Jinxin Fertility Group Limited
錦欣生殖醫療集團有限公司*
(Incorporated under the laws of the Cayman Islands with limited liability)
(Stock Code: 1951)

ANNOUNCEMENT OF THE RESULTS FOR THE YEAR ENDED DECEMBER 31, 2019

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the year ended December 31, 2019 was approximately RMB1,648.5 million, representing an increase of 78.8% when compared with that of approximately RMB922.0 million for the year ended December 31, 2018.

- Gross profit of the Group for the year ended December 31, 2019 was approximately RMB816.8 million, representing an increase of 97.7% when compared with that of approximately RMB413.1 million for the year ended December 31, 2018.

- Net profit of the Group for the year ended December 31, 2019 was approximately RMB420.7 million, representing an increase of 98.3% when compared with that of approximately RMB212.1 million for the year ended December 31, 2018. Adjusted net profit(1) of the Group for the year ended December 31, 2019 was approximately RMB530.3 million, representing an increase of 100.7% when compared with that of approximately RMB264.2 million for the year ended December 31, 2018. Net profit for the year ended December 31, 2019 attributable to the owners of the Company was approximately RMB409.6 million, representing an increase of 145.9% when compared with that of approximately RMB166.6 million for the year ended December 31, 2018. Adjusted net profit(1) attributable to the owners of the Company for the year ended December 31, 2019 was approximately RMB519.3 million, representing an increase of 137.5% when compared with that of approximately RMB218.7 million for the year ended December 31, 2018.

- EBITDA of the Group for the year ended December 31, 2019 was approximately RMB583.4 million, representing an increase of 84.4% when compared with that of approximately RMB316.4 million for the year ended December 31, 2018. Adjusted EBITDA(2) of the Group for the year ended December 31, 2019 was approximately RMB675.5 million, representing an increase of 91.2% when compared with that of approximately RMB353.2 million for the year ended December 31, 2018.

- Basic earnings per share for the year ended December 31, 2019 amounted to RMB0.19. Adjusted basic earnings per share(3) for the year ended December 31, 2019 amounted to RMB0.24.

- The Board recommended the payment of a final dividend of HK$6.8 cents for the year ended December 31, 2019 (for the year ended December 31, 2018: nil).

Non-IFRS Measures

To supplement the Group's consolidated financial statements which are presented in accordance with IFRS, the Company has provided adjusted net profit, adjusted net profit margin, adjusted EBITDA, adjusted EBITDA margin and adjusted basic earnings per share as non-IFRS measures, which is not required by, or presented in accordance with, IFRS. The Company believes that the adjusted financial measures provide useful information to investors in understanding and evaluating the Group's consolidated statements of profit or loss in the same manner as they helped the Company's management, and that the Company's management and investors may benefit from referring to these adjusted financial measures in assessing the Group's financial and operating performance from period to period by eliminating impacts of items that the Group does not consider indicative of the Group's operating performance. However, the presentation of these non-IFRS financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with IFRS. You should not view the adjusted results on a stand-alone basis or as a substitute for results under IFRS, or as being comparable to results reported or forecasted by other companies as they do not have a standardized meaning. Additionally, these non-IFRS financial measures have limitations as an analytical tool and may be defined differently from similar terms used by other companies.

Notes:

(1) Adjusted net profit is calculated as net profit for the Reporting Period, excluding (i) Listing expenses; (ii) ESOP expenses; (iii) amortization and depreciation of medical practice license and property, plant and equipment arising from Shenzhen Zhongshan Hospital and HRC Management Acquisition; (iv) imputed interest income from related parties; (v) the loss associated with the disposal of Shenzhen Zhongshan Hospital's two community health service centers; and (vi) depreciation of property, plant and equipment in connection with relocation of Gaoxin Xinan Hospital, to better reflect the Company's current business and operations.

(2) Adjusted EBITDA is calculated as EBITDA for the Reporting Period, excluding (i) Listing expenses; (ii) ESOP expenses; (iii) imputed interest income from related parties; (iv) the loss associated with the disposal of Shenzhen Zhongshan Hospital's two community health service centers and (v) depreciation of property, plant and equipment in connection with relocation of Gaoxin Xinan Hospital, to better reflect the Company's current business and operations.

(3) Adjusted basic earnings per share is calculated as adjusted net profit divided by weighted average number of ordinary shares for the purpose of calculating basic earnings per share.

ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2019

The Board of Directors is pleased to announce the audited consolidated annual results of the Group for the year ended December 31, 2019, together with the comparative figures for the corresponding period in 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2019

	NOTES	**2019**	2018
		RMB'000	*RMB'000*
Revenue	*4*	**1,648,496**	921,994
Cost of revenue		**(831,701)**	(508,875)
Gross profit		**816,795**	413,119
Other income	*5*	**63,381**	21,795
Other expenses	*6*	**(1,828)**	(4,181)
Other gains and losses	*7*	**28,322**	(590)
Research and development expenses		**(13,298)**	(11,982)
Selling and distribution expense		**(62,219)**	–
Administrative expenses		**(211,295)**	(103,435)
Listing expenses		**(62,635)**	(38,138)
Finance costs	*8*	**(9,323)**	–
Profit before taxation	*9*	**547,900**	276,588
Income tax expenses	*10*	**(127,223)**	(64,464)
Profit for the year		**420,677**	212,124
Other comprehensive income (expense):			
Item that will not be reclassified to profit or loss:			
Exchange difference on translation from functional currency to presentation currency		**84,172**	–
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(18,648)**	–
Other comprehensive income for the year		**65,524**	–
Total comprehensive income for the year		**486,201**	212,124
Profit for the year attributable to:			
– Owners of the Company		**409,623**	166,600
– Non-controlling interests		**11,054**	45,524
		420,677	212,124

	NOTES	**2019**	2018
		RMB'000	*RMB'000*
Total comprehensive income for the year attributable to:			
– Owners of the Company		**476,887**	166,600
– Non-controlling interests		**9,314**	45,524
		486,201	212,124
Earnings per share:			
– Basic (RMB)	*12*	**0.19**	0.15
– Diluted (RMB)	*12*	**0.19**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2019

	NOTES	**2019**	2018
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**856,691**	137,737
Right-of-use assets		**170,331**	–
Goodwill		**809,312**	802,051
License		**388,130**	401,285
Contractual right to provide management services		**1,962,926**	1,939,049
Trademarks		**1,305,306**	1,292,432
Equity instrument at fair value through other comprehensive income ("FVTOCI")		**10,017**	9,990
Refundable deposits		**4,996**	2,082
Prepayments		**7,343**	100,000
Amounts due from related parties		**–**	438,165
		5,515,052	5,122,791
Current assets			
Inventories		**26,083**	16,548
Accounts and other receivables	*13*	**46,060**	76,920
Amounts due from related parties		**49,653**	70,894
Tax recoverable		**8,180**	934
Structured bank deposits		**2,663,980**	20,000
Financial assets at fair value through profit or loss ("FVTPL")		**52,500**	65,010
Bank balances and cash		**579,637**	1,184,190
		3,426,093	1,434,496
Assets classified as held for sale		**–**	1,021
		3,426,093	1,435,517
Current liabilities			
Accounts and other payables	*14*	**319,757**	391,050
Amounts due to related parties		**40,729**	916,985
Lease liabilities		**29,244**	–
Tax payables		**46,465**	68,765
		436,195	1,376,800
Net current assets		**2,989,898**	58,717
Total assets less current liabilities		**8,504,950**	5,181,508

	2019	2018
	RMB'000	*RMB'000*
Non-current liabilities		
Lease liabilities	**153,264**	–
Deferred rent	**–**	4,769
Deferred tax liabilities	**709,291**	676,941
	862,555	681,710
Net assets	**7,642,395**	4,499,798
Capital and reserves		
Share capital	**160**	129
Reserves	**7,526,724**	4,363,042
Equity attributable to owners of the Company	**7,526,884**	4,363,171
Non-controlling interests	**115,511**	136,627
Total equity	**7,642,395**	4,499,798

1. GENERAL

Jinxin Fertility Group Limited (the "Company", together with its subsidiaries collectively referred to as the "Group") was incorporated and registered as an exempted company in the Cayman Islands with limited liability under Companies Law (2018 Revision) of the Cayman Islands, Cap. 22 (Law 3 of 1961) as amended or supplemented or otherwise modified from time to time on 3 May 2018 and the shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 25 June 2019 (the "Listing").

The Company is an investment holding company. The major subsidiaries of the Company are principally engaged in the provision of (i) assisted reproductive services; (ii) management services; (iii) ambulatory surgery centre facilities services; and (iv) ancillary medical services.

The consolidated financial statements are presented in Renminbi ("RMB") as it best suits the needs of the shareholders and investors. Prior to 1 January 2019, RMB was regarded as the functional currency of the Company since all the Group's business are conducted in the People's Republic of China (the "PRC"). The Group completed the acquisition in late December 2018 of HRC Fertility Management, LLC ("HRC Management") through acquisition of Willsun Fertility (BVI) Company Limited ("Willsun BVI"), which holds 51% equity interests in HRC Management, and its remaining 49% equity interests through HRC Investment Holding LLC ("HRC Investment"), the 49% shareholder of HRC Management (these two acquisitions are hereinafter collectively referred to as "HRC Management Acquisition"). HRC Management together with its subsidiary (collectively referred to as "HRC Management Group"), principally provides (i) non-medical management and administrative services required for the operation of physician medical practices carried out by Huntington Reproductive Centre Medical Group ("HRC Medical") which is a medical corporation established in the State of California, the United States of America ("U.S.A.") pursuant to a management service agreement (the "MSA") entered into with HRC Management; (ii) ambulatory surgery centre facilities; and (iii) pre-implantation genetic screening testing ("PGS Testing"). HRC Medical is a medical corporation engaged in the provision of (i) in vitro fertilization ("IVF") services; (ii) cryopreservation services; and (iii) gynaecologic surgery, and other related services. The directors of the Company (the "Directors") consider that upon the HRC Management Acquisition the primary economic environment in which the Company operates has changed and together with the expected expansion of the Group primarily through future overseas acquisitions, it is more appropriate to use United States dollars ("US$") as the functional currency of the Company effective from 1 January 2019.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group underwent a series of group reorganisation (the "Group Reorganisation") from May 2018 through December 2018 in preparing for the Listing and details of which have been set out in the accountants' report of the Company as set out in Appendix IA to the prospectus of the Company dated 13 June 2019. The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2018 are prepared as if the Group structure upon completion of the Group Reorganisation had been in existence throughout the year ended 31 December 2018, or since their respective date of incorporation/establishment or acquisition of the relevant entities, where there is a shorter period.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued the International Accounting Standards Board ("IASB") for the first time in the current year:

IFRS 16	Leases
IFRIC – Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015 – 2017 Cycle

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3.1. IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Leases* ("IAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rates for certain leases of clinics in the U.S.A. were determined on a portfolio basis;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2020.

