716	367	859	2,942
Trade receivables	790	181	595	1,566
Prepayments, deposits and other receivables	2,028	258	1,884	4,170
Cash and bank balances	556	184	489	1,229
Trade payables	(930)	(939)	(2,443)	(4,312)
Other payables	(34,697)	(1,458)	(5,859)	(42,014)
Tax payables	–	–	(249)	(249)
Lease liabilities	(53,048)	(1,161)	(6,678)	(60,887)
Amount due to fellow subsidiaries	(62,842)	(3,600)	(3,608)	(70,050)

	Shenzhen HarMoniCare *RMB'000*	Chongqing Wanzhou *RMB'000*	Chongqing Dushi *RMB'000*	Total *RMB'000*
Net liabilities disposal of	(64,036)	(3,273)	(2,189)	(69,498)
Non-controlling interests	5,122	–	–	5,122
Gain on disposal of subsidiaries	59,914	3,673	2,589	66,176
Total consideration – satisfied by cash	1,000	400	400	1,800
Net cash inflow/(outflow) arising on disposal:				
Cash consideration received	1,000	400	400	1,800
Cash and cash equivalents disposed of	(556)	(184)	(489)	(1,229)
	444	216	(89)	571

10. INCOME TAX EXPENSE

	2019 ***RMB'000***	2018 *RMB'000*
The PRC Enterprise Income Tax		
Current tax in the PRC	**2,140**	13,013
Deferred tax	**179**	22,845
Income tax expense	**2,319**	35,858

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 (2018: Nil).

Under the EIT Law and Implementation Regulation of the EIT Law in the PRC, the statutory EIT rate in the PRC is 25% (2018: 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 2019 and 2018.

11. LOSS FOR THE YEAR

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

	2019	2018
	RMB'000	*RMB'000*
Cost of inventories recognised as expense	**131,929**	168,699
Auditor's remuneration	**1,950**	2,230
Depreciation of property, plant and equipment	**47,712**	70,605
Depreciation of right-of-use assets	**71,439**	–
Amortisation of other intangible assets	**3,377**	11,758
Amortisation of land use right	**–**	2,443
Total depreciation and amortisation	**122,528**	84,806
(Reversal of)/impairment losses on various assets, net		
Right-of-use assets	**267,266**	–
Property, plant and equipment	**21,381**	107,189
Goodwill	**–**	189,978
Other intangible assets	**528**	135,199
Amounts due from related parties	**17**	1,280
Trade receivables	**(1,315)**	2,015
Loan receivables	**–**	6,500
Prepayments, deposits and other receivables	**2,318**	116,465
	290,195	558,626
Operating lease rentals in respect of rental premises	**–**	139,915
Expenses related to share term leases	**9,196**	–
Directors' emoluments	**3,375**	2,017
Other staff costs		
Salaries, bonus and allowances	**415,746**	409,319
Retirement benefits scheme contributions	**41,840**	42,993
	457,586	452,312

12. DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

13. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately RMB334,048,000 (2018: RMB725,299,000) and the weighted average number of ordinary shares of 720,560,000 (2018: 738,776,000) in issue during the year.

Diluted loss per share

There is no dilution factor for the year ended 31 December 2019 and 2018.

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 2019 and 2018.

14. TRADE RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**54,609**	58,279
Less: allowance for doubtful debts	**(2,665)**	(3,980)
Trade receivables, net	**51,944**	54,299

The Group allows a credit period of approximately 60 days to 180 days (2018: 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 (2018: 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:

	2019	2018
	RMB'000	*RMB'000*
Within 90 days	**14,963**	21,095
91 to 180 days	**1,177**	3,218
181 days to 1 year	**3,834**	11,445
Over 1 year	**31,970**	18,541
	51,944	54,299

Reconciliation of loss allowance for trade receivables:

	2019	2018
	RMB'000	*RMB'000*
At the beginning of year	**3,980**	1,965
(Decrease)/Increase in loss allowance for the year	**(1,315)**	2,015
At the end of year	**2,665**	3,980

