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*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1509)**

## **SUPPLEMENTAL ANNOUNCEMENT**

### **RESULTS OF INTERNAL CONTROL REVIEW**

Reference is made to (1) the announcement of the Company dated 28 March 2019 in relation to its delay in the publication of the 2018 Annual Results and despatch of the 2018 Annual Report (the “**Delay Announcement**”), (2) the announcement of the Company dated 7 May 2019 in relation to its publication of unaudited management accounts for the year ended 31 December 2018 and the engagement of its Internal Control Consultant, (3) the announcement of the Company dated 12 June 2019 in relation to the guidance received from the Stock Exchange regarding the resumption of trading of the Company’s shares on the Stock Exchange, (4) the quarterly update announcement of the Company dated 28 June 2019 in relation to, among others, its resumption progress, (5) the update announcement of the Company dated 31 July 2019 in relation to the progress of its internal control review, (6) the announcement of the Company dated 30 August 2019 in relation to, among others, further delay in publication of the 2018 Annual Results and the delay in publication of the 2019 Interim Results, (7) the quarterly update announcement of the Company dated 29 September 2019 in relation to, among others, its resumption progress and (8) the quarterly update announcement of the Company dated 24 December 2019 in relation to, among others, its resumption progress (the “**Quarterly Update Announcement**”). Capitalised terms used herein shall have the same meanings as those defined in the Delay Announcement and the Quarterly Update Announcement.

## RESULTS OF INTERNAL CONTROL REVIEW

As disclosed in the Quarterly Update Announcement, the Review has been completed. The Company hereby sets out below the key internal control deficiencies identified by the Internal Control Consultant during the Review, their corresponding recommendations (“**Improvement Recommendations**”) and the corresponding responses of the Group.

No.	Internal control deficiencies	Improvement Recommendations	The Group’s responses
A.	<i>Understand the trading process of Hibaby’s Equity Transfer agreement</i>		
1.	<p>The “Authorization Handbook (2016 version)” (《工作權限手冊(2016年版)》) of the Company (the “<b>Authorization Handbook</b>”) included authorization matrix relating to payment from fund raised but had not included such process for the following:</p> <ul style="list-style-type: none"> <li>• Large capital expenditures;</li> <li>• Investment funds;</li> <li>• Guaranteed loans;</li> <li>• Related party transactions (“<b>RPT</b>”); and</li> <li>• Long term equity investments.</li> </ul>	<p>The Internal Control Consultant noted that the management was in the progress of revising the Authorization Handbook and recommended that the management of the Company should finalize it as soon as possible and circulate the revised Authorization Handbook to all departments and staff.</p> <p>In addition, designated responsible staff should prepare and submit a “Feasibility Study Report” and “Investment Application” for all investment projects to the chief executive officer of the Company, and/or Board meetings or shareholders’ meetings for approval, depending on the amount of investment.</p>	<p>The Group has (i) revised the Authorization Handbook to regulate and monitor the approval on all investments and (ii) strengthened the enforcement on the revised Authorization Handbook and required all staff to follow accordingly.</p>

No.	Internal control deficiencies	Improvement Recommendations	The Group's responses
2.	No "Feasibility Study Report" and "Investment Application" relating to Hibaby's Equity Transfer were prepared as required pursuant to the "Internal Control Manual (2017)" (《内部控制手冊(2017版)》) of the Company (the "IC Manual").	<p>The management is recommended to strengthen the internal control and strictly require the relevant staff to comply with the IC Manual and retain Feasibility Study Reports and Investment Applications in relation to the investment projects to ensure all investment decisions are duly approved before execution.</p> <p>In addition, all written documentations relating to investment projects such as "Feasibility Study Reports" and "Investment Applications" should be retained by the designated department or personnel for review in the future.</p>	<p>The Group has restructured its organizational structure and instructed its investment department to be responsible for the upcoming investment activities.</p> <p>The investment department has created two new positions, namely the deputy investment director and investment manager, who are responsible to handle and monitor all investment activities, and written documentations such as "Feasibility Study Reports" and Investment Applications" are now in the custody of designed personnel.</p>
3.	No retention of documented evidence relating to the contract approval on the Hibaby's Equity Transfer.	The management is recommended to strictly require the relevant staff to follow the contract approval process and retain relevant written records (such as contract approval applications) to ensure all contracts are approved and signed by designated legal representative(s).	<p>The Group has followed this recommendation and implemented the required policies and procedures.</p> <p>According to the revised Authorization Handbook, all contracts are to be raised, approved and kept in the Company's cloud system. The sequence of contract approval by relevant departments is also adjusted in the system properly.</p>

