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RICI HEALTHCARE HOLDINGS LIMITED
瑞慈醫療服務控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1526)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018

FINANCIAL HIGHLIGHTS

- Revenue for the year ended December 31, 2018 amounted to approximately RMB1,373.9 million, representing an increase of 27.2% from approximately RMB1,080.1 million in 2017.

- Gross profit for the year ended December 31, 2018 amounted to approximately RMB386.2 million, as compared to gross profit of the Company of approximately RMB401.2 million in 2017.

- Loss attributable to owners of the Company for the year ended December 31, 2018 amounted to approximately RMB53.8 million, as compared to loss attributable to owners of the Company of approximately RMB62.2 million in 2017.

- Adjusted EBITDA for the year ended December 31, 2018 was approximately RMB170.7 million, representing an increase of 11.1% from approximately RMB153.7 million in 2017.

In this announcement, “we”, “us”, “our” and “Rici” refer to the Company (as defined below) and where the context otherwise requires, the Group (as defined below).

The board (the “**Board**”) of directors (the “**Directors**”) of Rici Healthcare Holdings Limited (the “**Company**”) is pleased to announce that the consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended December 31, 2018 with the comparative figures for the year ended December 31, 2017 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the Year ended December 31, 2018

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Revenue	12	**1,373,936**	1,080,149
Cost of sales	13	**(987,733)**	(678,995)
Gross profit		**386,203**	401,154
Distribution costs and selling expenses	13	**(225,014)**	(175,324)
Administrative expenses	13	**(328,917)**	(292,818)
Net impairment losses on financial assets	13	**(8,976)**	—
Other income	14	**14,566**	11,784
Other losses	15	**(2,429)**	(2,468)
Operating loss		**(164,567)**	(57,672)
Finance costs	16	**(42,000)**	(58,875)
Finance income	16	**30,923**	7,426
Finance costs — net	16	**(11,077)**	(51,449)
Share of results		**(103)**	207
Loss before income tax		**(175,747)**	(108,914)
Income tax credit	17	**39,470**	6,234
Loss for the year		**(136,277)**	(102,680)
Loss attributable to:			
Owners of the Company		**(53,836)**	(62,166)
Non-controlling interests		**(82,441)**	(40,514)
Loss for the year		**(136,277)**	(102,680)
Losses per share for loss attributable to owners of the Company			
— Basic	18	**RMB(0.03)**	RMB(0.04)
— Diluted	18	**RMB(0.04)**	RMB(0.04)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year ended December 31, 2018

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Loss for the year	**(136,277)**	(102,680)
Other comprehensive income	**—**	—
Total comprehensive loss for the year	**(136,277)**	(102,680)
Attributable to:		
Owners of the Company	**(53,836)**	(62,166)
Non-controlling interests	**(82,441)**	(40,514)
Total comprehensive loss for the year	**(136,277)**	(102,680)

CONSOLIDATED BALANCE SHEET

As at December 31, 2018

	Note	As at December 31, **2018** *RMB'000*	2017 *RMB'000*
ASSETS			
Non-current assets			
Property and equipment		**1,048,912**	778,333
Land use rights		**3,298**	3,398
Intangible assets		**15,405**	17,528
Investments accounted for using equity method		**6,926**	5,166
Financial asset at fair value through profit or loss		**3,000**	—
Deposits for long-term leases		**33,318**	27,110
Deferred income tax assets	4	**142,880**	81,988
Prepayments		**19,041**	62,734
		1,272,780	976,257
Current assets			
Inventories		**31,317**	23,978
Trade receivables	5	**268,727**	195,462
Other receivables		**26,812**	26,625
Prepayments		**32,723**	27,225
Amounts due from related parties		**1,150**	1,627
Cash and cash equivalents	6	**495,407**	596,544
Restricted cash	6	**233,760**	215,629
		1,089,896	1,087,090
Total assets		**2,362,676**	**2,063,347**
Equity attributable to owners of the Company			
Share capital	7	**1,066**	1,066
Reserves		**693,435**	901,181
		694,501	902,247
Non-controlling interests		**12,561**	27,807
Total equity		**707,062**	930,054

	Note	As at December 31, 2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	8	**128,227**	15,667
Other financial liabilities	9	**103,649**	—
Other long-term liabilities		**99,530**	75,280
		331,406	90,947
Current liabilities			
Borrowings	8	**610,010**	579,000
Contract liabilities	10	**227,371**	—
Trade and other payables	11	**463,383**	377,146
Amounts due to related parties		**3,530**	898
Income tax payables		**10,513**	8,864
Deferred income		**5,605**	74,345
Current portion of other long-term liabilities		**3,796**	2,093
		1,324,208	1,042,346
Total liabilities		**1,655,614**	**1,133,293**
Total equity and liabilities		**2,362,676**	**2,063,347**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands on July 11, 2014. The address of the Company's registered office is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1—1002, Cayman Islands.

The Company, an investment holding company and its subsidiaries are principally engaged in the provision of general hospital services, specialty hospital services and medical examination services in the People's Republic of China ("**PRC**").

The Company has its primary listing (the "**Listing**") on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

These consolidated financial statements are presented in thousands of Renminbi ("**RMB'000**"), unless otherwise stated.

The annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended December 31, 2018, but are extracted from those financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, except certain financial assets and liabilities measured at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

(a) Going concern

As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately RMB234,312,000. The directors considered that the contract liabilities and the deferred income included in current liabilities of the Group as at 31 December 2018 amounting to RMB232,976,000 will not require cash outflow from the Group. The Group meets its day-to-day working capital requirements, depending on cash flow generated from operating activities, bank borrowings, credit facility with banks in PRC, and additional capital contributions from non-controlling interests. Based on the Group's past experience and good credit standing, the directors are confident on future operating cash flows and that these bank financing could be renewed and/or extended for at least another twelve months upon renewal. The Group's non-controlling interests have committed to fulfill capital contributions to the Group. The directors therefore are of the opinion that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

(b) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018.

- HKFRS 9 Financial Instruments
- HKFRS 15 Revenue from Contracts with Customers
- Classification and Measurement of Share-based Payment Transactions — Amendments to HKFRS 2
- Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts — Amendments to HKFRS 4
- Annual improvements 2014—2016 cycle
- Transfers of Investment property — Amendments to HKAS 40, and
- HKFRIC 22 Foreign Currency Transactions and Advance Consideration.

The Group had to change its accounting policies and make retrospective adjustments if necessary, following the adoption of HKFRS 9 and HKFRS 15. The effects of the adoption of HKFRS 9 and HKFRS 15 are disclosed in Note 2.1. The other standards, amendments and interpretations listed above are either currently not relevant to the Group or had no material impact on the Group's consolidated financial statements both for prior years and current year.

(c) New standards and interpretations but not yet adopted by the Group

Certain new accounting standards, amendments and interpretations to existing standards have been published that are not mandatory for the financial year beginning January 1, 2018 and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
HKFRS 16	Leases	January 1, 2019
HK (IFRIC) 23	Uncertainty over income tax treatments	January 1, 2019
Amendment to HKFRS 9	Prepayment features with negative compensation	January 1, 2019
HKFRS 17	Insurance contracts	January 1, 2021
Amendments to HKAS 28	Long-term interests in associates and joint ventures	January 1, 2019
Amendments to HKAS 19	Plan amendment, curtailment or settlement	January 1, 2019
Amendments improvement to HKFRSs	Annual improvements to HKFRS standards 2015–2017 cycle	January 1, 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group's assessment of the impact of these new standards and interpretations is set out below:

(i) HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB2,270,696,000.

For the remaining lease commitments the Group expects to recognize right-of-use assets of approximately RMB1,822,057,000 on January 1, 2019, lease liabilities of RMB1,799,542,000 (after adjustments for prepayments and accrued lease payments recognized as at December 31, 2018). Overall net assets will be approximately RMB103,326,000 higher, and net current assets will be RMB161,303,000 lower due to the presentation of a portion of the liability as a current liability.

The Group expects that net profit after tax will decrease by approximately RMB33,248,000 for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately RMB165,099,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows used in financing activities.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.1 Changes in accounting policy

Below explains the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" on the Group's financial statements.

As explained in 2.1(i), in accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at December 31, 2017 but in the opening balance sheet as at January 1, 2018.

As explained in 2.1(ii), the Group has elected to use the modified retrospective approach in HKFRS 15 which would recognize the cumulative effect of initial application as an adjustment to the opening balance sheet of retained earnings at January 1, 2018.

The following table shows the adjustments recognized for each individual line. Line items that were not affected by the changes have not been included. The adjustments are explained in more details by standards below.

Consolidated balance sheet (extract)	**As at December 31, 2017 as originally presented**	**HKFRS 9**	**HKFRS 15**	**As at January 1, 2018 restated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	195,462	(654)	—	194,808
Deferred income tax assets	81,988	163	—	82,151
Contract liabilities	—	—	143,358	143,358
Deferred income	74,345	—	(68,711)	5,634
Trade and other payable	377,146	—	(74,647)	302,499
Accumulated losses	(63,026)	(491)	—	(63,517)

(i) HKFRS 9 Financial instruments

Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from January 1, 2018 resulted in changes in accounting policies and adjustments to the amount recognized in the financial statements.