5 Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to IFRSs mentioned below, the Directors anticipate that the application of all the other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to IAS 1 and IAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in IFRSs

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for assisted reproductive services, management services, ambulatory surgery centre facilities and ancillary medical services, net of discounts.

During the year ended 31 December 2019, the Group's revenue is contributed from its operation in Chengdu, Shenzhen and the U.S.A. (31 December 2018: Chengdu and Shenzhen).

Although the Group had completed the HRC Management Acquisition on 24 December 2018, the Directors considered that its post-acquisition revenue and results have been insignificant for the rest of the financial year of 2018 and accordingly, these had not been reflected in the Group's consolidated financial statements for the year ended 31 December 2018. Therefore, the Group had single operating segment in the PRC for the year ended 31 December 2018, in which information reported to the Directors, being the chief operating decision makers ("CODM") of the Group, review the consolidated revenue analysis of provision of assisted reproductive services, management services and ancillary medical services of the Group and the financial results of the Group as a whole for performance assessment.

In the current year, upon the HRC Management Acquisition, a new segment in the U.S.A. is added as another new reportable segment. The reportable segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the CODM, for the purpose of allocating resources to segments and assessing their performance. Accordingly, segment revenue, segment results for the year ended 31 December 2018 and segment assets and liabilities information as at 31 December 2018 that is presented for comparative purposes has been represented to conform with current year's presentation. The change in segment reporting does not have an impact on the Group's financial position, financial performance or cash flows.

The Group's operating and reportable segments under IFRS 8 *Operating Segment* are operations located in the PRC and the U.S.A. during the year ended 31 December 2019. The revenue generated by each of the operating segments is mainly derived from revenue from provision of assisted reproductive services and related services, and management services. The following is an analysis of the Group's revenue and results by reportable segments.

For the year ended 31 December 2019:

	PRC	**U.S.A.**	**Consolidated**
	RMB'000	***RMB'000***	***RMB'000***
Revenue			
Segment revenue from external customers	**1,068,625**	**579,871**	**1,648,496**
Segment profit	**364,203**	**225,987**	**590,190**
Unallocated administrative expenses			**(50,528)**
Exchange gain, net			**30,036**
Certain interest income from banks			**9,300**
Interest income from structured bank deposits			**31,537**
Listing expenses			**(62,635)**
Profit before taxation			**547,900**

For the year ended 31 December 2018:

	PRC	U.S.A.	Consolidated
	RMB'000	*RMB'000*	*RMB'000*
	(restated)	(restated)	(restated)
Revenue			
Segment revenue from external customers	921,994	–	921,994
Segment profit	317,908	–	317,908
Unallocated administrative expenses			(2,868)
Exchange loss, net			(314)
Listing expenses			(38,138)
Profit before taxation			276,588

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit before tax for each respective segment excluding unallocated administrative expenses (including the corporate expenses), certain net exchange gain or loss and interest income resulted from the corporate bank balances (including structured bank deposits) and other financial assets and liabilities and listing expenses.

Segment assets and liabilities

The following is an analysis of the Group's asset and liabilities by reportable and operating segments:

	2019	2018
	RMB'000	*RMB'000*
		(restated)
Segment assets		
PRC	**2,130,085**	1,497,105
U.S.A.	**3,948,625**	3,670,689
Total segment assets	**6,078,710**	5,167,794
Equity instrument at FVTOCI	**10,017**	9,990
Corporate structured bank deposits	**2,643,980**	–
Corporate bank balances and cash	**176,061**	866,634
Amounts due from shareholders	**–**	507,721
Unallocated (other assets)	**32,377**	6,169
Total	**8,941,145**	6,558,308

	2019	2018
	RMB'000	*RMB'000*
		(restated)
Segment liabilities		
PRC	**574,757**	608,610
U.S.A.	**695,973**	570,227
Total segment liabilities	**1,270,730**	1,178,837
Dividend payables	**–**	15,919
Unallocated (corporate liabilities)	**28,020**	81,204
Amounts due to shareholders	**–**	782,550
Total	**1,298,750**	2,058,510

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to operating segments, other than equity instrument at FVTOCI, corporate bank balances and cash, corporate structured bank deposits and amounts due from shareholders and other unallocated corporate assets; and

- All liabilities are allocated to operating segments, other than dividend payable, amounts due to shareholders arising from the Group Reorganisation and other unallocated corporate liabilities.

Disaggregation of revenue from contracts with customers

	Notes	**2019**	2018
		RMB'000	*RMB'000*
Types of services			
Assisted reproductive services – PRC			
A point in time recognition	*(i)*	**573,272**	500,493
Over time recognition	*(i)*	**358,606**	300,759
		931,878	801,252
Management services – Over time recognition			
– U.S.A.	*(ii), (iii)*	**544,386**	–
– PRC	*(i)*	**104,103**	89,741
		648,489	89,741
Ambulatory surgery centre facilities services – U.S.A.			
– A point in time recognition	*(ii)*	**30,867**	–
Ancillary medical services			
A point in time recognition			
– U.S.A.	*(ii)*	**4,618**	–
– PRC	*(i)*	**18,082**	14,182
		22,700	14,182
Ancillary medical services – PRC			
Over time recognition	*(i)*	**14,562**	16,819
		37,262	31,001
Total		**1,648,496**	921,994

Notes:

(i) Revenue generated in the PRC which amounted RMB1,068,625,000 (31 December 2018: RMB921,994,000).

(ii) Revenue generated in the U.S.A. which amounted to RMB579,871,000 (31 December 2018: Nil).

(iii) Upon the HRC Management Acquisition, gross management services fee for services provided under the MSA for the year ended 31 December 2019, including cost reimbursed of RMB66,176,000 as purchasing agent for pharmaceuticals procurement pursuant to HRC Medical's medication supply program, amounted to RMB610,562,000.

All services are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Geographical information

At 31 December 2019, the non-current assets located in the PRC, the U.S.A. and Hong Kong amounted to RMB1,717,127,000, RMB3,772,809 and RMB15,099,000, respectively (31 December 2018: RMB1,058,166,000, RMB3,616,470,000 and nil, respectively). Non-current assets as at 31 December 2019 and 31 December 2018 excluded equity instrument at FVTOCI and amounts due from related parties.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2019	2018
	RMB'000	*RMB'000*
HRC Medical	**552,981**	N/A[1]

[1] New customer upon completion of the HRC Management Acquisition in late December 2018.

5. OTHER INCOME

	2019	2018
	RMB'000	*RMB'000*
Imputed interest income from related parties	**2,321**	7,186
Interest income from banks	**12,321**	2,428
Interest income from structured bank deposits	**31,537**	–
Government grants *(Note)*	**3,506**	5,110
Consulting service income	**9,171**	3,914
Sponsorship income	**1,258**	–
Medicine donation income	**–**	995
Others	**3,267**	2,162
	63,381	21,795

Note: The government grants mainly represented the grant on cost incurred for research and development projects of Shenzhen Zhongshan Hospital with no unfulfilled conditions. Government grants received for research and development projects but with conditions not yet fulfilled are included in deferred income.

6. OTHER EXPENSES

	2019	2018
	RMB'000	*RMB'000*
Late fees relating to unpaid PRC Enterprise Income Tax ("EIT") and value-added tax *(Note)*	**1,778**	4,164
Other expenses	**50**	17
	1,828	4,181

Note: Amount for the year ended 31 December 2018 primarily represents late fees relating to unpaid PRC EIT and value-added tax arising from the revenue generated from the provision of management services.

7. OTHER GAINS AND LOSSES

	2019 *RMB'000*	2018 *RMB'000*
Loss on disposal of a subsidiary	**(21)**	–
Loss on disposal of property, plant and equipment	**(2,948)**	(276)
Others exchange gain (loss), net	**29,980**	(314)
Gains on fair value change of financial assets at FVTPL	**1,789**	–
Others	**(478)**	–
	28,322	(590)

8. FINANCE COSTS

	2019 *RMB'000*	2018 *RMB'000*
Interest on lease liabilities	**9,323**	–

9. PROFIT BEFORE TAXATION

	2019 *RMB'000*	2018 *RMB'000*
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	**5,500**	392
Directors' remuneration	**5,436**	10,562
Other staff costs		
– salaries, allowances and other benefits	**355,557**	151,360
– retirement benefit schemes contributions for other staffs	**22,919**	24,250
– share-based compensation benefits	**20,498**	–
Total staff costs	**404,410**	186,172
Cost of inventories recognised as expenses (representing pharmaceutical products and consumables used, included in cost of revenue)	**379,309**	310,700
Amortisation of license (included in administrative expenses)	**13,155**	13,156
Depreciation of property, plant and equipment	**66,156**	29,114
Depreciation of right-of-use assets	**33,239**	–

10. INCOME TAX EXPENSES

	2019 *RMB'000*	2018 *RMB'000*
Current tax:		
PRC EIT	**58,349**	61,213
PRC withholding tax on distributed profits of the PRC subsidiaries	**–**	7,075
U.S.A. Federal Income Tax	**27,769**	–
U.S.A. State Income Tax	**12,762**	–
	98,880	68,288
Deferred tax:		
Current year	**28,343**	(3,824)
	127,223	64,464

The Company is tax exempted under the laws of the Cayman Islands and its subsidiaries incorporated in the British Virgin Islands ("BVI") are also tax exempted under the laws of the BVI from a BVI tax perspective.