No.	Internal control deficiencies	Improvement Recommendations	The Group's responses
4.	<p>According to the “Matters reserved to the Board and delegation authorities to the Management” (特別保留予董事會的事宜及轉授予本公司管理層的職能) policy (the “<b>Policy</b>”), the Board is responsible for the decision and prior approval of major and significant projects/transactions.</p> <p>The term “major and significant projects/transactions” was not defined in the Policy.</p>	<p>The Board is recommended to review the Policy and define the term “major and significant projects/transactions” in terms of amount or the nature of the projects/transactions. The revised Policy should be confirmed and signed by the management and be distributed to the responsible staff for regular review.</p>	<p>The Group (i) has revised the draft Policy for Board Meetings and defined the term “major and significant projects/transactions”, the threshold for the amount and nature of the transactions for approval and (ii) will enhance its implementation thereof after the Board's approval.</p>
5.	<p>The finance department was not involved or did not provide written advice on the payment schedule of Hibaby's Equity Transfer (including annual interest, interest period calculation, terms for breach of contract etc.).</p>	<p>The management is recommended to strictly implement the practice of involving the legal department for final review of contracts and the finance department for determination of consideration, and require the above departments to keep related written review records.</p>	<p>The Group has (i) revised the “Contract Management Policy” and adjusted the approval sequence by the relevant departments and (ii) improved the contract and company chop approval process in the Company's cloud system.</p>
<b>B. Anti-fraud management</b>			
1.	<p>Lack of periodical anti-fraud training.</p>	<p>The management is recommended to hold anti-fraud training periodically (i.e. at least once a year) to enhance the awareness of anti-fraud for all staff in order to minimize the risk of financial loss of the Group.</p>	<p>The Group has (i) revised its “Anti-fraud Policy” to strengthen and hold anti-fraud trainings periodically in which the relevant attendance records will be retained by staff of the risk control and audit department; (ii) digitalized the anti-fraud process by establishing a self-inspection program in the Company's cloud system and generating annual inspection summary; and (iii) enhanced the daily monitoring process and proactively identify and prevent potential fraud risk.</p>

No.	Internal control deficiencies	Improvement Recommendations	The Group's responses
<i>C.</i>	<i>Contracts and Chops Management</i>		
1.	The use of contract chops procedures was not strictly enforced.	The management is recommended to strengthen the use of company and contract chops procedures by strictly requesting all staff to submit the "Use of Chop Application" and obtain management approval before using the contract chops.	The Group has (i) strengthened the "Chop Management Policy" (印信管理制度) (the " <b>Chop Policy</b> ") relating to the use of contract chops and (ii) enabled the automatic generation and recording of application codes for use of chops applications in the Company's cloud system.
2.	The company chops usage records were incomplete.	<p>The management is recommended to strengthen the use of company chops procedures and strictly require all staff to:</p> <ul style="list-style-type: none"> <li>• record the use of company chops in the "Chop Register";</li> <li>• require staff of the administration department to record necessary information including the sequential number in the "Chop Register"; and</li> <li>• a "Contract Register" should be established and regularly updated in all hospitals to document the signed contract details.</li> </ul>	The Group has (i) strictly enforced the Chop Policy and required that all usage must be recorded; (ii) with the help of the Company's cloud system, all contracts are to be recorded in the system and contract sequential numbers can be generated automatically; and (iii) discussed with the IT department and added the function in the cloud system for easy search and management.