In accordance with transactional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

The total impact on the Group's accumulated losses as at January 1, 2018 is as follows:

	RMB'000
Closed accumulated losses at December 31, 2017 — HKAS 39	(63,026)
Adjustment to accumulated losses from adoption of HKFRS 9 on January 1, 2018	(491)
Opening accumulated losses at January 1, 2018 — HKFRS 9	(63,517)

Classification and measurement

On January 1, 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 measurement categories. The majority of the Group's financial assets currently measured at amortized cost would meet the conditions for classification at amortized cost under HKFRS 9. There is no significant impact resulting from this change of classification and measurement.

There is no impact on the Group's measurement or classification for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 "Financial Instruments: Recognition and Measurement" and have not been changed.

Impairment of financial assets

The Group's major financial assets that are subject to HKFRS 9's new expected credit loss model includes trade receivables, other receivables, amounts due from related parties, deposits for long term leases and cash and bank balances.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. While cash and bank balances, other receivables, deposits for long term leases and amounts due from related parties are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

For other receivables and amounts due from related parties, the Group applies the general expected credit loss model for expected credit loss prescribed by HKFRS 9, since credit risk has not significantly increased after initial recognition, the loss allowance recognized was therefore limited to 12 months expected losses.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the invoice date.

(ii) HKFRS 15 Revenue from contract with customers

Impact of adoption

HKFRS 15 replaces the provisions of HKAS 18 "Revenue" ("**HKAS 18**") and HKAS 11"Construction Contracts" ("**HKAS 11**") that relate to the recognition, classification and measurement of revenue and costs. The Group has adopted HKFRS 15 since January 1, 2018 and has elected to use the modified retrospective approach, which would recognize the cumulative effect of initial application as an adjustment to the opening balance of retained earnings at January 1, 2018.

The Group's major revenue from the medical examination, outpatient and inpatient hospital services to customers, and sales of pharmaceuticals are within the scope of the standard. The adoption of HKFRS 15 in the current year does not result in any material impact on the Group's financial position and result of operations and no adjustments have been made to the opening balance of retained earnings as at January 1, 2018.

Presentation of assets and liabilities related to contracts with customers.

Contract liabilities amounted to RMB143,358,000 in relation to medical examination contracts and sales of medical examination cards were previously as advances from customers included in trade and other payables and deferred income respectively and were reclassified to contract liabilities under HKFRS 15 as at January 1, 2018.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimated useful lives and residual values of property and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for the Group's property and equipment. This estimate is based on the historical experience of the actual useful lives of property and equipment of similar nature and functions. Management will revise the depreciation charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in future periods.

(b) Current and deferred income tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters are different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(c) Impairment of trade receivables

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(d) Provision for medical dispute

The Group may be subject to legal proceedings and claims that arise in the ordinary course of business, which primarily include medical dispute claims brought by the patients. Provision for medical dispute claims is made based on the status of potential and active claims outstanding at the end of each reporting period, and take into consideration the assessment and analysis of external lawyer and the total claim exposure. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

Based on the assessment, the management believes that no material claims exposure or outstanding litigation on the medical dispute claim existed at the end of each reporting period and accordingly no additional provision was made. The situation is closely monitored by the management and provision will be made as appropriate. Where the actual claims are greater than expected, a material dispute claim expense may arise, which would be recognized in profit and loss for the period in which such a claim takes place.

(e) Impairment of property and equipment

The Group assesses and analyzes whether property and equipment would impair on each balance sheet date. When the carrying value of an asset or a group of assets exceeds the recoverable amount (the higher of the net amount of fair value less cost of disposal and the present value of estimated future cash flow), it indicates that an impairment has occurred. The net amount of fair value less cost of disposal is determined by reference to the agreed sales price or the observable market price of similar assets in arm's length transactions, less incremental costs that are directly attributable to the disposal of the asset. During the estimation of the present value of future cash flow, the management needs to estimate the future cash flow of the asset or group of assets, and select an appropriate discount rate to determine the present value of the future cash flow.

No impairment charge is provided in current year.

4 DEFERRED INCOME TAX ASSETS

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Deferred income tax assets:		
— to be recovered within 12 months	**18,017**	12,372
— to be recovered after more than 12 months	**124,863**	69,616
	142,880	81,988

The gross movement on the deferred income tax account is as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year, as originally presented	**81,988**	47,077
Adoption of HKFRS 9	**163**	—
Restated opening balance at beginning of the year	**82,151**	47,077
Credited to the consolidated statement of profit or loss	**60,729**	34,911
At ending of the year	**142,880**	81,988

Movement in deferred income tax assets for both years ended December 31, 2018 and 2017, without taking into consideration the offsetting of balance within the same tax jurisdiction, are as follows:

Deferred income tax assets	**Tax losses carried forward**	**Assets impairment**	**Accruals and deferred income**	**Share option scheme**	**Other long-term and financial liabilities**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At January 1, 2017	29,060	3,790	4,167	760	9,300	47,077
Credited/(charged) to the consolidated statement of profit or loss	25,682	(1,409)	728	2,976	6,934	34,911
At December 31, 2017	54,742	2,381	4,895	3,736	16,234	81,988
Adoption of HKFRS 9	—	163	—	—	—	163
Restated at January 1, 2018	**54,742**	**2,544**	**4,895**	**3,736**	**16,234**	**82,151**
Credited/(charged) to the consolidated statement of profit or loss	**51,492**	**1,831**	**(546)**	**6,367**	**1,585**	**60,729**
At December 31, 2018	**106,234**	**4,375**	**4,349**	**10,103**	**17,819**	**142,880**

5 TRADE RECEIVABLES

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**289,418**	207,311
Less: loss allowance	**(20,691)**	(11,849)
	268,727	195,462

As at December 31, 2018 and 2017, the fair value of trade receivables of the Group approximated their carrying amounts, due to the short term nature.

The aging analysis of trade receivables are as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables		
— Up to 6 months	**221,278**	176,913
— 6 months to 1 year	**41,290**	20,890
— 1 to 2 years	**22,258**	6,203
— 2 to 3 years	**2,460**	2,288
— Over 3 years	**2,132**	1,017
	289,418	207,311

Movements of loss allowance of trade receivables are as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year, as the original presented	**11,849**	8,884
Adoption of HKFRS 9	**654**	—
Restated opening balance at beginning of the year	**12,503**	8,884
Increase in loss allowance	**8,859**	4,018
Receivables written off as uncollectible	**(671)**	(1,053)
At the end of the year	**20,691**	11,849

The carrying amounts of the Group's trade receivables are all denominated in RMB.

6 CASH AND BANK BALANCE

(a) Cash and cash equivalents

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Cash at bank and on hand		
— Denominated in RMB	**311,918**	388,831
— Denominated in USD	**164,534**	188,237
— Denominated in HKD	**1,214**	19,476
— Denominated in EUR	**17,107**	—
— Denominated in JPY	**634**	—
	495,407	596,544

(b) Restricted Cash

As at December 31, 2018, fixed deposits of USD34,059,970 (December 31, 2017: USD33,000,000) are pledged at bank for borrowings of RMB200,000,000 (Note 8).

7 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of ordinary shares	**Share capital**
		RMB'000
As at January 1, 2018 and December 31, 2018	1,592,079,000	1,066

8 BORROWINGS

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Non-current:		
Bank borrowings — secured and/or guaranteed (i)	**123,307**	19,667
Finance leases (iii)	**16,380**	—
Less: current portion of non-current borrowings	**(11,460)**	(4,000)
	128,227	15,667

	As at December 31, 2018	As at December 31, 2017
	RMB'000	*RMB'000*
Current:		
Bank borrowings — secured and/or guaranteed (ii)	**598,550**	575,000
Add: current portion of non-current borrowings	**11,460**	4,000
	610,010	579,000
Total borrowings	**738,237**	594,667

The Group's borrowing were repayable as follows:

	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
December 31, 2018					
Bank borrowings	602,550	4,000	82,187	33,120	721,857
Finance leases	7,460	7,800	1,120	—	16,380
	610,010	11,800	83,307	33,120	738,237
December 31, 2017					
Bank borrowings	579,000	4,000	11,667	—	594,667

(i) As at December 31, 2018, non-current borrowings include:

(a) RMB15,667,000 borrowings secured by buildings with net book value of RMB38,242,000;

(b) RMB107,640,000 borrowings secured by revenue collection rights of Changzhou Rich Hospital, and guaranteed by related parties, Dr. Fang Yixin and Dr. Mei Hong.

(ii) As at December 31, 2018, short term borrowings include:

(a) RMB95,000,000 borrowings secured by buildings with net book value of RMB39,655,000;

(b) RMB200,000,000 borrowings secured by USD34,059,970 fixed deposit (Note 6(b));

All the short-term and long-term borrowings are guaranteed by the Company's subsidiaries for each other.

(iii) The Group leases various equipment with a carrying amount of RMB22,787,000 (2017:Nil) under finance leases expiring within three years. Under the terms of the leases, the Group has the option to acquire the leased assets at a nominal amount on expiry of the leases.

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Commitments in relation to finance leases are payable as follows:		
Within one year	**8,259**	—
Later than one year but not later than five years	**10,009**	—
Minimum lease payments	**18,268**	—
Future finance charges	**(1,888)**	—
Recognized as a liability	**16,380**	—
The present value of finance lease liabilities is as follows:		
Within one year	**7,460**	
Later than one year but not later than five years	**8,920**	—
Minimum lease payments	**16,380**	—

Lease liabilities are effectively secured as the rights to the leased assets recognized in the financial statements revert to the lessor in the event of default.

(a) The borrowings are all denominated in RMB and their fair value approximates their carrying amount.