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profit subject to Hong Kong Profits Tax during both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and implementation regulations of the EIT Law, the statutory EIT rate of subsidiaries of the Company operating in the PRC is 25%, except for certain subsidiaries that are engaged in "the Encouraged Industries in the Western Region" and eligible for the preferential EIT rate at 15%. The Company's subsidiaries that are tax residents in the PRC are subject to the PRC dividend withholding tax of 10% for the non-PRC tax resident immediate holding company established in Hong Kong, when and if undistributed earnings are declared to be paid as dividends out of profits that arose on or after 1 January 2008.

After the HRC Management Acquisition, certain subsidiaries of the Group are subject to U.S.A. corporate tax representing 21% of the applicable U.S.A. Federal Income Tax rate and an average of 8.84% for California State Income Tax rate for the year ended 31 December 2019 for their operations in the U.S.A.

Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the retained profits of the PRC subsidiaries amounting to approximately RMB437,222,000 as at 31 December 2019 (31 December 2018: RMB133,689,000), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The income tax expenses for the year can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	2019	2018
	RMB'000	*RMB'000*
Profit before taxation	**547,900**	276,588
Tax at PRC EIT rate of 25%	**136,975**	69,147
Tax effect of expenses not deductible for tax purposes	**31,348**	18,002
Tax effect of income not taxable for tax purpose	**(15,990)**	–
Withholding tax on dividend income from subsidiaries	**–**	7,075
Effect of tax exemption and concessions granted to certain PRC hospitals	**(30,151)**	(29,672)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**4,343**	–
Others	**698**	(88)
Income tax expenses	**127,223**	64,464

At the end of the reporting period, the Group has no material unused tax losses that is not recognised.

11. DIVIDENDS

During the year ended 31 December 2018, Sichuan Jinxin Fertility, Chengdu Xinan Hospital and Shenzhen Zhongshan Hospital declared dividends of an aggregate amount of RMB153,000,000, RMB256,687,000 and RMB80,000,000, respectively, to its then shareholders, of which approximately RMB159,184,000, RMB70,748,000, RMB144,790,000 and RMB114,965,000 were distributed to Sichuan Jinxin Fertility, Jinxin Fertility HK, the owners of the Company and the non-controlling shareholders, respectively. In addition, among the dividend declared by Chengdu Xinan Hospital, RMB43,451,000 of which was offset against the amount due from a related party and RMB71,915,000 was transferred to Chengdu Jinxin Investment pursuant to agreement entered into between Sichuan Jinxin Fertility and Chengdu Jinxin Investment.

The rate of dividends and number of shares ranking for the dividends during the year ended 31 December 2018 are not presented as such information is not considered meaningful having regard to the purpose of these consolidated financial statements.

On 27 May 2019, a dividend in the amounts of approximately RMB272,913,000 and US$4,590,000 (equivalent to RMB31,048,000) was declared by the Company, being approximately RMB0.15 per ordinary share based on the number of shares in issue at dates of declaration of the dividends.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HK$0.068 (equivalent to RMB0.06) (2018: nil) per ordinary share, in an aggregate amount of RMB151,500,000, has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2019 *RMB'000*	2018 *RMB'000*
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**409,623**	166,600

	2019 *'000*	2018 *'000*
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**2,199,011**	1,125,870
Effect of dilutive potential ordinary shares:		
Restricted Shares Units issued by the Company	**7,176**	–
Over-allotment option issued by the Company	**152**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,206,339**	1,125,870

For the year ended 31 December 2019, the weighted average number of ordinary shares for the purpose of calculation of basic and diluted earnings per share has been adjusted for the effect of the 32,981,388 ordinary shares held by the nominee under the RSU Scheme.

For the year ended 31 December 2019, the restricted shares and the over-allotment option granted by the Company have potential dilutive effect on the earnings per share. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding on the assumption of the conversion of all potential dilutive ordinary shares arising from restricted shares granted by the Company. No adjustment is made to earnings.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been determined based on the assumption that the Group Reorganisation of the Company had been effective on 1 January 2018.

No diluted earnings per share is presented as the Group has no potential ordinary shares in issue during the year ended 31 December 2018.

13. ACCOUNTS AND OTHER RECEIVABLES

	2019 *RMB'000*	2018 *RMB'000*
Accounts receivables *(note a)*	**12,247**	9,385
Other receivables and prepayment:		
Prepayments to suppliers	**28,282**	8,571
Rental and other deposits	**4,996**	2,321
Interest receivables	**9,296**	–
Prepaid rental to a related party *(note b)*	**–**	150,000
Deferred listing expenses	**–**	6,664
Others	**3,578**	2,061
	46,152	169,617
Total accounts and other receivables	**58,399**	179,002
Analysed as:		
Current	**46,060**	76,920
Non-current	**12,339**	102,082
Total	**58,399**	179,002

Notes:

(a) As at 1 January 2018, accounts receivables from contracts with customers amounted to RMB4,583,000.

(b) Prepayments represent the prepaid rentals for three years pursuant to a lease agreement entered into with Jinsheng Hospital Management in December 2017 for a Hospital Building provided by the related party for a lease period of 20 years effective 1 January 2018. The annual rental is RMB50,000,000 for the first three years and an annual 3% escalation thereafter.

On 31 January 2018, a supplemental agreement ("Supplemental Agreement") was entered into with Jinsheng Hospital Management to defer the lease commencement to a date on or after 31 January 2019, due to the delay of the construction and renovation of the Hospital Building. The Supplemental Agreement was subsequently cancelled upon signing the share purchase agreement below.

On 11 February 2019, the Group entered into a share purchase agreement and property transfer agreement, which were supplemented on 7 May 2019 and 23 May 2019, with 成都優他製藥有限責任公司(Chengdu Youta Pharmaceutical Company Limited, "Youta Pharmaceutical"), to acquire the entire equity interest in 成都錦奕企業管理有限公司(Chengdu Jinyi Corporate Management Limited "Chengdu Jinyi") (the "Share Transfer") which will own the Hospital Building and the related carpark facilities upon its transfer from Youta Pharmaceutical before completion of the Share Transfer. The total consideration for the Share Transfer is approximately RMB738,153,000 (inclusive of reimbursement of renovation and other expenses) and comprised three instalments: (i) an amount of RMB260,000,000, being reimbursement of renovation and other expenses, is payable within five days of the agreement; (ii) an amount of RMB244,300,000 is payable within twenty days of the agreement; and (iii) the remaining amount of RMB233,853,000 is payable by 30 September 2019. The Share Transfer was completed on 10 May 2019.

The Group settled the consideration for the above acquisition by way of a set-off against the prepaid rentals amounting to RMB150,000,000, outstanding amounts due from related parties amounting to RMB354,339,000, paid RMB216,814,000 in cash and transfer the remaining amount of RMB17,000,000 to an amount due to a related party.

The individual customer of Chengdu Xinan Hospital and its subsidiaries ("Chengdu Hospital Group") and Shenzhen Zhongshan Hospital and its subsidiaries ("Shenzhen Zhongshan Group") would usually settle payments by cash, credit cards, debit cards or governments' social insurance schemes. Payments by governments' social insurance schemes will normally be settled by the local social insurance bureau and similar government departments which are responsible for the reimbursement of medical expenses for patients who are covered by the government medical insurance schemes from 30 to 90 days from the transaction date.

The individual customer of ambulatory surgery centre facilities services of HRC Management Group would usually settle by cash or payments through insurance schemes. Payments by insurance schemes will normally be settled by commercial insurance companies from 60 to 365 days from the transaction date.

The Directors are in the view that there have been no significant increase in credit risk of default because the amounts are from local social insurance bureau, similar government departments or insurance companies with good credit rating and continuous repayment.

The accounts receivables are assessed individually for impairment allowance based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. The Directors considered that the ECL for accounts receivables is insignificant as at 31 December 2019 and 2018.

In determining the recoverability of accounts receivables, the management of the Group considers any change in the credit quality of the accounts receivables from the date credit was initially granted up to the end of the reporting period.

The following is an aged analysis of accounts receivables, presented based on the invoice date at the end of each reporting period.

	2019	2018
	RMB'000	*RMB'000*
Within 90 days	**5,582**	6,126
91 to 180 days	**2,880**	2,923
Over 180 days	**3,785**	336
	12,247	9,385

14. ACCOUNTS AND OTHER PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Accounts payables	**114,916**	143,010
Other payables:		
Dividend payables	**–**	23,727
Construction payables	**3,695**	2,459
Refundable customers' deposits	**54,347**	43,932
Accrued employee expenses (including social insurance and housing fund contributions)	**102,555**	98,866
Accrued listing expenses/share issue costs	**–**	22,500
Accrued rental expenses	**–**	44
Payables to a third party *(note i)*	**–**	7,685
Consultancy fee payable	**–**	633
Value-added tax and other tax payables	**22,302**	22,663
Deferred income *(note ii)*	**5,753**	5,601
Accrued late fees for unpaid PRC EIT and value-added tax	**–**	7,440
Others	**16,189**	12,490
	204,841	248,040
Total accounts and other payables	**319,757**	391,050

Notes:

(i) Amount represents temporary receipts on behalf of a not-for-profit organisation.

(ii) The amount mainly represents government grants received for research and development projects but with conditions not yet fulfilled.

The credit period of accounts payables is from 30 to 90 days from the invoice date.