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 2019					
Weighted average expected loss rate	**0%**	**0%**	**0%**	**7.7%**	
Receivable amount *(RMB'000)*	**14,963**	**1,177**	**3,834**	**34,635**	**54,609**
Loss allowance *(RMB'000)*	**–**	**–**	**–**	**2,665**	**2,665**

	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

15. TRADE PAYABLES

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

	2019 *RMB'000*	2018 *RMB'000*
Within 90 days	**13,091**	19,413
91 to 180 days	**2,708**	2,674
181 days to 1 year	**12,164**	8,301
Over 1 year	**19,206**	2,668
	47,169	33,056

16. SHARE CAPITAL

The Company and the Group

	Number of shares	**Nominal value per share** *HK$*	**Share capital** *HK$*
Authorised			
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	1,140,000,000	0.001	1,140,000
Issued and fully paid			
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	758,418,085	0.001	758,418

	2019	2018
	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 2019 and 2018, 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**		**Aggregate consideration paid**
		Highest	**Lowest**	
		HK$	*HK$*	*HK$'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, 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.

RESULTS

For the year ended 31 December 2019, the Group recorded a revenue of approximately RMB826,143,000 (2018: approximately RMB1,014,990,000), representing an decrease of about 18.6% compared to that of 2018. The revenue from the provision of specialised hospital services accounted for 97.7% of the total revenue of the Group, which basically maintained at a stable level as compared with 96.7% for the year ended 31 December 2018. The Group's loss attributable to owners of the Company was approximately RMB334,048,000 in 2019 as compared to the loss attributable to owners of the Company of RMB725,299,000 in 2018. Gross profit margin was approximately 29.3% as compared to 38.8% in last year.

BUSINESS OVERVIEW AND OUTLOOK

Business Overview for 2019

In 2019, affected by the slowdown in economic growth and weakening economic efficiency, the disposable income of residents showed a downward trend. As economic pressure continues to increase and the concept of fertility changes, childbirth preferences of population of the right age continue to weaken. According to data released by the National Bureau of Statistics, the number of newborns in 2019 reached a new low at 14,650,000. In addition, as the number of public and private medical institutions has increased year by year, the pressure of competition in the obstetrics and gynecology industry has further increased.

By the end of 2019, the Group established a total of 13 mid to high-end ob-gyn and pediatrics specialty hospitals with 768 beds in 8 tier-1 and tier-2 cities in China, among which the construction of Wuxi HarMoniCare Hospital and Zhengzhou HarMoniCare Hospital has been completed and these two hospitals are currently under acceptance and pending operation. In addition, the Group's Xiamen HarMoniCare Hospital is still under construction.

In 2019, the Group focused on asset optimization, hospital upgrades and cost management. In the year, the number of outpatient services provided by the Group's hospitals in operation was 556,740, representing a year-on-year decrease of 16.6% over 2018. The number of inpatient hospital services provided was 18,296, representing a year-on-year decrease of 28.7% over last year. Average charge per diagnosis and treatment was RMB1,366.5, representing a year-on-year decrease of 3% over last year. The number of newborns was 7,482, representing a year-on-year decrease of 31.1% over 2018. The Group recorded revenue of RMB826 million, representing a year-on-year decrease of 18.6% over last year; and net loss of RMB425 million, representing a decrease in loss of 46% over the year ended 31 December 2018.

The decline in operating results and revenue of the Group in 2019 was mainly due to the following: (i) the decrease in the number of hospitals as the Group disposed of Shenzhen HarMoniCare Gynecology and Paediatrics Hospital, ChongQing Dushi Liren Hospital and Chongqing Wanzhou Hospital in 2019; (ii) Guangzhou Woman Hospital, Fuzhou Modern Hospital and Nantong Hemeijia Hospital, the key hospitals under the Group, were required to be demolished and relocated by the government. The impatient departments of two hospitals in Guangzhou and Fuzhou were no longer able to accept new patients. Nantong Hemeijia Hospital moved to the transitional operation site, and the inpatient department was closed from April 2019 due to area restrictions; and (iii) the Group planned to sell Wuhan Modern Hospital, which have a certain impact on hospital operations and staff stability.