(b) The weighted average effective interest rates for bank borrowings as at December 31, 2018 and 2017 were as follows:

	As at December 31,	
	2018	2017
Bank borrowings	**5.08%**	4.47%

(c) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity whichever is the earlier date is as follows:

	6 months or less	**6–12 months**	**1–5 years**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Borrowings:				
As at December 31, 2017	594,667	—	—	594,667
As at December 31, 2018	674,007	47,850	—	721,857

9 OTHER FINANCIAL LIABILITIES

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Redemption liability to non-controlling interests		
— Principal	**100,000**	—
— Interest	**3,649**	—
	103,649	—

On August 31, 2018, the Group signed an investment agreement ("**Investment Agreement**") with Everbright (Haimen) Senior Healthcare Investment Fund (Limited Partnership) ("**Everbright (Haimen)**"), pursuant to which Everbright (Haimen) would contribute RMB100,000,000 in cash to Nantong Rich Hospital Co., Ltd. (南通瑞慈醫院有限公司) ("**Nantong Rich Hospital**"), a wholly owned subsidiary of the Group. Everbright (Haimen) was also granted a put option which will expire on December 31, 2023. Upon completion of such investment, Everbright (Haimen) would have 4.41% equity interest of Nantong Rich Hospital.

The option enables Everbright (Haimen) to request the Group to repurchase all of the Everbright (Haimen)'s equity interest in Nantong Rich Hospital if Nantong Rich Hospital fails to achieve a net profit of no less than RMB100.0 million for the year ending December 31, 2022 or occurrence of any material adverse event as specified in the Investment Agreement, including but not limited to those would have material adverse effect to the ownership, assets and operations of Nantong Rich Hospital. The repurchase price is at aggregation of the amount equivalent to the capital contribution made by Everbright (Haimen) in the Nantong Rich Hospital and accumulated annual returns calculated on an annual compound investment return rate of 12% less the cumulative dividend paid to Everbright (Haimen) up to repurchase.

The execution of option right is secured by 22.06% equity interest of Nantong Rich Hospital held by the Group. Dr. Fang Yixin and Dr. Mei Hong undertook to jointly and severally responsible for the repurchase.

The above arrangement represents an obligation for the Group to purchase its own equity instruments for cash or another financial asset, that is recognized as a financial liability at present value of the redemption amount.

10 CONTRACT LIABILITIES

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Advances from customers	**114,904**	—
Sales of medical examination cards (a)	**112,467**	—
	227,371	—

(a) It represents the sales of medical examination cards, which will be recognized in profit or loss when medical examination services are rendered to the customers.

11 TRADE AND OTHER PAYABLES

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
Trade payables due to third parties	**136,522**	102,825
Staff salaries and welfare payables	**97,393**	62,939
Payables for purchase of property and equipment	**121,597**	91,925
Consideration payable to non-controlling interests for equity transfer (a)	**33,103**	—
Loan from non-controlling interests of subsidiaries (b)	**17,185**	10,500
Accrued taxes other than income tax	**3,977**	831
Accrued professional service fees	**2,570**	4,612
Deposits payable	**2,246**	2,724
Accrued advertising expense	**2,004**	5,366
Interest payables	**1,306**	849
Advances from customers	**—**	74,647
Notes payable	**—**	1,205
Others	**45,480**	18,723
	463,383	377,146

(a) According to agreement signed between the Group and non-controlling interest, Mr. Wang Dejun, the Group agreed to acquire equity interest of certain subsidiaries held by Mr. Wang Dejun at a total fixed price of RMB68,000,000. By the end of 2018, the Group has prepaid RMB34,897,000, and the remaining RMB33,103,000 shall be payable in one year after the completion of the transaction.

(b) Balance represents loan from the non-controlling interests of subsidiaries, which is unsecured. As at December 31, 2018, RMB17,185,000 bore interest rate at 8%. As at December 31, 2017, RMB6,000,000 bore the interest rate at 8% and RMB4,500,000 bore the interest rate at 12%.

The carrying amounts of the Group's trade and other payables are denominated in RMB.

The aging analysis of the trade payables based on invoice date is as follows:

	As at December 31,	
	2018	2017
	RMB'000	*RMB'000*
— Up to 3 months	**110,271**	81,169
— 3 to 6 months	**9,486**	5,083
— 6 months to 1 year	**6,384**	8,592
— 1 to 2 years	**2,801**	1,056
— 2 to 3 years	**756**	2,769
— Over 3 years	**6,824**	4,156
	136,522	102,825

The normal credit term of the Group is 30 days to 90 days. As at December 31, 2018 and 2017, fair value of all trade and other payables of the Group approximated to their carrying amounts due to their short maturities.

12 REVENUE AND SEGMENT INFORMATION

Management has determined the operating segments based on the information reviewed by the CODM for the purpose of corporate planning, allocating resources and assessing performance.

Management considers the business from a business perspective, and assesses the performance of the business segment based on segment profit without allocation of administrative expenses, interest income, interest expenses, other finance expense and income tax expense.

The amounts provided to management with respect to total assets and total liabilities are measured consistent with that of the financial statements. These assets are allocated based on the operations of segment. Certain assets and liabilities related to some companies with corporate function are not allocated into segments. Elimination of revenue are mainly inter-segment service charges, including RMB554,000 related to medical examination business, RMB15,261,000 related to general hospital business, and RMB2,647,000 related to unallocated corporate function.

The Group manages its business by three operating segments based on their services, which is consistent with the way in which information is reported internally to the Group's CODM for the purpose of resources allocation and performance assessment:

(i) General hospital

The business of this segment is in Nantong, a city of Jiangsu Province. Revenue from this segment is derived from general hospital services and hemodialysis services.

(ii) Medical examination centers

The business of this segment is in Shanghai, Jiangsu Province and other provinces in China. Revenue from this segment is derived from medical examination services and clinic services.

(iii) Specialty hospital

The business of this segment is in Shanghai and Jiangsu Province. Revenue from this segment is derived from specialty hospital services.

(a) Revenue

Revenue of the Group consists of the following:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
General Hospital		
Outpatient pharmaceutical income	**41,814**	38,704
Outpatient service income	**51,813**	43,510
Inpatient pharmaceutical income	**157,250**	130,130
Inpatient service income	**123,785**	103,922
Medical Examination		
Examination service	**988,078**	760,365
Management service fee and others	**482**	3,518
Specialty Hospital		
Outpatient pharmaceutical income	**512**	—
Outpatient service income	**2,677**	—
Inpatient pharmaceutical income	**30**	—
Inpatient service income	**7,495**	—
	1,373,936	1,080,149

(b) *Segment information*

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

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same way as in the statement of profit or loss.

	General Hospital	Medical Examination Centers	Specialty Hospital	Unallocated	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended December 31, 2018						
Revenue	389,923	989,114	10,714	2,647	(18,462)	1,373,936
Segment profit/(loss)	91,461	176,780	(108,714)	(49)	1,711	161,189
Administrative expenses						(328,917)
Interest income						12,240
Interest expenses						(42,000)
Exchange gains — net						18,683
Total loss before income tax						(175,747)
Income tax credit						39,470
Loss for the year						(136,277)

	General Hospital	Medical Examination Centers	Specialty Hospital	Unallocated	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at December 31, 2018						
Segment assets	817,296	1,785,080	450,644	788,570	(1,478,914)	2,362,676
Segment liabilities	359,363	1,500,726	363,141	65,050	(632,666)	1,655,614
Other information						
Addition to property and equipment, land use rights and intangible assets	75,668	179,368	133,538	6,588	—	395,162
Depreciation and amortization	14,310	88,912	23,831	—	—	127,053

	General Hospital	Medical Examination Centers	Specialty Hospital	Unallocated	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended December 31, 2017						
Revenue	346,825	764,443	—	—	(31,119)	1,080,149
Segment profit	101,047	124,783	—	—	—	225,830
Administrative expenses						(292,818)
Interest income						6,372
Interest expenses						(25,246)
Exchange losses — net						(33,629)
Other finance income						1,054
Total loss before income tax						(108,914)
Income tax credit						6,234
Loss for the year						(102,680)

	General Hospital	Medical Examination Centers	Specialty Hospital	Unallocated	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at December 31, 2017						
Segment assets	541,637	1,594,495	303,693	736,724	(1,113,202)	2,063,347
Segment liabilities	210,929	1,138,574	165,918	61,219	(443,347)	1,133,293
Other information						
Addition to property and equipment, land use rights and intangible assets	31,072	244,352	204,347	—	—	479,771
Depreciation and amortization	14,562	68,886	1,347	—	—	84,795

13 EXPENSES BY NATURE

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Employee benefits expense	**653,623**	484,792
Operating lease rental expenses	**228,456**	170,471
Depreciation and amortization	**127,053**	84,795
Pharmaceutical costs	**107,174**	98,216
Medical consumables costs	**98,690**	73,086
Outsourced testing expenses	**72,535**	56,145
Utility expenses	**51,672**	39,041
Advertising expenses	**46,314**	29,697
Office expenses	**37,756**	25,674
Professional service charge	**24,392**	11,406
Entertainment expenses	**17,857**	18,787
Travel expenses	**13,008**	8,900
Net impairment loss on financial assets	**8,976**	4,767
Maintenance expenses	**7,841**	6,469
Impairment of goodwill	**7,447**	—
Donation	**5,000**	—
Auditor's remuneration		
— Audit services	**2,643**	4,335
— Non-audit services	**529**	1,114
Labor union dues	**2,692**	2,040
Washing charge	**1,929**	1,817
Medical risk insurance	**1,035**	1,150
Security costs	**930**	869
Stamp duty and other taxes	**725**	3,115
Working meal	**253**	13
Deferred income amortization	**29**	210
Other expenses	**32,081**	20,228
	1,550,640	1,147,137