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

	2019	2018
	RMB'000	*RMB'000*
Within 90 days	**93,497**	82,718
91 to 180 days	**20,595**	55,710
181 to 365 days	**106**	3,794
Over 365 days	**718**	788
	114,916	143,010

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS UPDATES

During the Reporting Period, we continued to adhere to our strategy of establishing a leading global ARS platform with integrated abilities, aiming to address increasing unmet demand, in particular from Chinese patients. We have built a strong market reputation stemming from superior success rates, experienced medical staff and high quality patient care that have greatly contributed to our role as a leading ARS provider in China and the United States. With this strategy and reputation in mind, we continued to expand our network operations, enhanced patient experience and loyalty, improved brand awareness through marketing and cooperation initiatives, recruited talents to our experienced network of physicians and expanded service offerings across our network of operations. The Reporting Period was also highlighted by the listing of our shares on the Stock Exchange on June 25, 2019.

Expansion of operations

In February 2019, Chengdu Xinan Hospital relocated its operations to the New Hospital Building, which is a modern high-rise building well-equipped with an extensive IVF lab, gym facilities, increased parking spaces, and additional amenities and services and seven times larger than its previous location with a total gross floor area of 42,659.64 sq.m. This relocation significantly expanded operations, optimized and better integrated the patient treatment process, which provides Chengdu Xinan Hospital with the ability to serve more patients with the increased capacity and offer more comprehensive services to its patients.

Towards the end of 2019, in order to further improve the patient treatment experience, renovations were completed to significantly enlarge the outpatient area of Jinjiang IVF Center from approximately 1,292 sq.m. to 2,576 sq.m. The renovations also expanded the patient waiting area and consultation rooms.

In March 2020, for the purpose of business expansion in Southeast Asia, we acquired the relevant licenses to provide ARS and operate an IVF clinic in Laos. We have planned to set up a new IVF-licensed clinic within the Boten Special Economic Zone in Laos and such clinic with a floor area of approximately 5,000 sq.m is expected to be open for business by the third quarter of 2020 and have the projected capacity to conduct over 3,000 IVF treatment cycles per year. The new clinic is expected to offer a myriad of services, including IVF-ET (in vitro fertilization and embryo transfer), ICSI (intracytoplasmic sperm injection), PGS (preimplantation genetic screening)/PGD (preimplantation genetic diagnosis), third party IVF, other various IVF technology and treatment options, and egg and sperm cryopreservation. Located near the border of the Boten Special Economic Zone, the clinic is in close proximity to China and will be accessible from Kunming, Yunnan province in approximately four hours via the high-speed railway due to be completed in 2021 as part of the Belt and Road Initiative. The business expansion in Laos will allow us to further expand its global reach by tapping into the Southeast Asian market and providing Chinese patients with an overseas option with a wider range of services at a lower price point, which is in line with our internationalization strategy to expand out of China as well as catering for the surging patient flow from the Chinese market.

Enhance patient experience

Chengdu Xinan Hospital continued to provide an array of services to VIP patients to meet the increasing demand for highly personalized and private services. Each VIP patient is assigned an experienced medical assistant and butler to provide timely and personalized concierge services throughout the entire treatment process. VIP patients are given access to exclusive privileges, such as increased consultation time with our physicians, advanced equipment, private consultation area, flexible appointment schedule, complementary nutrition guidance, Chinese medicine treatment, psychological counseling, and fitness courses. To enhance our VIP patients' experience, Chengdu Xinan Hospital initiated renovation of the VIP area in the New Hospital Building immediately after the relocation. We believe the new VIP area will help us offer more sophisticated services to our VIP patients. Through the provision of our VIP services, the revenue generated from our network has increased.

We also extended our services to include pre-pregnancy (備孕) and pre-natal (保胎) care to provide patients with comprehensive guidance and treatment throughout the whole process. Through these services, we offer one-on-one consultations with experienced medical professionals, diagnosis and testing to identify possible risks, recommendations on lifestyle changes and treatment to reduce pregnancy complications, and general guidance and monitoring.

To continuously optimize and improve the patient experience, we conducted one-on-one interviews with patients before discharge from our network of medical institutions to collect feedback on their experience. Furthermore, in conjunction with the OB-GYN (obstetrics and gynecology) department of the Sister Group, we continued to provide patients with educational courses on pregnancy, online medical consulting and other support services, which have increased patient loyalty and the number of new patients from former patient referrals.

Marketing and cooperation initiatives

We continued to develop our brand and expertise through various marketing and cooperation initiatives. As of December 31, 2019, we cooperated with 69 medical institutions, which involve two-way referrals or specialty alliance cooperation agreements. In October 2019, we signed a licensing agreement to strategically cooperate with a well-known professional salon in Japan named "Angel Baby," in order to obtain authorization for the use of the brands "Angel's Egg" (天使のたまご) and "Fujiwara Angel Baby" (藤原式天使寶貝) to provide pre-natal and post-natal acupuncture treatment and aromatherapy services at Chengdu Xinan Hospital. In addition to leveraging our official Wechat account, website and hotline services, we continued to strengthen and expand our outreach to patients outside our network in China through collaborations with digital platforms that target families looking to have children, including Bozhong.com (播種網) and Dayima (大姨媽). These collaborations will allow us to directly market our services to users on these platforms nationwide and explore new market opportunities. Users will also be able to easily access our official website easily and learn more about the services we provide, thereby further promoting the reputation of our brand.

In addition, HRC Fertility continued to utilize its extensive experience of serving Chinese patients to actively enhance its brand awareness. HRC Fertility is well-equipped with Chinese-speaking personnel (including nurses, facilitators and translators) who are familiar with the health conditions and culture of Chinese patients. Moreover, 2019 closed with a few major developments in HRC Fertility's marketing approach. The organization made a conscious shift to build its own in-house marketing team to move away from using outside sources, such as advertising and digital agencies, to reorganize and rebrand HRC Fertility's marketing efforts. This catered for a centralization of all creative, media, events, social media, digital and production initiatives resulting in a much more cost efficient and strategic approach. The new in-house team has been focusing on three key areas, namely lead nurturing, digital presence and creative development. A new customer-relationship management (CRM) system has been implemented to provide insight into marketing efforts and conversions pre-NPV through lead nurturing activities that are built via marketing funnels. The brand's digital presence is also being revamped through the development of a new website that represents the current market and delivers the HRC brand in a manner that is consistent with the way our potential patients live in 2020. Webinars have been rebranded into Facebook Live sessions to provide seminars with more consistent lead flow, and an official WeChat account was launched and a customer service team was established to target Chinese patients not served by the agencies in the area.

Quality control and research and development (R&D)

Quality control is a critical aspect to the success of our business. Our superior success rates are supported by up-to-date standardized operating procedures and a robust quality control system that has been implemented throughout the medical facilities in our network, all of which have allowed us to enhance the efficacy of the treatment process. We continued to strengthen quality control in our IVF laboratories based on the accreditation requirements of the College of American Pathologists by setting up a quality assurance system to monitor daily procedures, lab equipment, embryo culture media and consumables for embryo culture, and setting up a risk management system for risk prevention and minimization. Additionally, we also improved embryo culture and selection systems based on the most updated international consensus.

Our R&D team continues to conduct important research in the ARS field to explore new methods to improve our clinical pregnancy rate. In 2010, we were the first to carry out clinical diagnosis and treatment in reproductive immunology in China. In collaboration with Chengdu Jinxin Investment, an innovative research center will be established in 2020 for the purpose of, among other things, carrying out endometrial receptivity testing, developing an IVF-AI (artificial intelligence) diagnostic system and developing a stem-cell culture system. We also have the exclusive rights for the application of the technology.

On the other hand, the assisted reproductive medical facilities in our network have gained widespread recognition for their research and publications. During the Reporting Period, the medical facilities in our network in China published 28 research papers, of which 18 were published in the China Core Journals and ten were included in the Science Citation Index. Our R&D team also shared lab observations and studies in four oral presentations at the 2019 Asian-Pacific Reproductive Medicine Annual Conference.

Talents recruitment

During the Reporting Period, we continued to bolster our network's strong medical team with strategic hires of experienced medical professionals, including Dr. Lisa Becht and Dr. Lihong Geng, who are both well-regarded assisted reproductive physicians with extensive experience in ARS. Dr. Becht's addition to our medical team at HRC Fertility will further increase its capacity and capability to serve more patients and provide better services. Starting in 2020, Dr. Geng will serve as our director of ARS quality control to ensure the Group continues to maintain its high quality services. We will continue to identify and recruit experienced medical professionals in both China and the United States to our medical team.

Key operating data

The following table sets forth the key operating data generated from our network of assisted reproductive medical facilities for the year ended December 31, 2018 and 2019.

	Year ended December 31,	
	2019	2018
Number of IVF treatment cycles	**27,854**	20,958[1]
Overall success rate		
Xinan Hospital Group and Jinjiang IVF Center	**55.2%**	55.3%
Shenzhen operations	**54.1%**	52.0%
United States operations	**55.2%**	54.5%[1]

During the Reporting Period, success rate in all three segments of our operations remained relatively stable compared to 2018. The slight decrease in the success rate for Xinan Hospital Group was mainly attributable to the increasing number of complicated cases and increasing age of the patients we treated. Operations in Xinan Hospital Group, Shenzhen and Jinjiang IVF Center recorded an increase in the number of patients and scale of ARS provided. The consolidation of United States operations also contributed to the growth of the Group's business in 2019.

[1] As the Group acquired the United States operations in December 2018, the key operating data of the United States operations before the acquisition does not belong to the Group.

OUTLOOK AND FUTURE

The global ARS market has increased over the years and such growth is expected to continue over the next few years, particularly due to an increased prevalence of infertility, caused by lifestyle changes, increase in the average age of the first birth, and increased public awareness on birth defects and prevention. Compared with Japan, Europe and the United States, the market penetration of ARS in China is still low. With improved awareness and increasing disposable income, patients in China will continue to seek more sophisticated IVF treatment, including receiving IVF treatment abroad.