No.	Internal control deficiencies	Improvement Recommendations	The Group's responses
3.	No standardized policy for contract management within the entire Group.	<p>The management is recommended to perform the following recertification actions:</p> <ul style="list-style-type: none"> <li>• consider to standardize the contract management policy within the entire Group;</li> <li>• improve the Company's cloud system so that the system can generate a complete list of contracts for easy management and monitoring; and</li> <li>• document the contract sequential numbers on the original copy of contracts for easy reference.</li> </ul>	The Group has (i) improved and revised the current approval process in the system as well as the "Contract Management Policy"; (ii) instructed staff of the IT department to evaluate and develop the function in the system to automatically generate the contract list; and (iii) with the help of the Company's cloud system, contract sequential numbers will be generated in the system automatically.
4.	Incomplete documentation of the relevant contract information in accordance with the "Contract Management Policy".	The management is recommended to strictly require the authorized personnel to sign and stamp with company chop after all necessary information has been included in the contracts.	The Group has followed this recommendation and implemented the required policies and procedures and no contracts should be signed or stamped with company chops unless they have included all the required information.
5.	Improper implementation of the "Contract Management Policy".	<p>The management is recommended to strengthen the "Contract Management Policy" by:</p> <ul style="list-style-type: none"> <li>• requiring the legal department to conduct a final review before signing a contract to minimize the risk of dispute; and</li> <li>• retaining all the written legal advice from the legal department/external legal advices for review in the future.</li> </ul>	The Group has (i) revised the "Contract Management Policy" and improved the contract approval process in the Company's cloud system; (ii) with the help on the Company's cloud system all contracts review and approval records will be recorded and maintained; and (iii) instructed the IT department to update the system requirements on contracts review and approval process.

No.	Internal control deficiencies	Improvement Recommendations	The Group's responses
6.	Contracts were not centrally filed by the HR & Administration department of the headquarters and subsidiaries of the Company as required by the "Contract Management Policy".	<p>The management is recommended to strictly require all relevant staff to adhere to the following procedures stated in the "Contract Management Policy":</p> <ul style="list-style-type: none"> <li>• the HR &amp; Administration department of the Company's headquarters should file all headquarters' contracts, maintain a complete contract register and update regularly;</li> <li>• staff of the Group's subsidiaries should send the scanned copy of the signed contract to the Company's headquarters within 2 days after each contract is signed; and</li> <li>• administration departments of the Group subsidiaries should file all contracts with the Company's headquarters and maintain a contract register in order to monitor the status.</li> </ul>	<p>The Group has strengthened the contract management via the Company's cloud system.</p> <p>All contracts will be stored in the system.</p>

No.	Internal control deficiencies	Improvement Recommendations	The Group's responses
<i>D. Treasury and Investment Management</i>			
1.	<p>Failure to provide annual investment plan and give clear defined guidelines to let project leaders know whether their investment projects require further evaluation and approval from the Board under the “Investment Management Policy” (對外投資管理制度).</p>	<p>The management is recommended to strictly require all project leaders to follow the following procedures in accordance with the “Investment Management Policy”:</p> <ul style="list-style-type: none"> <li>• setting an annual strategic target, preparing an annual investment plan and then submitting the plan to the Board or shareholders’ meetings for approval. All relevant document should be retained as evidence; and</li> <li>• clarifying or defining the nature and amount of investments requiring the submission of proposals to the Board and/or shareholders’ meetings for evaluation and approval.</li> </ul>	<p>The Group has implemented the following:</p> <p>The investment department has formulated the approval process of submitting the investment plans and the format of annual strategic plans in accordance with the “Policy for Board Meetings”.</p> <p>The Securities Affairs department has updated the “Policy for Board Meetings” which was approved by the Board, which defined the term “major and significant projects/transactions” requiring approval from the Board and/or at shareholders’ meetings.</p> <p>In addition, the Group has further strengthened the management over its associates. For associates with an investment from the Group of more than RMB10 million or a shareholding ratio of more than 40% by the Group, the Group will consider to conduct a regular review over their financial statements, contracts, etc., and involve in decision making by the board of the associates.</p>