14 OTHER INCOME

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Government grants	**11,647**	9,841
Rental income	**771**	771
Others	**2,148**	1,172
	14,566	11,784

15 OTHER LOSSES

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Losses on disposal of property and equipment	**339**	782
Others	**2,090**	1,686
	2,429	2,468

16 FINANCE COSTS — NET

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Interest on borrowings	**(38,351)**	(25,246)
Interest on other financial liabilities	**(3,649)**	—
Exchange losses — net	**—**	(33,629)
	(42,000)	(58,875)
Exchange gains — net	**18,683**	—
Interest income	**12,240**	6,372
Others	**—**	1,054
	30,923	7,426
Finance costs — net	**(11,077)**	(51,449)

17 INCOME TAX CREDIT

The amounts of income tax credit in the consolidated statement of profit or loss represent:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Current income tax		
— Current year	**20,890**	29,865
— Adjustments for current tax of prior periods	**369**	(1,188)
Deferred income tax (Note 4)	**(60,729)**	(34,911)
Income tax credit	**(39,470)**	(6,234)

The income tax on the Group's loss before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the companies within the Group as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	*RMB'000*
Loss before tax	**(175,747)**	(108,914)
Tax calculated at the applicable income tax rate (25%)	**(43,937)**	(27,229)
Tax effect of:		
Tax loss expired	**127**	551
Income not subject to tax	**(9,244)**	—
Expenses not deductible for tax purpose	**5,006**	3,228
Recognition/utilization of prior year tax losses and temporary differences not recognized as deferred tax assets	**(10,211)**	(298)
Temporary differences not recognized as deferred tax assets	**6,353**	568
Tax losses not recognized as deferred tax assets	**12,067**	18,134
Adjustments for current tax of prior years	**369**	(1,188)
Income tax credit	**(39,470)**	(6,234)

On March 16, 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "**CIT Law**") which became effective on January 1, 2008. Under the CIT Law, the CIT rate applicable to the Group's subsidiaries located in mainland China from January 1, 2008 is 25%.

The Company is registered in the Cayman Islands, and hence is not subject to enterprise income tax. Two subsidiaries in the Group registered in the British Virgin Islands are not subject to enterprise income tax.

No provision for Hong Kong profits tax has been made as the Group does not have assessable profits subject to Hong Kong profits tax during the years.

The CIT Law and its implementation rules impose a withholding tax at 10% for dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC for earnings generated beginning January 1, 2008 and undistributed earnings generated prior to January 1, 2008 are exempted from such withholding tax. A lower 5% withholding tax rate may be applied when the immediate holding companies are established in Hong Kong according to the tax treaty arrangement between the PRC and Hong Kong. The directors of the Company had confirmed that retained earnings of the Group's PRC subsidiaries as at December 31, 2018 will not be distributed in the foreseeable future.

18 LOSSES PER SHARE

(a) Basic

Basic losses per share is calculated by dividing the net loss attributable to the owners of the Company by the weighted average number of ordinary shares in issue during 2018 and 2017, respectively.

	Year ended December 31,	
	2018	2017
Net loss attributable to owners of the Company *(RMB'000)*	**(53,836)**	(62,166)
Weighted average number of ordinary shares in issue	**1,592,079,000**	1,592,079,000
Basic losses per share *(RMB)*	**(0.03)**	(0.04)

(b) Diluted

Diluted losses per share is calculated by adjusting the weighted number of ordinary shares in issue for the potential dilutive effect caused by the share options granted under share option scheme assuming they were exercised.

	Year ended December 31,	
	2018	2017
Net loss attributable to owners of the Company *(RMB'000)*	**(53,836)**	(62,166)
Weighted average number of ordinary shares for diluted losses per share, adjusted for share options	**1,516,358,295**	1,647,719,771
Diluted losses per share *(RMB)*	**(0.04)**	(0.04)

19 DIVIDEND

The Board does not propose a final dividend for the year ended December 31, 2018 (2017: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

With the advancement of medical reform progress and the change of residents' healthcare consumption concept, the healthcare service market of China was in a good development trend and became one of the industries that maintained stable development and even achieved a growth in spite of the slowdown of overall economic development.

With respect to hospitals, according to the statistics released by National Health Commission (國家衛生健康委員會) in January 2019, as of the end of November 2018, there were more than 20,400 private hospitals across the country, representing a year-on-year growth of 12.7%, and accounting for 62.8% of the total number of hospitals in China. From January to November 2018, the number of patients treated in private hospitals reached 473 million, representing a year-on-year increase of 13.6%, which was significantly higher than a year-on-year increase of 5.3% of the number of patients treated in all hospitals in China. The percentage of the number of patients treated in private hospitals in proportion to the number of patients treated in all hospitals in China increased from 13.6% for the corresponding period in last year to 14.6%. The market size of private hospitals kept expanding with room for a further growth.

With respect to obstetrics, gynecology and pediatrics, although the birth rate in China declined as the effect of "Two-child" policy weakened and the fertility willingness further declined, there is still room for a growth in the demand for high-quality obstetrics services, as a result of the promotion for labor analgesia under the national policies and the ever-improved requirements for comfortability of birth experience. Besides, the shortage of public medical resources in gynemetrics and pediatrics will exist in a short to medium term. The mid-end to high-end private maternal and child care hospitals with high medical quality, service quality, operation experience and brand reputation still have sufficient market demand and competitiveness.

With respect to medical examination industry, thanks to the continuous improvement of public health awareness, the penetration rate of medical examination among the public was ever increasing. According to the China Health Statistics Yearbook (中國衛生和計劃生育統計年鑑) and as forecasted by ASKCI Consulting (中商產業研究院) in August 2018, the number of medical examination visitors in China reached 575 million in 2018 and accounted for 41.2% of the total population of China (2017: 501 million, 36.0%). There is a relatively large potential market for medical examination services when compared with the penetration rate of above 70% in developed countries and areas, such as Europe and the United States of America.

In the next phase, the governmental policy on the private healthcare industry of our country will reflect a trend of "easy entry and strict supervision". The restrictions on planning of private hospitals and clinics have gradually been reduced in various regions, the approval requirements for the setup of medical institutions below class II have gradually been canceled, and the approval mechanism for the setup of private elderly care institutions was changed to filing mechanism. Meanwhile, governmental authorities in charge of matters including healthcare supervision and public medical insurance keep strengthening the supervision on the private healthcare service institutions. In the long run, high-level private healthcare service institutions focusing on medical care, service quality and operation management standardization will stand out from other competitors and become the pillar of the industry development.

General Hospital Business

Nantong Rich Hospital Co., Ltd. (南通瑞慈醫院有限公司) ("**Nantong Rich Hospital**"), which is also known as the Fourth Clinical College of Yangzhou University (揚州大學第四臨床醫學院), is the medical center in the southeast area of Nantong City and the only high-graded general hospital in Nantong economic and technological development zone. Nantong Rich Hospital commenced operation in 2002, and it has been a Class III Grade B general hospital and one of the National Standardized Medical Residency Training Coordination Bases (國家級住院醫師規範化培訓協同基地). As of December 31, 2018, the hospital had 520 registered beds, 253 doctors, 90 medical technicians and 370 nurses, and it also has established medical alliance relationship with Shanghai Ruijin Hospital (上海瑞金醫院) for in-depth technical cooperation. During the year under review, Nantong Rich Hospital focused on development of disciplines and construction of hospital. It has one National Key Clinical Discipline (國家臨床重點專科), one Provincial Key Clinical Discipline (省級重點建設專科), five Municipal Key Clinical Disciplines (市級臨床重點專科), and one Municipal Key Discipline Under Construction (市級重點建設專科); two talents under "226 Program" in municipal level (one for level 2 and one for level 3), and three municipal young talents; and won 12 awards and recognitions, including being listed in Top 100 Private Healthcare Institutions for 2018 (2018非公醫療百強榜) (ranking No.39). In addition, all disciplines of the hospital vigorously carried out 248 new technology researches and new projects at national, provincial and municipal levels, 16 ongoing research projects and published 35 papers in SCI journals, international journals and core journals. The hospital also introduced advanced large-scale equipment in Nantong in 2018, including linear accelerator, gamma knife, hybrid knife system, minimally invasive rotary breast cutting system and 256-row CT, to provide hardware support for the 6 key departments, such as the advanced tumor center and minimally invasive surgery center. In addition, Nantong Rich Hospital actively responded to the national call for tiered diagnosis and treatment and cooperated with the neighboring hospitals to promote the construction of three medical alliances with itself as the core. It entered into agreements with more than 20 cooperating enterprises for green channel for medical treatment, and actively offered affordable medical services to residents in Nantong economic and technological development zone, in order to fully perform its social responsibilities. Moreover, the expansion project of Nantong Rich Hospital Phase II is progressing in an orderly manner.

During the year under review, the numbers of inpatient and outpatient visits in Nantong Rich Hospital were 335,552 and 22,528, respectively (2017: 324,487, 20,157), representing an increase of 3.4% and 11.8% as compared with 2017, respectively.