Wuxi HarMoniCare Hospital co-established by the Group in 2019 with a gross floor area of approximately 11,500 square meters operated 50 registered beds, and the self-built Zhengzhou HarMoniCare Hospital with a gross floor area of approximately 14,800 square meters operated 150 registered beds. The preparation of these two new hospitals has been completed and the opening has been delayed due to funding issue. The above-ground of the main building of the new Nantong Hemeijia Hospital had topped out and it is expected to start trial operation in 2021. The hospital has a planned gross floor area of approximately 80,000 square meters and 400 beds. It is planned to be built as a tertiary hospital of obstetrics and gynecology with standards of Joint Commission International ("**JCI**") as the standards of preparation for construction.

Industry Outlook

In recent years, the comprehensive second-child and maternity protection policies implemented by China have failed to effectively promote the growth of the number of newborns. Affected by changes in fertility concepts and increased living costs, the national birth rate decline in the future may continue. However, as customers' demand for treatment experience continues to escalate, the Group remains optimistic about the mid to high-end medical service market. Although the spread of COVID-19 will have a certain impact on the Group's performance in the first half of 2020, the Group will continue to embrace challenges with a positive attitude and continuously improve the medical quality and service of the subordinate hospitals, to consolidate brand reputation and differentiated advantages and enhance the Group's market competitiveness.

The Group's Strategy

In 2020, the Group will ensure the stable and sustainable development of the existing hospitals, upgrade the existing hospitals' environments and services, and improve the management level; at the same time, the Group will strengthen the post-investment management of the invested projects in order to create income for the Group as soon as possible. Our strategies include:

- Strengthening medical quality and medical safety, strictly following JCI medical standards and strengthening medical staff's awareness of risk control, to reduce medical risks and ensure customer safety and brand reputation;

- Strengthening operation control and building an operation control system integrating budget, cost management and performance management to discover problems in time, optimize management and achieve reasonable performance;

- Converting marketing strategies by focusing on the operation and promotion in word-of-mouth websites, on new media and video marketing, and the shaping of built-in traffic resources such as word-of-mouth, doctors, and technology to further reduce marketing costs;

- Strengthening the improvement of labor efficiency and optimizing the performance system by optimizing the construction of doctor echelon and streamlining non-medical department personnel, so as to reduce labor costs;

- Strengthening the regional resource sharing of hospitals in Beijing, Guiyang, Chongqing and other regions to create greater benefits by maximizing the use of resources;

- Strengthening the business guidance and team training of new hospitals, duplicating the successful experience of existing hospitals in strict accordance with JCI standards, to safeguard HarMoniCare brand and accelerate the pace of profitability;

- Optimizing the asset structure, and properly dealing with non-performing assets through comprehensive evaluation of the external market environment, hospital environment, hardware facilities, hospital reputation, business structure, medical quality, and operation and management conditions to concentrate limited resources on core hospitals;

- Further strengthening the upstream and downstream industrial chains, enriching and strengthening hospitals' auxiliary reproductive, pediatric, maternity care center, postpartum rehabilitation and medical aesthetics services, to provide all-round peace of mind services for women and children.

EMOLUMENT POLICY

As at 31 December 2019, the Group had 3,086 employees (2018: 3,983 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 CAPITAL RESOURCES

As at 31 December 2019, the total cash and bank balances of the Group were approximately RMB33,853,000 (2018: approximately RMB133,846,000). The cash and bank balances consisted majority in Renminbi.

As at 31 December 2019, the Group had total assets of approximately RMB1,381,627,000 (2018: approximately RMB1,210,205,000) and total liabilities of approximately RMB1,123,689,000 (2018: approximately RMB532,034,000). As at 31 December 2019, the current ratio was 0.68 (2018: 1.02), calculated on the basis of current assets of approximately RMB318,609,000 (2018: approximately RMB395,615,000) over current liabilities of approximately RMB467,206,000 (2018: approximately RMB387,108,000).

The Group's borrowings amounted to approximately RMB73,585,000 (2018: approximately RMB102,166,000). 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 5.33% (2018: 8.44%).