No.	Internal control deficiencies	Improvement Recommendations	The Group's responses
			<p>The Board has approved the following management procedures in relation to its associates:</p> <ul style="list-style-type: none"> <li>i) a mandatory reporting mechanism applicable to all significant associates which will require them to report to the Board or Board committee on a regular basis and the Company's headquarters will monitor whether the management of significant associates report regularly;</li> <li>ii) a regular performance evaluation for the member of management of significant associates' who are nominated by the Group; these senior management of the associates should also be the management of the Group to ensure the associates' interest align with the Group's long term strategic position;</li> <li>iii) the Company's headquarters will regularly review and comment on the Group's finance policies, investment policies and daily management policies; and</li> <li>iv) the Company's headquarters will review all the meeting minutes of significant decisions made by significant associates' board and communicate with the Group's representatives when needed.</li> </ul>

No.	Internal control deficiencies	Improvement Recommendations	The Group's responses
2.	Failure to properly maintain all the signed external investment project agreements with company chops.	The management is recommended to strictly require the relevant staff to maintain all the signed copies of the investment agreements as records.	The Group has followed this recommendation and would ensure all contracts are stored properly and filed by project codes and in chronological order.
3.	Absence of written review evidence retained on the "Master List of Investment Projects".	The management is recommended to have designated staff to perform a regular review on the master list investment projects and retain a written review record as evidence.	The Group has followed this recommendation and the investment department will have regular meetings with the finance department to review the project status on the master list of investment projects.
<i>E. Cash and Payment Management</i>			
1.	<p>"Finance Management Policy" (財務管理制度彙編) did not cover the following aspects:</p> <ul style="list-style-type: none"> <li>• Authorization on eBanking;</li> <li>• Custody of eBanking ciphers;</li> <li>• Cheque management (including cheque count process); and</li> <li>• RPT (including RPT identification and significant payment approval).</li> </ul>	The management is recommended to strengthen and revise the current finance management policy and the policies and procedures should be reviewed periodically and circulated to the relevant staff.	The Group has strengthen the "Finance Management Policy" and has circulated to the relevant staff.
2.	Failure to retain some approval records of some payments from the hospitals which should be approved by headquarters.	The management is recommended to strictly require all staff to follow the payment process and obtain necessary approval.	The Group has followed this recommendation and will enforce the payment process.

No.	Internal control deficiencies	Improvement Recommendations	The Group's responses
3.	Failure to retain any written documents of an payment issue or perform reconciliation with payees periodically in one case.	The management is recommended to require the relevant staff to perform reconciliation on the outstanding amount with the vendors and prepare the "Account Payable Confirmation". The Company should require vendors to sign and stamp with company chops as evidence.	The Group will prepare an "Account Payable Confirmation" regularly and require vendors to sign and stamp on the confirmation as evidence.
4.	Lack of segregate duties of the staff of the finance department to ensure the accuracy and completeness of vouchers.	The management is recommended to strengthen the accounting voucher review process to achieve segregation of duties to ensure the accuracy and completeness of the vouchers.	The Group has circulated the relevant finance policies which include clear guidelines on such processes and the Group will continue to monitor the voucher review process in the future.
5.	Improper implementation of bank reconciliation process.	<p>The management is recommended to strictly enforce the following procedures:</p> <ul style="list-style-type: none"> <li>• Prepare a "Bank Reconciliation" when there are discrepancies on the bank balance between ledger and the bank statement;</li> <li>• Require preparer and reviewer to sign off on the bank reconciliation as evidence; and</li> <li>• "Bank Reconciliation" should be kept by designated finance staff as audit trail.</li> </ul>	The Group has followed this recommendation and implemented the required policies and procedures.

The Company has fully adopted and implemented the Improvement Recommendations and will continue to implement the Improvement Recommendations on an ongoing basis so as to further strengthen the internal control system of the Company.

## **CONTINUED SUSPENSION OF TRADING**

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

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

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

Hong Kong, 25 March 2020

*As at the date of this announcement, the executive Directors are Mr. Lin Yuming, Mr. Fang Zhifeng and Mr. Zhao Xingli; the non-executive Directors are Mr. Lin Yuguo, Mr. Qiu Jianwei and Mr. Xu Jun; and the independent non-executive Directors are Mr. Kong Aiguo, Ms. Fang Lan and Mr. Cai Jiangnan.*