The Group established Nantong Rich Meidi Elderly Care Center Co., Ltd. (南通瑞慈美邸護理院有限公司) ("**Nantong Meidi**") and Nantong Rich Hemodialysis Center (南通瑞慈血透中心), leveraging on the medical resources of Nantong Rich Hospital. Featuring "a combination of medical treatment and elderly care", Nantong Meidi focused on providing high-end elderly care services to the elderly with disability and dementia. Currently, Nantong Meidi is not only a designated medical institution for public medical insurance reimbursement and public basic care insurance reimbursement in Nantong, but also a practice base for students of Nanjing University of Science and Technology (南京理工大學) majoring in social work, a social practice base for students of Jiangsu College of Engineering and Technology (江蘇工程職業技術學院), and a research base of Jiangsu Association of Gerontology (江蘇省老年學學會). During the year under review, the elderly care center served 105 elderly people with full occupancy (2017: 103 elderly people, 100% occupancy rate). The customer structure was optimized as compared with 2017, as the occupants mainly required grade one and above nursing service, by means of which the economic benefits per bed were maximized and 100% occupancy rate was ensured. In addition, leveraging on its advanced operational experience and concept, Nantong Meidi took the lead to establish alliance with elderly-care institutions to promote the positive competition and development of the elderly-care industry in Nantong. Nantong Meidi was actively engaged in business of training talent in elderly-care industry, project planning and consultation business in elderly-care industry, and community-based homecare services, to further increase its brand perception and profit contribution.

Nantong Rich Hemodialysis Center commenced operation in September 2018. 25 of its 50 haemodialysis machines were in use at early stage, with an aim to provide individualized and scientific dialysis solution and independent and professional healthcare management services to patients with nephropathy, to improve the life quality of frequent hemodialysis patients and their survival rate. In 2018, Nantong Rich Hemodialysis Center served a total of 52 contracted patients and provided dialysis treatment at 1,998 times.

Medical Examination Business

Medical examination business of the Group focused on optimizing its medical technology and management to heighten the barrier. Through the methods of technical modification, equipment upgrading, joint training and medical supervision and monitoring, medical technical level, customer service satisfaction level and operation quality of the medical examination centers were improved significantly. As of December 31, 2018, the Group had 55 medical examination centers in China (as of December 31, 2017: 44), representing a year-on-year growth of 25.0% covering 27 cities (as of December 31, 2017: 23) with improved geographical layout, among which, 44 centers were under operation (as of December 31, 2017: 30), representing a year-on-year growth of 46.7%.

During the year under review, the number of visits of customers under medical examination business was 1,948,973 (2017: 1,542,577), representing a year-on-year increase of 26.4% and corporate customers were the principal customer category, the visits of which accounting for 82.8% of the total visits of customers under medical examination business in 2018. During the year under review, the numbers of corporate and individual customers were 1,614,527 and 334,446, respectively (2017: 1,281,013 and 261,564), representing a year-on-year increase of 26.0% and 27.9%, respectively. The average per capita spending of customers increased to RMB504 (2017: RMB489), representing a year-on-year increase of 3.1%. During the year under review, the e-commerce channel of the Group achieved outstanding results on shopping festivals such as "618" and "Double Eleven", and we were granted the title of "Best User Experience Brand" by Ali Health, which directly drove the growth of individual customer base and spending of customers per capita.

Specialty Hospital Business

The year 2018 is the first year for the business launch of Rici obstetrics, gynecology and pediatrics ("**OGP**") segment. The orderly and comprehensive implementation of this segment included the construction of seven systems, including medical quality management and monitoring system, integrated target responsibility system, performance evaluation and management system, price management system, human resources management and talent team construction system. As a result, the Group laid foundation for brand awareness and market expansion. During the year under review, speciality hospitals under the Group served a total of 6,677 outpatients and 281 inpatients.

Changzhou Rich Obstetrics & Gynecology Hospital Co., Ltd. (常州瑞慈婦產醫院有限公司) ("**Changzhou Rich Hospital**") commenced operation in January 2018 with 101 beds in use. With medical quality and safety as the core and with the great support of the administrative logistics and under the guidance of the positive hospital culture, the hospital paid equal focus on marketing and talent team build-up. During the year under review, Changzhou Rich Hospital received full recognition from hospitals and customers in Shanghai and Changzhou and entered into technical cooperation agreements with Shanghai First Maternity and Infant Hospital (上海第一婦嬰保健院), The First People's Hospital of Changzhou (常州市第一人民醫院), Changzhou Maternal and Child Health Care Hospital (常州市婦幼保健院) and Changzhou Children's Hospital (常州市兒童醫院), creating a good competition environment of complementary business operation and synergetic development.

Shanghai Shuixian Obstetrics Gynecology and Pediatric Hospital Co., Ltd. (上海瑞慈水仙婦兒醫院有限公司) ("**Rici Shuixian**") (formerly known as Shanghai Shuixian Obstetrics & Gynecology Hospital Co., Ltd (上海瑞慈水仙婦產醫院)) commenced operation in June 2018 with 78 beds in use. It is a partner hospital of Obstetrics and Gynecology Hospital of Fudan University (復旦大學附屬婦產科醫院) and Children's Hospital of Fudan University (復旦大學附屬兒科醫院) and became a partner hospital of Children's Hospital of Shanghai (上海市兒童醫院) in January 2019. The hospital has offered pediatric outpatient and inpatient services and established children healthcare department since March 18, 2019 to provide one-stop services of gynecology, obstetrics, pediatrics and postpartum rehabilitation for Shanghai citizens. The hospital aims to expand its market share and foster brand awareness and reputation of Rici OGP segment through promotion by key opinion leaders on the Internet, cross-industry alliance, word-of-mouth advertising, new media operation, TV advertisements and interview programs.

In addition, to fully take advantage of national policy liberalisation on private medical institutions and the local favorable policies, such as "50 Guidelines for Shanghai Healthcare Service Industry (上海健康服務業50條)", Changzhou Rich Hospital has been a designated medical institution for public medical insurance reimbursement in Changzhou since February 2, 2019, while Rici Shuixian has submitted the application materials and is expected to be included into public medical insurance reimbursement system in Shanghai in 2019. If Rici Shuixian passes the medical insurance review, the patient sources and payment methods will be further diversified, and greater consumer demands are estimated to be stimulated.

Wuxi Rich Obstetrics Gynecology and Pediatric Hospital (無錫瑞慈婦兒醫院) ("**Wuxi Rich Hospital**") is scheduled to commence operation in 2019 after it finishes its construction and preliminary preparation. The project of Shanghai Rich Gaojing Obstetrics Gynecology and Pediatric Hospital (上海瑞慈高境婦兒醫院) is also in an orderly progress.

Prospects

The year of 2019 will be a "Year of High Quality Development" under the Group's strategic guidance. Improvement of both medical quality and service quality is a top priority of our Group. With the smooth progress of the expansion project of Nantong Rich Hospital Phase II and the introduction of high-end equipment, Nantong Rich Hospital will promote the medical market expansion in key areas (such as Nantong economic and technological development zone) based on the medical alliance platform in 2019. In addition, it will introduce senior experts and academicians from Shanghai and develop six key centers, namely tumor center, heart center, brain center, orthopedic center, geriatric rehabilitation center and minimally invasive surgery center, which will be pillar departments of the hospital in the future. With the core competitiveness of high-quality healthcare services and rich medical resources, Nantong Meidi will maximize the economic benefits per bed by continuously optimizing the customer structure. It will continue to adhere to the development mode of being based on homecare, relying on community-based care and supported by pension institutions, further explore business for customers requiring door-to-door service, cooperate with the small-scale community-based multi-functional elderly-care institutions, and actively expand such new businesses as elderly-care talent training and output, case-by-case solution consultation and planning, in order to create a replicable diversified elderly-care service brand and become an industry leader. Nantong Rich Hemodialysis Center will take advantage of the synergy between the medical examination centers located in Nantong and Nantong Rich Hospital and cooperate with the vascular surgery department to pursue technical innovation, in order to provide customized vascular access maintenance solution for the patients with kidney diseases and improve the transformation of the coupling services of "hospital — medical examination — elderly care — hemodialysis".

Medical examination is the most basic method for the people to manage their health. However, according to the *National Health Insight Report for 2019* (《2019年國民健康洞察報告》) published by Dingxiangyuan (丁香園), only 41% of interviewees received regular medical examination, and there is large room for the improvement of public health awareness in terms of medical examination. Interviewees receiving regular medical examination had higher requirements on medical examination, out of which 56.0% purchased medical examination products at their own expenses, and 29.0% received all the medical examination services at their own expenses. According to the above-mentioned report, although having medical examination service in public hospitals was still the mainstream, the market share of private medical institutions offering medical examination service increased from 15.6% in 2017 to 21.0% in 2018, which indicates that the private medical institution market is still in a rising trend, and the capacity to provide medical services and service quality are the development directions of the medical examination industry. In 2019, Rici's medical examination business will strive to maintain its high-end position in the medical-grade health examination business, and will focus on the strict control of report quality, medical safety and operation procedures in the medical management system. While ensuring steady expansion, it will focus on improving the operation efficiency of each existing medical examination center. In addition, leveraging on its medical resource advantages, our medical examination business will introduce the high-end sophisticated physical examination and prevention concepts and medical health management service process from Japan to create a new high-end medical examination center, CEO Health Club, so as to provide customized one-stop health management service for ultra-high net wealth individuals and customers with ultra-high requirements on health services, and bring new highlights and growth points to the medical examination segment. In the future, Rici medical examination segment will continue to focus on the Yangtze River Delta, gradually realize the deployment in key cities across the country and enhance operating efficiency of each center, in order to realize the strategic goal of becoming the best brand in the high-end market of the medical health service industry.