As a leading ARS provider in China and the United States, we have established a competitive advantage on branding, technology, medical staff and management in a market with significant entry barriers. According to the market research report on China and the United States ARS markets prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., in terms of IVF treatment cycles and revenue generated from ARS institutions in 2018, our network in China ranked third among all ARS institutions in China. Due to an increase in the number of people seeking more ARS options, 18,000 patients in China went overseas for ARS, of which 30% (5,400 patients) went to the United States. The number of patients from China going to the United States for ARS is expected to grow to 13,500 by 2023. Our network in the United States is well-positioned to benefit from this future growth. In 2017, HRC Fertility ranked first among all ARS providers in the United States, in terms of IVF treatment cycles provided to ARS patients traveling from China to the United States for treatment. In 2018, HRC Fertility also ranked first in the Western United States in terms of both revenue generated from ARS clinics and IVF treatment cycles performed. In terms of success rates of IVF treatment cycles, a metric that ARS providers primarily compete on, we have a competitive advantage with success rates well above the national average in both China and the United States ARS markets. In 2018, the average success rate of an IVF treatment cycle in China was approximately 45% compared to our network in China of 54%. Similarly, in the United States ARS market, the average success rate in 2016 was 52.5% compared to our network in the United States of 62%.

In view of the aforesaid, we intend to leverage our position as a leading ARS provider and favorable industry prospects by continuing to pursue the following core strategies that have contributed to our success so far.

Increased market share, productivity and capacity

In both China and the United States, we continue to promote market education activities that improve public awareness of our high quality services and increase our market share. Furthermore, leveraging on our existing marketing leadership in Sichuan and Guangdong, we plan to penetrate the Southwest China (such as Guizhou and Yunnan) market and use our competitive pricing in Shenzhen to expand our services to treat patients from Hong Kong. In the United States, we plan to double our existing capacity in Pasadena by relocating to a new location in mid-2020. In addition to our VIP service, we are also offering and expanding our services to pre-pregnancy and pre-natal care to provide patients with comprehensive guidance and treatment throughout the whole process. We will continue to expand our services and provide more treatment options to patients with infertility problems.

Continue to improve our brand awareness

We intend to reinforce our brand building efforts, allowing us to maintain and enhance our reputation and attract new patients. Leveraging our existing market leadership, long-standing experience and strong reputation in the ARS market, we intend to adopt effective strategies to improve our brand awareness and educate intended parents of the ARS we provide. In particular, we intend to use social media tools and utilize our online platform to increase publicity and improve patient care. We also seek to further strengthen and expand our cooperation with local hospitals, companies and institutions to expand our patient reach.

We will integrate our vendors' resources in the United States to save costs. We will deeply cooperate with certain leading vendors to eliminate intensified price competition in the industry. At the same time, we are committed to continuously improving our branding, services and clinical outcomes for our patients, so as to create competitive strength in the industry.

Continue to invest in research and development to enhance overall performance

Leveraging our position as one of the pioneers in the ARS industry in both China and the United States, we intend to continue to invest in research and development initiatives to maintain our leading position in the application of assisted reproductive technologies and improve clinical outcomes in our patients. We will continue to invest in research and development at both Chengdu and Shenzhen research facilities, which have been focusing on fundamental research relating to heredity and reproductive immunology, respectively. We also focus on research to identify the physiological appearance of embryos which is associated with higher success rates. We will continue to collaborate with Chengdu Jinxin Investment to conduct R&D initiatives including endometrial receptivity testing, IVF-AI diagnostic system and stem-cell culture system. We believe the application of these technologies is likely to expand our service offering as well as improve our clinical outcome. In the United States, we will continue working with top tier pharmaceutical companies, such as Ferring Pharmaceuticals, to maintain our leading position in the application of assisted reproductive technologies, which in turn maintains our high success rate. Furthermore, we seek to actively deploy the technology that we possess to expand the services we provide.

We will continue to adhere to high quality standards and explore new methods to improve quality control in our IVF laboratories, which are a critical part to the overall IVF success rate. We have organized educational seminars, information sessions and other forms of collaboration on topics such as embryology laboratory managements to increase communication and exchanges between the medical teams of the China and United States operations.

Expand our platform reach through acquisitions

We have been expanding our network in China, the United States and Southeast Asia to address ongoing demands from patients, particularly Chinese patients. In China, we are expanding our national network by acquiring ARS providers and/or entering into cooperation arrangements with other ARS providers with an established business in populous and affluent urban centers. In the United States, we also intend to extend our services along the ARS value chain as well as acquire fertility clinics in California. In Southeast Asia, in line with our mergers and acquisitions (M&A) strategy and following surging patient demand from our China market, we acquired an IVF license and established a new full-service IVF clinic in the Boten Special Economic Zone in Laos, which is currently under renovations and due to be open for business in the third quarter of 2020.

We intend to acquire established surrogacy and egg donor agencies, particularly those which are located in the Greater Los Angeles area, and establish egg banks, all of which would complement and strengthen HRC Fertility's core IVF services by offering one-stop-shop services to attract more potential patients. We also plan to set up and/or acquire embryology laboratories that provide standardized services, have a replicable business model and have achieved high profit margins. These laboratories can provide laboratory space to HRC Medical's physicians as well as physicians outside our network. We would also continue stick to our M&A strategy by selectively entering into other countries and markets with a relatively high demand for ARS and are of particular significance for providing ARS to international patients, such as Russia's fast-growing market and other Southeast Asia countries that are both increasingly becoming medical tourism destinations for Chinese patients.

Minimize the impact of the outbreak of Novel Coronavirus

In light of the recent outbreak of the novel coronavirus (COVID-19), China and a number of countries around the world have taken various emergency public health measures and actions to contain the spread. In order to minimize the impact the outbreak has on patients, we have instituted alternative arrangements through digital channels to stay in close contact with patients to timely address their needs. In China, patients have access to an online Q&A platform for consultations with our service representatives, receive follow-ups and can schedule online appointments with medical professionals to ensure that once the outbreak is controlled, patients' needs can be immediately addressed. We will also continue to foster closer cooperation with different online platforms, such as through minority shareholding investment and long-term cooperation. Similarly, in the United States, HRC Fertility has kept in close contact with its patients through their agents and digital channels. Additionally, during this outbreak, we and HRC Fertility continue to increase our marketing and patient outreach through various online channels. We are also working on various marketing campaigns to incentivize our patients to return to our hospitals and receive treatments post-outbreak of COVID-19.

The Company will continue to assess the impact of the outbreak on the operation and financial performance of the Group, while closely monitoring the development of the outbreak and the risks and uncertainties faced by the Group as a result of the outbreak. The Company will take appropriate measures as necessary.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased by 78.8% from approximately RMB922.0 million for the year ended December 31, 2018 to approximately RMB1,648.5 million for the year ended December 31, 2019. The overall increase was primarily due to (i) an increase in the number of patients and scale of ARS provided at the Group's Chengdu and Shenzhen operations; (ii) inclusion of the results of the United States operations into the Group starting from January 1, 2019; and (iii) completion of renovation of Shenzhen Zhongshan Hospital in 2018.

During the Reporting Period, the Group generated revenue from the following services: (i) ARS; (ii) management services; and (iii) ancillary medical services. The following table sets forth a breakdown of the Group's revenue for each service category:

	Year ended December 31,			
	2019		2018	
	Revenue	***%***	*Revenue*	*%*
	(RMB in thousands, except percentages)			
Revenue				
ARS				
Xinan Hospital Group	**628,400**	**38.1%**	539,097	58.5%
Shenzhen Zhongshan Hospital	**303,478**	**18.4%**	262,155	28.4%
Sub-total	**931,878**	**56.5%**	801,252	86.9%
Management service fee				
Jinjiang IVF Center and Jinxin Fertility Center	**104,103**	**6.3%**	89,741	9.7%
HRC Medical(1)	**544,386**	**33.0%**	–(2)	–(2)
Sub-total	**648,489**	**39.3%**	89,741	9.7%
Ancillary medical services(3)				
Shenzhen Zhongshan Hospital	**32,644**	**2.0%**	31,001	3.4%
HRC Management(1)	**35,485**	**2.2%**	–(2)	–(2)
Sub-total	**68,129**	**4.2%**	31,001	3.4%
Total	**1,648,496**	**100.0%**	921,994	100.0%

Notes:

(1) HRC Medical is managed by HRC Management pursuant to the MSA since July 2017, which the Group indirectly acquired in December 2018. As such, the revenue generated from the United States operations for the year ended December 31, 2018 does not belong to the Group.

(2) As the Group acquired the United States operations in December 2018, this does not belong to the Group.

(3) Ancillary medical services provided by HRC Medical include ambulatory surgery centre facility services and PGS testing services.

Chengdu operations

The revenue contributed by the medical facilities in the Group's network in Chengdu increased by 16.5% from approximately RMB628.8 million for the year ended December 31, 2018 to approximately RMB732.5 million for the year ended December 31, 2019, primarily due to an increase in the revenue from ARS provided at Xinan Hospital Group and management service fees charged to Jinjiang IVF Center resulting from the increase in the scale of ARS provided at Xinan Hospital Group and Jinjiang IVF Center.

The revenue from ARS provided at Xinan Hospital Group increased by 16.6% from approximately RMB539.1 million for the year ended December 31, 2018 to approximately RMB628.4 million for the year ended December 31, 2019, primary due to the increase in the scale of ARS provided at Xinan Hospital Group.

Revenue from management services provided in Chengdu increased by 16.0% from approximately RMB89.7 million for the year ended December 31, 2018 to approximately RMB104.1 million for the year ended December 31, 2019, primarily due to (i) the increase in management service fees charged to Jinjiang IVF Center due to the increase in patients at Jinjiang IVF Center during the relocation of Chengdu Xinan Hospital, which was partially offset by the decrease in management service fees charged to Jinxin Fertility Center; and (ii) the closure of Jinxin Fertility Center in March 2018 to optimize the Group's business structure and resources and therefore no management service fee was charged to Jinxin Fertility Center for the year ended December 31, 2019.