CHARGE ON ASSETS

As at 31 December 2019, the Group with a total net book value of approximately RMB14,950,000 were charged as collateral for the Group's borrowings (31 December 2018: approximately RMB20,610,000).

EVENTS AFTER THE REPORTING PERIOD

(a) Resumption Guidance

The Company announced that there would be a delay in the release of the 2018 and 2019 Annual Results and despatch of its 2018 and 2019 Annual Reports. 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 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.

(b) Others

Reference are made to announcements of the Company dated 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 2019 and 2018.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2019, none of the Directors, 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 2019 (2018: 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 2019. 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 2019, 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.

Code provision A.4.2 of the CG Code states that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. As no annual general meeting of the Company was held since the last annual general meeting held on 12 June 2018, Mr. Lin Yuming, Mr. Xu Jun, Mr. Qiu Jianwei and Ms. Fang Lan, who have held their offices as directors for more than three years, will be subject to retirement by rotation at the forthcoming annual general meeting.

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 2019.

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 2019, 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 2019.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The followings is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2019:

"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 13 to the consolidated financial statements, the disposal of Shenzhen HarMoniCare Gynecology and Paediatrics Hospital Co., Ltd, a subsidiary of the Company (the "**Shenzhen HariMoniCare Hospital**") have been completed on 30 May 2019 ("**Disposal Date**"). 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 2019 and 2018, 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 2019 and 2018, the assets and liabilities as at Disposal Date and 31 December 2018 and the gain on disposal of a subsidiary of approximately RMB59,914,000, as included in the consolidated financial statements of the Group, have been accurately recorded and properly accounted for in the consolidated financial statements:

	2019	2018
	RMB'000	*RMB'000*
Income and expenses		
Revenue	**23,620**	75,893
Cost of sales and services	**(20,666)**	(57,522)
Gross profit	**2,954**	18,371
Other income	**134**	335
Other gains and losses, net	**(173)**	(37)
Selling and distribution expenses	**(6,701)**	(38,205)
Administrative and other operating expenses	**(8,166)**	(12,004)
Impairment on various assets	**–**	(42)
Loss for the year	**(11,952)**	(31,582)

	2018
	RMB'000
Assets and liabilities	
Property, plant and equipment	31,477
Other intangible assets	117
Rental deposits	2,712
Other long-term assets	1,340
Inventories	2,553
Trade receivables	1,015
Prepayment, deposits and other receivables	2,375
Cash and cash equivalents	437
Trade payables	(511)
Other payables and accruals	(22,030)
Accrued rental expenses	(12,674)
Net assets	6,811

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

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether share of loss of an associate of approximately RMB1,991,000 for the year ended 31 December 2018 are properly stated.

Also, we were unable to satisfy ourselves as to whether the income and expenses for the year ended 31 December 2019 and from acquisition date to 31 December 2018 and the following assets and liabilities as at 31 December 2019 and 2018, as included in the consolidated financial statements of the Group, have been accurately recorded and properly accounted for in the consolidated financial statements:

	2019	2018
	RMB'000	*RMB'000*
Income and expenses		
Revenue	**28,216**	5,757
Cost of sales and services	**(27,799)**	(8,072)
Gross profit/(loss)	**417**	(2,315)
Other income	**72**	1
Selling and distribution expenses	**(3,900)**	(1,626)
Administrative and other operating expenses	**(13,907)**	(10,166)
Finance costs	**(10,953)**	(4,484)
Loss for the year	**(28,271)**	(18,590)

	2019	2018
	RMB'000	*RMB'000*
Assets and liabilities		
Property, plant and equipment	**77,868**	80,423
Goodwill	**18,425**	18,425
Other non-current assets	**5,000**	5,000
Inventories	**280**	406
Trade receivables	**58**	34
Prepayments, deposits and other receivables	**41,878**	49,471
Cash and bank balances	**3,676**	3,546
Trade payables	**(7,837)**	(7,883)
Other payables	**(32,116)**	(15,658)
Other loans	**(23,589)**	(23,700)
Net assets	**83,643**	110,064