With the slowdown of birth rate growth, the birth of each infant becomes more precious. The mid-end to high-end maternal market is no longer narrowly targeting at the high-income group, but also targeting at each family with potential willingness to bear a child. The parents would be more willing to provide high-quality maternal environment to strengthen such willingness of their young adult children, and the young people are also willing to spend more to ensure that no regrets would be left in their once-in-a-life experiences. Therefore, the high-end gynecology and pediatrics business still have strong inherent driving force. Rici OGP segment will continue to focus on medical quality and medical safety, improve the medical technology and capacity of the hospital, introduce new clinical techniques and methods in a timely manner, and offer diagnosis and treatment services for targeted difficult diseases. While focusing on medical quality and reputation build-up, it will make an all-out effort to drive marketing through the combination of all-staff marketing, cross-industry cooperation and industry alliance, to accelerate the turnover rate of the existing beds. In the future, the access to public medical insurance system will help the hospital expand the customer base and strengthen customer stickiness. In 2019, the Group will fully support the operation and development of Changzhou Rich Hospital, Rici Shuixian and Wuxi Rich Hospital, to lay a solid foundation for the future duplicability of the Rici OGP brand.

Financial Review

Revenue

We derive revenue mainly from our general hospital business and medical examination business. The following table sets forth the components of our revenue by operating segments for the years indicated:

	Year ended December 31,		
	2018	2017	% of Change
	(RMB'000)	*(RMB'000)*	
General hospital business	**389,923**(1)	346,825	12.4%
Medical examination business	**989,114**(2)	764,443(2)	29.4%
Specialty hospital business	**10,714**	—	
Unallocated	**2,647**(3)	—	
Inter-segment	**(18,462)**(4)	(31,119)	(40.7%)
Total	**1,373,936**	1,080,149	27.2%

Notes:

(1) Included the revenue from hemodialysis business.

(2) Included the revenue from embedded clinic business of medical examination.

(3) Unallocated revenue represented the revenue from selling medical equipment by a wholly-owned leasing company under the Group to other subsidiaries of the Group, which was eliminated between segments.

(4) Inter-segment revenue mainly represented the revenue of RMB15.3 million from outsourced testing conducted by general hospitals for medical examination business.

Our revenue increased by 27.2% from RMB1,080.1 million in 2017 to RMB1,373.9 million in 2018, mainly due to an increase in revenue from both general hospital business and medical examination business.

Our revenue from general hospital business in 2018 amounted to RMB374.6 million, representing an increase of 18.5% from RMB316.3 million in 2017, excluding inter-segment revenue of RMB15.3 million and RMB30.5 million in 2018 and 2017, respectively. The increase was mainly attributable to the active improvement of our operational efficiency, which led to a decline in the average length of stay of our patients and an increase in the number of inpatient visits and inpatient revenue by 2,371 and RMB46.9 million respectively, while inpatient revenue per capita increased by 7.4% accordingly. Meanwhile, the number of outpatient visits in 2018 increased by 13,063 and the outpatient revenue per capita increased by 9.5%, which led to an increase in outpatient revenue of RMB11.4 million.

Revenue from medical examination business in 2018 amounted to RMB988.6 million, representing an increase of 29.4% from approximately RMB763.9 million in 2017, excluding the inter-segment revenue of RMB0.5 million and RMB0.6 million in 2018 and 2017, respectively. The improvement of our service quality and the increasing awareness of the people on high-end medical examination services brought an increase in the number of visits for medical examination service as well as the spending per capita. In 2018, the number of visits for our medical examination services was 1,948,973, representing an increase of 26.4% from 1,542,577 in 2017. The spending per capita of medical examination business was RMB504.4 in 2018, representing an increase of 3.1% from RMB489.0 in 2017. Besides, 14 newly-operated medical examination centers recorded a revenue of RMB86.6 million from medical examination.

Medical examination business includes business of our embedded clinics in medical examination centers. In 2018, revenue from business of our embedded clinic in medical examination centers amounted to RMB6.2 million (2017: RMB6.7 million), which was mainly from diagnostic income.

In 2018, our revenue from specialty hospital business amounted to RMB10.7 million.

Cost of Sales

Cost of sales mainly consists of pharmaceuticals and medical consumable costs, staff costs, rental expenses and depreciation and amortization expenses. The following table sets forth an analysis of the cost of sales by operating segments for the years indicated:

	Year ended December 31,		
	2018	2017	% of Change
	(RMB'000)	*(RMB'000)*	
General hospital business	**291,558**[(1)]	242,415	20.3%
Medical examination business	**601,092**[(2)]	467,699[(2)]	28.5%
Specialty hospital business	**112,608**	—	
Unallocated	**2,647**[(3)]	—	
Inter-segment	**(20,172)**	(31,119)	(35.2%)
Total	**987,733**	678,995	45.5%

Note:

(1) Included the cost of sales of hemodialysis business.

(2) Included the cost of sales of embedded clinic business in medical examination centers.

(3) Unallocated cost represented the cost of sales incurred from selling medical equipment by a wholly-owned leasing company under the Group to other subsidiaries of the Group, which was eliminated between segments.

Our cost of sales increased by 45.5% from RMB679.0 million in 2017 to RMB987.7 million in 2018, mainly due to the operation of fourteen new medical examination centers and two new specialty hospitals, and the expansion of the scale of our general hospital business.

Cost of sales of our general hospital business in 2018 amounted to RMB291.6 million, representing an increase of 20.3% from RMB242.4 million in 2017, mainly attributable to the increase in pharmaceutical costs and medical consumable costs and medical staff's costs following the expansion of revenue scale in 2018.

Cost of sales of our medical examination business in 2018 amounted to RMB601.1 million, representing an increase of 28.5% from RMB467.7 million in 2017. The increase was mainly attributable to (i) the increase in variable costs of our medical examination centers, including medical consumable costs and outsourced testing expenses, which was in line with the growth of revenue of our medical examination business in general; and (ii) the operation of new medical examination centers, resulting in an increase in certain fixed costs, such as rental expenses and depreciation and amortization expenses.

Cost of sales of specialty hospital business in 2018 amounted to RMB112.6 million, which mainly included remuneration expenses of medical staff, rental expenses, depreciation and amortization expenses, medical consumable costs and outsourced testing expenses.

Gross Profit

Our gross profit decreased by 3.7% from RMB401.2 million in 2017 to RMB386.2 million in 2018. Gross profit margin decreased from 37.1% in 2017 to 28.1% in 2018, primarily because two new specialty hospitals were under early phase of development in 2018. Besides, gross profit margin of our general hospital business decreased by 4.9% from 30.1% in 2017 to 25.2% in 2018, as a result of the changes in remuneration and performance system. In addition, gross profit margin of the medical examination business remained generally stable at 39.2% in 2018 (2017: 38.8%).

Distribution Costs and Selling Expenses

Our distribution costs and selling expenses increased by 28.3% from RMB175.3 million in 2017 to RMB225.0 million in 2018. The growth was mainly due to our medical examination business, which was in line with the growth in revenue from the medical examination business. Besides, the distribution costs and selling expenses of our two newly-operated specialty hospitals in 2018 amounted to approximately RMB6.2 million.

Administrative Expenses

Our administrative expenses increased by 12.3% from RMB292.8 million in 2017 to RMB328.9 million in 2018. The increase was mainly due to (i) the increase of approximately RMB13.6 million in share option expenses as a result of the inclusion of options granted on November 24, 2017 into the annual expenses of 2018; and (ii) the increase in remuneration and office expenses due to the growth in the number of managerial employees resulting from the development of the Group's business.

Other Income

Our other income, which mainly represented government subsidies, amounted to approximately RMB14.6 million in 2018 (2017: approximately RMB11.8 million).

Other Losses

Our other losses in 2018 amounted to approximately RMB2.4 million, as compared to the other loss of approximately RMB2.5 million in 2017. Other losses mainly represented (i) the compensation of RMB1.0 million paid to Shenzhen Ping An Health and Technology Equity Investment LLP (深圳市平安健康科技股權投資合夥企業(有限合夥)) ("**Ping An Health Technology Fund**") in respect of the termination of the investment agreement for the establishment of a joint venture with Ping An Health Technology Fund, and (ii) losses on disposal of equipment and other miscellaneous losses.

Finance Costs — net

We had net finance costs of RMB11.1 million in 2018, as compared to net finance costs of RMB51.4 million in 2017. The interest expenses, interest income and exchange gain incurred during 2018 amounted to approximately RMB42.0 million, RMB12.2 million and RMB18.7 million, respectively.

Share of Results

For the year ended December 31, 2018, the Group recognized a share of loss of RMB0.1 million (2017: profit of RMB0.2 million) in its consolidated results, mainly from (i) the operating profit of RMB0.74 million of Nantong Meidi, a subsidiary of a joint venture of the Company primarily engaged in providing elderly care services. Its business operation has been stable since its establishment in the second half of 2014; and (ii) the operating loss of RMB0.84 million of Neijiang Rich Ruichuan Clinic Co., Ltd. (內江瑞慈瑞川門診部有限公司), an associate of the Company primarily engaged in providing medical examination services.