Shenzhen operations

The revenue contributed by the Group's Shenzhen operations increased by 14.7% from approximately RMB293.2 million for the year ended December 31, 2018 to approximately RMB336.1 million for the year ended December 31, 2019, primarily due to the increase in the scale of ARS provided at Shenzhen Zhongshan Hospital resulting from the completion of renovation of Shenzhen Zhongshan Hospital in the first half of 2018.

United States operations

Revenue from management services provided by the Group under the MSA with HRC Medical in California, the United States amounts to approximately RMB544.4 million for the year ended December 31, 2019[2].

Ancillary medical and facilities services provided by HRC Management include ambulatory surgery centre facility services and PGS testing services. Ambulatory surgery centre facilities services revenue relates to provision of ambulatory surgery centre facilities at RSA Centers to doctors in exchange for a fee, which amounts to approximately RMB30.9[3] million for the year ended December 31, 2019. PGS testing services revenue relates to provision of preimplantation genetic screening service at its in-house clinical laboratory called NexGenomics, which amounts to approximately RMB4.6 million for the year ended December 31, 2019[3].

2 As the Group acquired the United States operations in December 2018, no financial result of the United States operations is presented for the year ended December 31, 2018, as it does not belong to the Group.

3 As the Group acquired the United States operations in December 2018, no financial result of the United States operations is for the year ended December 31,2018 as it does not belong to the Group.

Cost of Revenue

Cost of revenue of the Group increased by 63.4% from approximately RMB508.9 million for the year ended December 31, 2018 to approximately RMB831.7 million for the year ended December 31, 2019. The increase in the cost of revenue was mainly attributed to (i) the inclusion of the results of the United States operations starting from January 1, 2019; and (ii) business growth resulting in increases in pharmaceutical products and consumables, staff costs and depreciation, which were all largely in line with the increase in revenue.

Cost of revenue of the Group primarily consists of the cost of pharmaceutical products and consumables, staff costs, and depreciation of property, plant and equipment, and others. Cost of pharmaceutical products and consumables consists of the cost of pharmaceutical products and consumables that the Group uses in the course of providing its services. Staff costs are primarily incurred in connection with salaries, benefits, social insurance payments and bonus for the Group's medical staff. Depreciation primarily consists of depreciation of property, plant and equipment.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased by 97.7% from approximately RMB413.1 million for the year ended December 31, 2018 to approximately RMB816.8 million for the year ended December 31, 2019. The increase in the gross profit was mainly attributed to (i) continued growth of the Group's business; (ii) the inclusion of the results of the United States operations starting from January 1, 2019; and (iii) the larger scale of the Group's operations in Chengdu and Shenzhen. The Group's gross profit margin increased from 44.8% for the year ended December 31, 2018 to 49.5% for the year ended December 31, 2019. The increase in the gross profit margin was attributed to improvements in economies of scale, a change in revenue mix and higher gross profit margin generated from the United States operations.

Other Income

Other income of the Group increased by 190.8% from approximately RMB21.8 million for the year ended December 31, 2018 to approximately RMB63.4 million for the year ended December 31, 2019, primarily due to an increase in interest income from the bank deposits.

Other income primarily consists of interest income from structured bank deposits, interest income from banks, consulting service income, government grants for research and development projects at Shenzhen Zhongshan Hospital, imputed interest income from related parties and others.

Other Gains and Losses

Other gains and losses primarily represent net exchange gain or loss. The Group recorded net exchange gain of approximately RMB30.0 million for the year ended December 31, 2019, resulting from the conversion of the U.S. dollar denominated balances at the Group's offshore entities using Renminbi as functional currencies to Renminbi and the conversion of HK dollar denominated balances at the Group's offshore entities using U.S. dollar as functional currencies to U.S. dollar.

Research and Development Expenses

Research and development expenses of the Group increased by 11.0% from approximately RMB12.0 million for the year ended December 31, 2018 to approximately RMB13.3 million for the year ended December 31, 2019, primarily due to an increase in the staff costs of the Group's research and development team and the cost of materials used by them.

Research and development expenses primarily consist of staff costs of the Group's research and development team at Shenzhen Zhongshan Hospital, which conducts projects in assisted reproductive technology, in particular, reproductive immunology, and cost of materials used by its research and development team.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of marketing and promotional expenses associated with organizing educational activities and cooperating with third parties agencies and partners. Those expenses are primarily associated with our United States business and were included in the financial statements of the Group starting from January 1, 2019. The Group's selling and distribution expenses amounted to approximately RMB62.2 million for the year ended December 31, 2019. The Group did not record any selling and distribution expenses for the year ended December 31, 2018.

Administrative Expenses

Administrative expenses primarily consist of staff costs, depreciation and amortization, business development expenses, repairment and maintenance, property-related expenses, ESOP expenses and others. Administrative expenses of the Group increased by 104.3% from approximately RMB103.4 million for the year ended December 31, 2018 to approximately RMB211.3 million for the year ended December 31, 2019, primarily due to increase in staff costs and other administrative expenses as a result of the inclusion of the results of the United States operations starting from January 1, 2019 and the increase in the volume of the Group's business, as well as the growth in business scale and revenue of the Group.

Finance Costs

Finance costs of the Group primarily arise from application of IFRS 16 for the first time in the Reporting Period. The Group did not record any finance costs for the year ended December 31, 2018.

Income Tax Expenses

Income tax expenses of the Group primarily consist of PRC enterprise income tax and United States income tax. Income tax expenses of the Group increased by 97.4% from approximately RMB64.5 million for the year ended December 31, 2018 to approximately RMB127.2 million for the year ended December 31, 2019, primarily due to (i) the increase in the Group's profit before taxation which is in line with its business growth; and (ii) the inclusion of the results of the United States operations starting from January 1, 2019. It was partially offset by the decrease in the PRC withholding taxes associated with the dividend distribution in 2018.

The effective tax rate of the Group remained relatively stable compared to 2018 at 23.2%.

Non-IFRS Measures

To supplement the Group's consolidated financial statements which are presented in accordance with IFRS, the Company has provided adjusted net profit, adjusted net profit margin, adjusted EBITDA, adjusted EBITDA margin and adjusted basic earnings per share as non-IFRS measures, which is not required by, or presented in accordance with, IFRS. The Company believes that the adjusted financial measures provide useful information to investors in understanding and evaluating the Group's consolidated statements of profit or loss in the same manner as they helped the Company's management, and that the Company's management and investors may benefit from referring to these adjusted financial measures in assessing the Group's financial and operating performance from period to period by eliminating impacts of items that the Group does not consider indicative of the Group's operating performance. However, the presentation of these non-IFRS financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with IFRS. You should not view the adjusted results on a stand-alone basis or as a substitute for results under IFRS, or as being comparable to results reported or forecasted by other companies as they do not have a standardized meaning. Additionally, these non-IFRS financial measures have limitations as an analytical tool and may be defined differently from similar terms used by other companies.

The following tables set forth the reconciliations of the Group's non-IFRS financial measures for the year ended December 31, 2019 and 2018 to the nearest measures prepared in accordance with IFRS:

	Year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Profit and total comprehensive income for the year	**420,677**	212,124
Add:		
Listing expenses	**62,635**	38,138
ESOP expenses	**27,246**	–
Amortization and depreciation of medical practice license and property, plant and equipment arising from Shenzhen Zhongshan Hospital and HRC management acquisition	**17,553**	15,296
Imputed interest income from related parties	**(2,321)**	(7,186)
Loss associated with the disposal of Shenzhen Zhongshan Hospital's two community health service centers	**4,557**	–
Depreciation of property, plant and equipment in connection with relocation of Gaoxin Xinan Hospital	**–**	5,838
Adjusted Net Profit	**530,347**	264,210
EBITDA	**583,354**	316,430
Add:		
Listing expenses	**62,635**	38,138
ESOP expenses	**27,246**	–
Imputed interest income from related parties	**(2,321)**	(7,186)
Loss associated with the disposal of Shenzhen Zhongshan Hospital's two community health service centers	**4,557**	–
Depreciation of property, plant and equipment in connection with relocation of Gaoxin Xinan Hospital	**–**	5,838
Adjusted EBITDA	**675,471**	353,220

Net Profit and Net Profit Margin

As a result of the foregoings, net profit of the Group increased by 98.3% from approximately RMB212.1 million for the year ended December 31, 2018[4] to approximately RMB420.7 million for the year ended December 31, 2019. Net profit margin of the Group for the year ended December 31, 2019 was 25.5%, compared to 23.0% for the year ended December 31, 2018. The increase in the net profit margin was attributed to improvements in economies of scale.

Net profit for the year ended December 31, 2019 attributable to the owners of the Company was approximately RMB409.6 million, representing an increase of 145.9% when compared with that of approximately RMB166.6 million for the year ended December 31, 2018.

Adjusted net profit[5] of the Group increased by 100.7% from approximately RMB264.2 million for the year ended December 31, 2018 to approximately RMB530.3 million for the year ended December 31, 2019. The adjusted net profit margin of the Group for the year ended December 31, 2019 was 32.2%, compared to 28.7% for the year ended December 31, 2018. The higher adjusted net profit margin of the Group for the year ended December 31, 2019 was primarily due to improvements in economies of scale.

Adjusted net profit[5] attributable to the owners of the Company for the year ended December 31, 2019 was approximately RMB519.3 million, representing an increase of 137.5% when compared with that of approximately RMB218.7 million for the year ended December 31, 2018.

EBITDA

EBITDA[6] of the Group increased by 84.4% from approximately RMB316.4 million for the year ended December 31, 2018[7] to approximately RMB583.4 million for the year ended December 31, 2019. The EBITDA margin of the Group for the year ended December 31, 2019 was 35.4%, compared to 34.3% for the year ended December 31, 2018. The higher EBITDA margin of the Group for the year ended December 31, 2019 was primarily due to improvements in economies of scale.