3. Property, plant and equipment and right-of-use assets/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 right-of-use assets of approximately RMB260,860,000 and RMB310,242,000 respectively as at 31 December 2019 and of the property, plant and equipment and land use right of approximately RMB257,283,000 and RMB116,713,000 respectively as at 31 December 2018 are fairly stated; (ii) whether provision for impairment losses on the property, plant and equipment and right-of-use assets of approximately RMB21,381,000 and RMB267,266,000 respectively for the year ended 31 December 2019 and on the property, plant and equipment and land use right of RMB107,189,000 and RMBnil respectively for the year ended 31 December 2018 are properly stated; (iii) whether the depreciation of property, plant and equipment and right-of-use assets of approximately RMB38,864,000 and RMB71,439,000 respectively for the year ended 31 December 2019 and 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 (iv) the accuracy of the disclosures in relation to the property, plant and equipment and right-of-use assets.

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 the (i) carrying amount of the goodwill of approximately RMB4,019,000 as at 31 December 2019 and 2018 and other intangible assets of approximately RMB52,507,000 and RMB56,419,000 respectively as at 31 December 2019 and 2018 are fairly stated; (ii) whether provision for impairment losses on goodwill of RMBnil and approximately RMB68,962,000 respectively for the year ended 31 December 2019 and 2018 and on other intangible assets of RMBnil and RMB135,199,000 respectively for the year ended 31 December 2019 and 2018 are properly stated; (iii) whether the amortisation of other intangible assets of approximately RMB3,377,000 and RMB1,864,000 respectively for the year ended 31 December 2019 and 2018 are properly stated; and (iv) 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 RMB185,766,000 and RMB165,845,000 respectively as at 31 December 2019 and 2018 and contingent consideration receivables of approximately RMB12,419,000 and RMB10,990,000 respectively as at 31 December 2019 and 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 2019 and 2018; (ii) fair value change of financial assets at fair value through profit or loss of approximately RMB7,614,000 and RMB6,222,000 respectively during the year ended 31 December 2019 and 2018 and of contingent consideration receivables of approximately RMB1,429,000 and RMB10,990,000 respectively for the year ended 31 December 2019 and 2018; 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 RMB31,969,000 and RMB31,723,000 respectively as at 31 December 2019 and 2018 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 2019 and 2018 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 RMB124,976,000 and RMB47,818,000 respectively and other long-term assets of approximately RMB4,600,000 as at 31 December 2019 and 2018 are fairly stated; and (ii) whether provision for impairment losses on prepayment, deposits and other receivables of approximately RMB2,318,000 and RMB116,465,000 respectively for the year ended 31 December 2019 and 2018 and loan receivables of approximately RMB6,500,000 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 RMB34,413,000 and RMB35,417,000 as at 31 December 2019 and 2018 are fairly stated; and (ii) whether the income tax credit of approximately RMB1,004,000 and RMB28,837,000 respectively for the year ended 31 December 2019 and 2018 in relation to deferred tax liabilities 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 RMB679,156,000 as at 31 December 2018 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 2019 and 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 RMB425,083,000 for the year ended 31 December 2019 and as at 31 December 2019 the Group had net current liabilities of approximately RMB148,597,000. Also, as at 31 December 2019, the capital commitments for acquisition of property, plant and equipment of the Group was approximately RMB233,911,000.

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 2019 and 2018 and the consolidated financial position of the Group as at 31 December 2019 and 2018, 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 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 commencing from 30 May 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 have carried forward effect as of 31 December 2021 and any profit or loss period commencing from 31 December 2021.

4. Goodwill and other intangible assets

The amount qualified by the auditors were mainly consisted of RMB4 million goodwill and RMB42 million other intangible assets related to Nantong Hemeijia Obstetrics and Gynecology Hospital Co., Ltd. ("**Nantong Hemeijia**") and RMB7.1 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 audited 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 as at 31 December 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 and 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 and 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 RMB83 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 portion of qualification related to Nantong Heimejia trade receivables shall not carry forward to Company's consolidation financial position as at 31 December 2021 and profit and 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 and 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 Company, 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 and 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 2021.

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;

(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 Zhoughui 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 2019 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 of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2019. Trading in the shares of the Company 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.