Income Tax Credit

For the year ended December 31, 2018, income tax credit amounted to RMB39.5 million (2017: RMB6.2 million), mainly because the new medical examination centers and specialty hospitals incurred more losses, which was recognized as the deferred income tax assets, and therefore offset the income tax expenses.

Loss for the Year

For the foregoing reasons, in 2018, we recorded net loss of RMB136.3 million (2017: net loss of RMB102.7 million), mainly due to the losses incurred from the new medical examination centers and specialty hospitals, which were at the early stage of operation, and the increase in the number of employees as required by the Group's business expansion as well as the improvement of remuneration and benefits.

Adjusted EBITDA

To supplement our consolidated financial statements which are presented in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), we adopted adjusted EBITDA as an additional financial measure. We defined adjusted EBITDA as loss for the year before certain expenses and depreciation and amortization as set out in the table below. Adjusted EBITDA is not an alternative to (i) loss before income tax or loss for the year (as determined in accordance with HKFRSs) as a measure of our operating performance; (ii) cash flows from operating, investing and financing activities as a measure of our ability to meet our cash needs; or (iii) any other measures of performance or liquidity. The following table reconciles our loss for the year under HKFRSs to our definition of adjusted EBITDA for the years indicated.

	Year ended December 31,	
	2018	2017
	(RMB'000)	*(RMB'000)*
Adjusted EBITDA calculation		
Loss for the year	**(136,277)**	(102,680)
Adjusted for:		
Income tax credit	**(39,470)**	(6,234)
Finance costs — net	**11,077**	51,449
Depreciation and amortization	**127,053**	84,795
Pre-opening expenses and EBITDA loss of soft-opening[1]	**182,507**	114,136
Share option expenses	**25,818**	12,255
Adjusted EBITDA	**170,708**	153,721
Adjusted EBITDA margin[2]	**12.4%**	14.2%

Note:

(1) Primarily represents (a) pre-opening expenses, such as staff costs and rental expenses, incurred in connection with medical examination centers and specialty hospitals under construction to commence operation in the subsequent years; and (b) EBITDA loss of newly-operated medical examination centers and specialty hospitals incurred during the year from which they commence operation.

(2) The calculation of adjusted EBITDA margin is based on adjusted EBITDA divided by revenue and multiplied by 100%.

We recorded an adjusted EBITDA of RMB170.7 million in 2018, representing an increase of 11.1% from RMB153.7 million in 2017, mainly due to improvement of our operational efficiency of medical examination business.

Financial Position

Property and Equipment

Property and equipment primarily consist of buildings, medical equipment, general equipment, leasehold improvement and construction in progress. As at December 31, 2018, the property and equipment of the Group amounted to RMB1,048.9 million, representing an increase of RMB270.6 million as compared to RMB778.3 million as at December 31, 2017. The increase of property and equipment was primarily due to the acquisition of equipment as well as the renovation for new medical examination centers and specialty hospitals.

Inventories

Inventories increased from RMB24.0 million as at December 31, 2017 to RMB31.3 million as at December 31, 2018.

Trade Receivables

As at December 31, 2018, the trade receivables of the Group were RMB268.7 million, representing an increase of RMB73.2 million as compared to RMB195.5 million as at December 31, 2017, mainly due to (i) the faster growth of the medical examination business of the Group in 2018; and (ii) larger unsettled medical insurance receivables from social insurance bureau as a result of the scale expansion of our general hospital business.

Net Current Assets and Liabilities

As at December 31, 2018, the Group's current liabilities exceeded its current assets by RMB234.3 million, as compared to net current assets of RMB44.7 million as at December 31, 2017. The change of the position was mainly due to the Group's consumption of current assets and increase in current liabilities for the construction and operation needs of the new medical examination centers and specialty hospitals.

Liquidity and Capital Resources

As at December 31, 2018, the Group had cash and bank balance of RMB495.4 million, with available unutilised bank facilities of RMB293.8 million. As at December 31, 2018, the Group had outstanding bank borrowings amounting to RMB721.9 million, including non-current long-term bank borrowings of RMB119.3 million. Based on the Group's historical experience and good credit standing, the Directors are confident that these bank facilities could be renewed and/or extended for at least another twelve months upon renewal. For the currency in which cash and bank balance is denominated, please refer to Note 6 to the consolidated financial information.

The following table sets forth the information extracted from our Group's consolidated statement of cash flows during the years indicated:

	Year ended December 31,	
	2018	2017
	(RMB'000)	*(RMB'000)*
Net cash generated from operating activities	**42,640**	27,280
Net cash used in investing activities	**(396,632)**	(407,241)
Net cash generated from financing activities	**234,172**	129,106
Net decrease in cash and cash equivalents	**(119,820)**	(250,855)

Net Cash Generated from Operating Activities

For the year ended December 31, 2018, the net cash generated from operating activities was RMB42.6 million, primarily attributable to (i) the cash generated from operating activities of approximately RMB99.5 million; (ii) the interest paid of approximately RMB37.3 million; and (iii) the income tax paid of RMB19.6 million.

Net Cash Used in Investing Activities

For the year ended December 31, 2018, the net cash used in investing activities was RMB396.6 million, primarily attributable to (i) the purchases of property and equipment and intangible assets of RMB299.7 million; (ii) the acquisition of equity interests in subsidiaries without change of control of RMB94.4 million; (iii) the acquisition of a company at a consideration of RMB6.8 million; (iv) the investment in an associate of RMB1.8 million; (v) the investment in financial assets at fair value through profit or loss of RMB3.0 million and (vi) the temporary funding provided to non-controlling interests of a subsidiary of RMB1.3 million, partially offset by the proceeds from disposal of equipment of RMB0.1 million and the interest received from bank deposits of RMB10.3 million.

Net Cash Generated from Financing Activities

For the year ended December 31, 2018, the net cash generated from financing activities was RMB234.2 million, primarily attributable to (i) the capital contribution of RMB15.7 million from non-controlling interests of subsidiaries; (ii) the net proceeds from bank borrowings of RMB127.2 million; (iii) the net proceeds of loan from non-controlling interests of a subsidiary of RMB6.7 million; (iv) the proceeds from other financial liabilities of RMB100.0 million; and (v) the proceeds from disposal of equity interests in subsidiaries without change of control of RMB10.2 million, partially offset by the payment for finance lease of RMB7.5 million and increase in restricted cash of RMB18.1 million.

Significant Investments, Material Acquisitions and Material Disposals

For the year ended December 31, 2018, save as disclosed below, the Group did not have any significant investment, material acquisition or material disposal:

(i) on August 31, 2018, Nantong Rich Hospital, Nantong Rich Medical Management Group Co., Ltd. (南通瑞慈醫療管理集團有限公司) ("**Nantong Rich Medical**"), Dr. Fang Yixin, Dr. Mei Hong and Everbright (Haimen) Senior Healthcare Investment Fund (Limited Partnership) (海門光控健康養老產業投資合夥企業(有限合夥)) ("**Everbright (Haimen)**") entered into an investment agreement in relation to the investment by Everbright (Haimen) in Nantong Rich Hospital for the purpose of its second-phase renovation and expansion. Pursuant to such investment agreement, the total investment of RMB100.0 million from Everbright (Haimen) would be contributed in cash. As at the date of this announcement, the investment was completed and the registered capital of Nantong Rich Hospital was held by Everbright (Haimen) and Nantong Rich Medical as to 4.41% and 95.59%, respectively;

(ii) certain subsidiaries of the Company entered into a series of equity transfer agreements dated October 11, 2018 with Guizhou Saigesaisi Investment Co., Ltd. (貴州賽格賽斯投資有限公司) ("**Guizhou Saigesaisi**"), in respect of the transfer of Guizhou Saigesaisi's equity interest in the target companies, namely Beijing Rich Ruitai Clinic Co., Ltd. (北京瑞慈瑞泰綜合門診部有限公司), Nanjing Rich Ruixing Clinic Co., Ltd. (南京瑞慈瑞星門診部有限公司), Shanghai Rich Ruijin Clinic Co., Ltd. (上海瑞慈瑞錦門診部有限公司) and Shanghai Rich Ruixin Clinic Co., Ltd. (上海瑞慈瑞鑫門診部有限公司), to the Group at a total consideration of RMB53.0 million. As at the date of this announcement, the transaction was completed and Guizhou Saigesaisi ceased to hold any equity interest in the target companies;

(iii) Shanghai Rich Medical Investment Group Co., Ltd. (上海瑞慈醫療投資集團有限公司) ("**Shanghai Rich Medical**") entered into an equity transfer agreement dated November 5, 2018 with Mr. Wang Dejun (王德軍), in respect of the transfer of Mr. Wang Dejun's equity interest in Beijing Rich Ruitai Clinic Co., Ltd., Nanjing Rich Ruixing Clinic Co., Ltd., Shanghai Rich Ruijin Clinic Co., Ltd. and Shanghai Rich Ruixin Clinic Co., Ltd. to the Group at a total consideration of RMB68.0 million. Upon completion of the equity transfer, Mr. Wang Dejun will cease to hold any equity interest in Beijing Rich Ruitai Clinic Co., Ltd., Nanjing Rich Ruixing Clinic Co., Ltd., Shanghai Rich Ruijin Clinic Co., Ltd. and Shanghai Rich Ruixin Clinic Co., Ltd. ;