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4 As the Group acquired the United States operations in December 2018, no financial result of the United States operations presented for the year ended December 31, 2018, as it does not belong to the Group.

5 Adjusted net profit is calculated as net profit for the Reporting Period, excluding (i) Listing expenses; (ii) ESOP expenses; (iii) amortization and depreciation of medical practice license and property, plant and equipment arising from Shenzhen Zhongshan Hospital and HRC Management Acquisition; (iv) imputed interest income from related parties; (v) the loss associated with the disposal of Shenzhen Zhongshan Hospital's two community health service centers; and (vi) depreciation of property, plant and equipment in connection with relocation of Gaoxin Xinan Hospital, to better reflect the Company's current business and operations.

6 EBITDA is calculated as the earnings before interest, taxes, depreciation of property, plant and equipment and amortization of intangible assets, which is defined as profit before taxation plus finance costs (excluding interest on lease liabilities), depreciation of property, plant and equipment, and amortization of medical practice license, less interest income.

7 EBITDA of the Group for the year ended December 31, 2018 did not include the EBITDA of the United States operations for the year ended December 31, 2018. As the Group acquired the United States operations in December 2018, this did not belong to the Group.

Adjusted EBITDA[8] of the Group increased by 91.2% from approximately RMB353.2 million for the year ended December 31, 2018[9] to approximately RMB675.5 million for the year ended December 31, 2019. The adjusted EBITDA margin of the Group for the year ended December 31, 2019 was 41.0%, compared to 38.3% for the year ended December 31, 2018. The increase in the adjusted EBITDA margin was attributed to improvements in economies of scale.

Basic Earnings per Share

The basic earnings per share of the Group for the year ended December 31, 2019 amounted to RMB0.19, as compared to RMB0.15 for the year ended December 31, 2018. Please refer to note 12 to the consolidated financial statements in this announcement.

Inventories

Inventories of the Group increased by 57.6% from approximately RMB16.5 million as at December 31, 2018 to approximately RMB26.1 million as at December 31, 2019, primarily because of the increased scale of the Group's business.

Accounts and Other Receivables

Accounts and other receivables of the Group decreased by 40.1% from approximately RMB76.9 million as at December 31, 2018 to approximately RMB46.1 million as at December 31, 2019, primarily due to the decrease in the prepayment amount for the lease of the New Hospital Building as a result of the acquisition of the New Hospital Building instead of rental.

Accounts and Other Payables

Accounts and other payables of the Group decreased by 18.2% from approximately RMB391.1 million as at December 31, 2018 to approximately RMB319.8 million as at December 31, 2019, primarily due to the decrease in account payables, dividend payables and accrued listing expenses.

Liquidity and Capital Resources

The business operations and expansion plans of the Group require a significant amount of capital, including upgrading the Group's existing medical facilities and establishing and acquiring new medical institutions and other working capital requirements. In June 2019, the Group received total proceeds of approximately HK$2,808.1 million from the Listing, after deducting the underwriting fees, commissions and related Listing expenses. The net proceeds would be used to fund the capital requirements of the Group.

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8 Adjusted EBITDA is calculated as EBITDA for the Reporting Period, excluding (i) Listing expenses; (ii) ESOP expenses; (iii) imputed interest income from related parties, to better reflect the Company's current business and operations; (iv) the loss associated with the disposal of Shenzhen Zhongshan Hospital's two community health service centers; and (v) depreciation of property, plant and equipment in connection with relocation of Gaoxin Xinan Hospital, to better reflect the Company's current business and operations.

9 Adjusted EBITDA of the Group for the year ended December 31, 2018 did not included the adjusted EBITDA of the United States operations for the year ended December 31, 2018. As the Group acquired the United States operations in December 2018, this did not belong to the Group.

Cash Flows

The following table sets forth selected cash flow data of the Group's consolidated statements of cash flows for the years indicated and analysis of balances of cash and cash equivalents for the years indicated:

	For the year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Net cash generated from operating activities	**452,568**	356,437
Net cash used in investing activities	**(2,705,963)**	(388,004)
Net cash generated from financing activities	**1,647,149**	767,104
Cash and cash equivalents at the beginning of the year	**1,184,190**	449,495
Cash and cash equivalents at the end of the year	**579,637**	1,184,190

Capital Expenditures

The principal capital expenditures of the Group relate primarily to purchases of property, plant and equipment. The following table sets forth a breakdown of the Group's capital expenditures contracted for but not provided for the years indicated:

	For the year ended December 31,	
	2019	2018
	RMB'000	*RMB'000*
Capital expenditure in respect of property, plant and equipment contracted for but not provided	**4,606**	22,968
Total	**4,606**	22,968

Significant Investments, Material Acquisitions and Disposals

As at December 31, 2019, there were no significant investment held by the Company, nor were any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Indebtedness

Borrowings

As of December 31, 2019, we did not have any borrowings (December 31, 2018: Nil).

Contingent Liabilities and Guarantees

As at December 31, 2019, the Group did not have any material contingent liabilities or guarantees.

Charge of Assets

As at December 31, 2019, there was no charge on the material assets of the Group.

Contractual Obligations

As at December 31, 2019, the Group did not have any contractual obligations that would have a material effect on its financial position or results of operations.

Gearing Ratio

Gearing ratio is calculated using total borrowings divided by total equity as of the end of such year and multiplied by 100%. As at December 31, 2019, the Group was in net cash position and thus, gearing ratio is not applicable (December 31, 2018: not applicable).

EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2019, the Group and the medical facilities in its network had a total of 1,240 employees, of whom 988 were located in China and 252 were located in the United States. The staff costs, including Directors' emoluments but excluding any contributions to retirement benefit scheme contributions and share-based payment expenses, were approximately RMB361.0 million for the year ended December 31, 2019, as compared to approximately RMB161.9 million for the year ended December 31, 2018.

The medical facilities in the Group's network generally enter into individual employment contracts with their employees to cover matters such as wages, benefits and grounds for termination. At each of the assisted reproductive medical facilities, the medical professionals are provided with competitive compensation packages, attractive promotion opportunities, diverse training courses and a professional working environment. Remuneration packages for the employees primarily comprise of: base salary, performance-based compensation and/or discretionary bonus. As required by PRC laws and regulations, the Group participates in various employee social security plans for its employees that are administered by local governments, including housing provident fund, pension, medical, maternity insurance, work-related injury insurance and unemployment insurance.

The Group also offers its employees the option to participate in its RSU Scheme. Additionally, the Group has adopted the Share Option Scheme to grant options as defined in the Share Option Scheme to selected participants as incentives or rewards for their contributions to the Group. As at December 31, 2019, no option has been granted pursuant to the Share Option Scheme.

FINAL DIVIDEND

The Board recommended the payment of final dividend of HK$6.8 cents for the year ended December 31, 2019 (for the year ended December 31, 2018: nil) which is subject to the approval by the Shareholders at the AGM. The final dividend is expected to be payable to the Shareholders on or before Wednesday, July 29, 2020. The dividend will be payable to the Shareholders whose names appear on the register of members of the Company at the close of business on Thursday, July 9, 2020.

OTHER INFORMATION

AGM AND CLOSURE OF REGISTER OF MEMBER

The AGM of the Company will be held on Monday, June 29, 2020. A notice convening the AGM is expected to be published and dispatched to the Shareholders in due course in accordance with the requirements of the Listing Rules.

For determining the qualification as members of the Company to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, June 24, 2020 to Monday, June 29, 2020, both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, non-registered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged 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 for registration not later than 4:30 p.m. on Tuesday, June 23, 2020.

For determining the entitlement to the proposed final dividend, the transfer books and register of members of the Company will be closed from Monday, July 6, 2020 to Thursday, July 9, 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement to the proposed final dividend, all share transfer documents accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, July 3, 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance since the Listing Date.

The Company has complied with all applicable code provisions of the CG Code for the period from the Listing Date to December 31, 2019. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he or she has complied with the required standards as set out in the Model Code for the period from the Listing Date to December 31, 2019.

USE OF PROCEEDS FROM LISTING

The total proceeds from the issue of new Shares by the Company in its Listing (after deducting the underwriting fees and related Listing expenses) amounted to approximately HK$2,808.1 million was kept at the bank accounts of the Group as at December 31, 2019.

The net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) have been and will be utilized in accordance with the purposes set out in the Prospectus. The table below sets out the planned applications of the net proceeds and actual usage up to December 31, 2019:

Use of proceeds	Planned applications *(HK$ million)*	Percentage of total net proceed	Actual usage up to December 31, 2019 *(HK$ million)*	Net proceeds brought forward for the Reporting Period *(HK$ million)*	Unutilized net proceeds as at December 31, 2019 *(HK$ million)*	Expected timeframe for utilizing the remaining unutilized net proceeds[2]
To expand and upgrade existing assisted reproductive medical facilities in the Group's network in China and recruit medical professionals, including physicians and embryologists, in order to increase capacity, expand its service offering and market share	702.0[1]	25.0%[1]	–	–	702.0	By June 2024
For the potential acquisition of additional assisted reproductive medical facilities in provinces in China we are currently not operating in	561.6	20.0%	–	–	561.6	By June 2022
For investment in research and development to enhance overall performance and maintain the Group's position at the forefront of assisted reproductive technology	280.8	10.0%	–	–	280.8	By June 2024
For the potential acquisitions of ARS service providers and businesses along the ARS service chain	561.6	20.0%	–	–	561.6	By June 2022
To improve brand awareness and general ARS awareness in both China and the United States	421.2	15.0%	–	–	421.2	By June 2024
For the Group's working capital and general corporate purposes	280.8	10.0%	–	–	280.8	
Total	2,808.1	100.0%	–	–	2,808.1	

Notes:

(1) The Group intends to use (i) 20.0% or HK$561.6 million to (a) expand and upgrade the medical facilities, (b) acquire additional medical equipment and (c) acquire and/or construct patient care facilities, and (ii) 5.0%, or HK$140.4 million to recruit and expand medical professional teams and relevant supporting staff, including introducing professional staff specializing in prenatal services.