(iv) on November 5, 2018, Chengdu Kangruiheng Commerce and Trade Co., Ltd. (成都康瑞恒商貿有限公司) entered into a legally binding memorandum of understanding with Shanghai Rich Medical in respect of the transfer of its all equity interest in Chengdu Gaoxin Rich Ruigao Clinic Co., Ltd. (成都高新瑞慈瑞高門診部有限公司) and part of its equity interest in Chengdu Wenjiang Rich Ruiwen Clinic Co., Ltd. (成都温江瑞慈瑞文門診部有限公司) to Shanghai Rich Medical at nil consideration. Upon completion of the equity transfer, Chengdu Gaoxin Rich Ruigao Clinic Co., Ltd. will be a wholly-owned subsidiary of Shanghai Rich Medical, and Chengdu Wenjiang Rich Ruiwen Clinic Co., Ltd. will be held as to 88.6% and 11.4% by Shanghai Rich Medical and Chengdu Kangruiheng Commerce and Trade Co., Ltd., respectively; and

(v) on December 14, 2018, the Company, Shanghai Rich Medical, Chelsea Grace Holdings Limited (翠慈控股有限公司), Dr. Fang Yixin, Dr. Mei Hong and Ping An Health Technology Fund (collectively, the "**Parties**") entered into a termination agreement, pursuant to which (a) the investment agreement dated November 8, 2017 entered into by the same parties and all related ancillary agreements would be terminated on the date of receipt of RMB1.0 million by Shenzhen Ping An Decheng Investment Co., Ltd. (深圳市平安德成投資有限公司), the manager of Ping An Health Technology Fund, from Shanghai Rich Medical, as reimbursement for expenses in relation to due diligence work of Ping An Health Technology Fund; (b) Ping An Health Technology Fund should cooperate and provide assistance to release the pledge of the shares of the Company (the "**Shares**") by Chelsea Grace Holdings Limited and the shares of the joint venture by Shanghai Rich Medical; and (c) Ping An Health Technology Fund would transfer its 27.27% equity interest in the joint venture to Shanghai Rich Medical at nil consideration, which was arrived at after arm's length negotiations taking into account that Ping An Health Technology Fund did not make any capital contribution in respect of such 27.27% equity interest in the joint venture. The Parties subsequently agreed to dissolve the joint venture. As at the date of this announcement, the investment agreement and all related ancillary agreements were terminated, the pledge was released and the joint venture was under the process of dissolution.

Please refer to the announcements of the Company dated September 3, 2018, October 11, 2018, November 5, 2018 and December 14, 2018, respectively, for more details.

Capital Expenditure and Commitments

For the year ended December 31, 2018, the Group incurred capital expenditures of RMB395.2 million (as at December 31, 2017: RMB479.8 million), primarily due to purchases of medical equipment for our new medical examination centers and specialty hospitals.

As at December 31, 2018, the Group had a total capital commitment of RMB274.4 million (as at December 31, 2017: RMB702.8 million), mainly comprising the related contracts of capital expenditure in equity investment and newly built medical examination centers and specialty hospitals.

Borrowings

As at December 31, 2018, the Group had total bank and other borrowings of RMB738.2 million (as at December 31, 2017: RMB594.7 million). Please refer to Note 8 to the consolidated financial information for more details.

Contingent Liabilities

The Group had no material contingent liability as at December 31, 2018 (as at December 31, 2017: Nil).

Financial instruments

The Group did not have any financial instruments as at December 31, 2018 (as at December 31, 2017: Nil).

Gearing Ratio

As at December 31, 2018, on the basis of net debt divided by total capital, the Group's gearing ratio was 25.6% (as at December 31, 2017: (0.2%)). The increase in gearing ratio mainly resulted from the Group's use of its internal funding and the increase in bank borrowings for the fund required for the construction of new medical examination centers and specialty hospitals.

Cash Flow and Fair Value Interest Rate Risk

Our exposure to changes in interest rates is mainly attributable to our bank borrowings.

Borrowings obtained at variable rates expose us to cash flow interest rate risk. Borrowings obtained at fixed rates expose us to fair value interest rate risk. As at December 31, 2018, borrowings of RMB638,007,000 were at floating interest rate. We did not hedge our cash flow and fair value interest rate risk during 2018.

Foreign Exchange Risk

For the year ended December 31, 2018, the Group was not exposed to significant foreign currency risk, except for the bank deposits from the initial public offering, which were denominated in Hong Kong dollar, and the bank deposits denominated in US dollar and Euro. The Group currently does not have a foreign currency hedging policy. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit Risk

We have no significant concentration of credit risk. The carrying amounts of cash and cash equivalents, trade and other receivables and deposits from long-term leases represent our maximum exposure to credit risk in relation to our financial assets. The objective of our measures to manage credit risk is to control potential exposure to recoverability problem.

Cash and cash equivalents were deposited in major financial institutions, which the Directors believe are of high credit quality.

The Group has policies in place to ensure that receivables with credit terms are made to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the counterparties. The credit period granted to the customers and the credit quality of these customers are assessed, taking into account their financial position, past experience and available forward-looking information. The Group considers the probability of default upon initial recognition of a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. We also consider available reasonable and supportive forward-looking information.

The credit risk of hospital business is related to the recoverability of trade receivables and other receivables. The credit risk of medical examination business is related to the length of the overdue period of trade receivables from corporate customers and other receivables.

Liquidity Risk

Our finance department monitors rolling forecasts of our liquidity requirements to ensure we have sufficient cash to meet operational needs and maintain sufficient headroom on our undrawn borrowing facilities at all times so that we do not breach borrowing limits or covenants (where applicable) on any of our borrowing facilities. We expect to fund the future cash flow needs through cash flows generated from operations, borrowings from financial institutions and issuing debt instruments or capital contribution from the shareholders of the Company (the "**Shareholders**"), as necessary. Based on contractual undiscounted payments, our financial liabilities were RMB1,517.4 million as at December 31, 2018 (as at December 31, 2017: RMB928.0 million).

Pledge of Assets

As at December 31, 2018, the Group had property assets with a total carrying amount of RMB100,684,000 (as at December 31, 2017: property assets of RMB80,944,000) and restricted deposits with an amount of USD34,059,970 (as at December 31, 2017: restricted deposits of USD33,000,000) pledged for borrowings. Besides, the Group had 22.06% equity interest of Nantong Rich Hospital (as at December 31, 2017: Nil) secured to guarantee the exercise of the option right granted to Everbright (Haimen).

HUMAN RESOURCES

The Group had 5,687 employees as of December 31, 2018, as compared to 4,734 employees as of December 31, 2017. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination.

Remuneration of the Group's employees includes basic salaries, allowances, bonus, share option scheme and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence. We provide regular training to our employees in order to improve their skills and knowledge. The training courses range from further educational studies to skill training to professional development courses for management personnel, including a management trainee program.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company or the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

FINAL DIVIDEND

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2018.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from June 18, 2019 to June 21, 2019, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining Shareholders' entitlement to attend and vote at the annual general meeting to be held on June 21, 2019 (the "**2019 AGM**"). In order to be eligible to attend and vote at the 2019 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on June 17, 2019.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as of the date of this announcement, the Company has maintained the public float as required under the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the Shareholders as a whole. The Company has adopted the code provisions as set out in the Corporate Governance Code (the "**Code**") as contained in Appendix 14 to the Listing Rules as its own code to govern its corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the Code during the year under review.

Pursuant to code provision A.2.1 of the Code, the responsibility between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, Dr. Fang Yixin was appointed as the chief executive officer of the Company on March 20, 2019, and upon his new appointment, the Company does not have a separate chairman and the chief executive officer and Dr. Fang Yixin performs these two roles. The Board considers that vesting the roles of the chairman and the chief executive officer in Dr. Fang Yixin is beneficial to the Group for implementing its new business strategies given his abundant experience in the healthcare industry and longtime and substantive involvement in the day to day management and operation of the Group. In addition, the balance of power and authority is ensured by the operation of the Board and the senior management, which comprises experienced and capable individuals independent from Dr. Fang Yixin (except his spouse, Dr. Mei Hong, and his son, Mr. Fang Haoze). The Board comprised two executive Directors (including Dr. Fang Yixin and Dr. Mei Hong), two non-executive Directors and three independent non-executive Directors as at the date of this announcement and therefore has a fairly strong independence element in its composition.

The Board will continue to review and monitor the practices of the Company with an aim to maintain a high standard of corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuer" (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company by the Directors and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the year under review. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the year under review.

REVIEW OF FINANCIAL STATEMENTS

Audit Committee

The audit committee of the Board (comprising Ms. Wong Sze Wing (being an independent non-executive Director), Ms. Jiao Yan (being a non-executive Director) and Dr. Wang Yong (being an independent non-executive Director)) has reviewed with the management of the Company the consolidated financial information of the Company for the year ended December 31, 2018, including accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters.

Scope of Work of PricewaterhouseCoopers

The figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended December 31, 2018 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year.

The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (*www.hkexnews.hk*) and the Company's website (*www.rich-healthcare.com*). The annual report of the Company for the year ended December 31, 2018 will be despatched to the Shareholders and published on the aforesaid websites in due course.

APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

By Order of the Board
Rici Healthcare Holdings Limited
Fang Yixin
Chairman

Shanghai, the PRC, March 29, 2019

As of the date of this announcement, the Board comprises two executive Directors, namely, Dr. Fang Yixin and Dr. Mei Hong; two non-executive Directors, namely Ms. Jiao Yan and Mr. Yao Qiyong; and three independent non-executive Directors, namely, Dr. Wang Yong, Mr. Jiang Peixing and Ms. Wong Sze Wing.