(2) The expected timeline for utilizing the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions

Since the Listing Date and as of December 31, 2019, the Group has not utilized any net proceeds from the Listing. The Group will gradually utilize the proceeds from the Listing in accordance with the intended purposes.

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

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Board has established the Audit and Risk Management Committee which is chaired by an independent non-executive Director, Mr. Ye Changqing, and consists of another two independent non-executive Directors, Dr. Chong Yat Keung and Mr. Wang Xiaobo, and two non-executive Directors, Mr. Dong Yang and Mr. Fang Min. The primary duties of the Audit and Risk Management Committee are to assist the Board by monitoring the Company's ongoing compliance with the applicable laws and regulations that governs its business operations, providing an independent view on the effectiveness of the Company's internal control policies, financial management processes and risk management systems, in particular, the implementation of the Company's anti-corruption and anti-bribery measures.

REVIEW OF ANNUAL RESULTS

The Audit and Risk Management Committee has jointly reviewed with the management and the independent auditors of the Company, the accounting principles and policies adopted by the Company and discussed internal control and financial reporting matters (including the review of the audited consolidated financial statements of the Group for the year ended December 31, 2019, which has been agreed by the independent auditors of the Company) of the Group. The Audit and Risk Management Committee and the independent auditors considered that the annual results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu 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 Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

EVENTS AFTER THE REPORTING PERIOD

The Group has the following events taken place subsequent to December 31, 2019:

- In line with the Company's M&A strategy and following surging patient demand from our Chinese market, it acquired the relevant licenses to provide ARS from Rhea International Medical Centre, an independent third party, and will establish a new IVF clinic in Boten Special Economic Zone in Laos, which is currently under renovations and due to be open for business by the third quarter of 2020. For further details, please refer to the Company's announcement dated March 3, 2020.

- In collaboration with Chengdu Jinxin Investment, an innovative research center will be established in 2020 that will allow more in-depth research in this field to be carried out. The goals of the research center are to, among other things, carry out endometrial receptivity testing, develop an IVF-AI diagnostic system and develop a stem-cell culture system.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.jxr-fertility.com), and the 2019 annual report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

DEFINITIONS

"AGM"	annual general meeting of the Company
"ARS"	assisted reproductive service(s)
"Audit and Risk Management Committee"	the audit and risk management committee of the Board
"Board" or "Board of Directors"	the board of Directors of the Company
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	the Chairman of the Board
"Chengdu Jinxin Investment"	Chengdu Jinxin Medical Investment Management Group Co., Ltd. (成都錦欣醫療投資管理集團有限公司), a company established in the PRC with limited liability on December 19, 2012, a subsidiary of Jinxin Geriatrics

"Chengdu Xinan Hospital"	Chengdu Xinan Gynecological Hospital Co., Ltd. (成都西囡婦科醫院有限公司), a company established in Chengdu, Sichuan Province, PRC with limited liability on November 10, 2015, the Group's subsidiary and successor of Prior Chengdu Xinan Hospital that is a for-profit specialty hospital
"China" or the "PRC"	the People's Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Company", "we" or "our"	Jinxin Fertility Group Limited (錦欣生殖醫療集團有限公司*), previously known as Sichuan Jinxin Fertility Company Limited, an exempted company established in the Cayman Islands with limited liability on May 3, 2018
"Director(s)"	the director(s) of the Company
"ESOP"	collectively the RSU Scheme and the Share Option Scheme
"Gaoxin Xinan Hospital"	Chengdu Gaoxin Xinan Gynecological Hospital Co., Ltd. (成都高新西囡婦科醫院有限公司), a company established in Chengdu, Sichuan Province, PRC with limited liability on June 13, 2016, successor of Prior Gaoxin Xinan Hospital and the Group's subsidiary before the Reorganization (as defined in the Prospectus) that is a for-profit gynecological and obstetrics specialty hospital
"Group"	the Company and its subsidiaries
"HK dollar(s)" or "HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HRC Management"	HRC Fertility Management, LLC, a limited liability company established under the laws of Delaware, the United States on November 3, 2015, the Group's indirect subsidiary
"HRC Medical"	Huntington Reproductive Center Medical Group, a professional corporation established under the laws of California, the United States on January 1, 1995, a connected person of the Company by virtue of being jointly owned by Dr. Michael A. Feinman, Dr. Bradford A. Kolb and Dr. Jane L. Frederick (each, a substantial shareholder of the Company), and the nine clinics and three IVF laboratories in California which it owns
"HRC Fertility"	HRC Management and HRC Medical

"IFRS"	International Financial Reporting Standards
"IVF"	in vitro fertilization, a process where the egg and sperm are incubated together to a fertilized embryo in an in vitro system to achieve pregnancy
"Jinjiang District Maternity and Child Health Hospital"	Chengdu Jinjiang District Maternity and Child Health Hospital (成都市錦江區婦幼保健院), a non-profit maternity and child healthcare hospital established in the PRC in 1954, the IVF center of which is jointly managed by the Group
"Jinjiang IVF Center"	the IVF center of Chengdu Jinjiang District Maternity and Child Health Hospital
"Jinsheng Hospital Management"	Chengdu Jinsheng Hospital Management Company Limited (成都錦昇醫院管理有限公司), a limited liability company established under the laws of the PRC on May 27, 2016, an indirect subsidiary of Jinxin Geriatrics
"Jinxin Fertility Center"	the fertility center of Jinxin Women and Children Hospital
"Jinxin Fertility HK"	LionRock New Hope (HK) Company Limited, a limited liability company established under the laws of Hong Kong on March 14, 2018
"Jinxin Geriatrics"	Chengdu Jinsheng Enterprise Management Co., Ltd. (成都錦盛企業管理股份有限公司), a limited liability company established under the laws of the PRC on July 1, 2015, a member of the Sister Group
"Jinxin Women and Children Hospital"	Sichuan Jinxin Women and Children Hospital Co., Ltd (四川錦欣婦女兒童醫院有限公司), a company established under the laws of the PRC with limited liability on December 9, 2016 that is a for-profit women and children hospital, the fertility center of which was jointly managed by the Group
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on June 25, 2019
"Listing Date"	June 25, 2019, being the date on which the Shares were listed on the Main Board
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Main Board"	Main Board of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules

"MSA"	the amended and restated management services agreement dated January 22, 2019 pursuant to which HRC Management provided non-medical management services to HRC Medical
"New Hospital Building"	the hospital building located at Block 1, No. 66 and 88 Bi Sheng Road, Jinjiang District, Chengdu, the PRC with a total gross floor area of 42,659.64 sq.m.
"NexGenomics"	NexGenomics, LLC, a limited liability company established under the laws of California, the United States, on February 4, 2015, wholly owned by HRC Management
"NPV"	new patient visit
"Prior Chengdu Xinan Hospital"	Chengdu Xinan Gynecological Hospital (成都西囡婦科醫院), a privately funded non-enterprise entity (民辦非企業單位) established on March 31, 2010, predecessor of Chengdu Xinan Hospital
"Prior Gaoxin Xinan Hospital"	Chengdu Gaoxin Xinan Gynecological Hospital (成都高新西囡婦科醫院), a privately funded non-enterprise entity (民辦非企業單位) established on May 27, 2013, predecessor of Gaoxin Xinan Hospital
"Prospectus"	the prospectus issued by the Company dated June 13, 2019
"RSA Centers"	the three surgical centers located at HRC Medical core clinics in Pasadena, Encino and Newport Beach
"RSU Scheme"	the restricted share award scheme conditionally adopted by the Company on February 15, 2019, the principal terms of which are summarized in "RSU Scheme" in Appendix V to the Prospectus
"Reporting Period"	the twelve-month period from January 1, 2019 to December 31, 2019
"Renminbi" or "RMB"	Renminbi Yuan, the lawful currency of the PRC
"Shareholder(s)"	holder(s) of Share(s)
"Share(s)"	ordinary share(s) in the capital of the Company with nominal value of US$0.00001 each
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on June 3, 2019, the principal terms of which are summarized in "Share Option Scheme" in Appendix V to the Prospectus

"Shenzhen Zhongshan Hospital"	Shenzhen Zhongshan Urological Hospital (深圳中山泌尿外科醫院) (previously known as Shenzhen Zhongshan Urological Hospital Co., Ltd (深圳市中山泌尿外科醫院有限公司)), a company established in Shenzhen, PRC with limited liability on May 18, 2004, the Group's indirect subsidiary that is a for-profit specialty hospital
"Sichuan Jinxin Fertility"	Sichuan Jinxin Fertility Medical Management Co., Ltd. (四川錦欣生殖醫療管理有限公司), previously known as Chengdu Jinde Corporate Management Company Limited (成都錦德企業管理有限公司), a company established under the laws of the PRC with limited liability on September 12, 2016, our indirect subsidiary
"Sister Group"	the collective of JINXIN Medical Investment Group Limited and Chengdu Jinsheng Enterprise Management Co., Ltd.* (成都錦盛企業管理股份有限公司) and their respective subsidiaries
"sq.m."	square metre
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"success rate"	the form of "clinical pregnancy rate" that has been adopted for discussion in this announcement
"U.S. dollar(s)" or "US$"	United States dollar(s), the lawful currency of the United States of America
"Xinan Hospital Group"	Chengdu Xinan Hospital and Gaoxin Xinan Hospital

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

By order of the Board
Jinxin Fertility Group Limited
Wang Bin
Chairman

Hong Kong, March 30, 2020

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Zhong Ying, Ms. Yan Xiaoqing and Dr. John G. Wilcox, as executive Directors; Mr. Wang Bin, Mr. Fang Min, Ms. Hu Zhe and Mr. Dong Yang, as non-executive Directors; and Dr. Chong Yat Keung, Mr. Lim Haw Kuang, Mr. Wang Xiaobo and Mr. Ye Changqing, as independent non-executive Directors.

* *For identification purpose only*