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(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1509)

INTERNAL CONTROL REVIEW

Reference is made to (1) the announcement of the Company dated 28 March 2019 in relation to its delay in the publication of the 2018 Annual Results and despatch of the 2018 Annual Report, (2) the announcement of the Company dated 7 May 2019 in relation to its publication of unaudited management accounts for the year ended 31 December 2018 and the engagement of its Internal Control Consultant, (3) the announcement of the Company dated 12 June 2019 in relation to the guidance received from the Stock Exchange regarding the resumption of trading of the Company's shares on the Stock Exchange, (4) the quarterly update announcement of the Company dated 28 June 2019 in relation to, among others, its resumption progress, (5) the update announcement of the Company dated 31 July 2019 in relation to the progress of its internal control review, (6) the announcement of the Company dated 30 August 2019 in relation to, among others, further delay in publication of the 2018 Annual Results and the delay in publication of the 2019 Interim Results, (7) the quarterly update announcement of the Company dated 29 September 2019 in relation to, among others, its resumption progress, (8) the quarterly update announcement of the Company dated 24 December 2019 in relation to, among others, its resumption progress, (9) the voluntary announcement of the Company dated 10 March 2020 on the impact of novel coronavirus (COVID-19) epidemic on the Group's business operations, (10) the supplemental announcement of the Company dated 25 March 2020 on the results of its internal control review, (11) the quarterly update announcement of the Company dated 31 March 2020 in relation to, among others, its resumption progress, (12) the announcement of the Company dated 15 June 2020 in relation to, among others, the cessation of construction of a subsidiary, (13) the quarterly update announcement of the Company dated 30 June 2020 in relation to, among others, its resumption progress, (14) the update announcement of the Company dated 17 July 2020 in relation to the progress of its internal control review, (15) the quarterly update announcement of the Company dated 30 September 2020 in relation to, among others, its resumption progress, (16) the announcement in relation to the decision of the listing committee for the cancellation of listing and review request of the delisting decision dated 4 December 2020, (17) the announcement in relation to the decision of the listing committee for the cancellation of listing and review request of the delisting decision, and (18) the quarterly update announcement of the Company dated 4 January 2021 in relation to, among others, its resumption progress (the "**Quarterly Update Announcement**"). Capitalised terms used herein shall have the same meanings as those defined in the Quarterly Update Announcement unless otherwise stated herein.

RESULTS OF INTERNAL CONTROL REVIEW

As disclosed in the Quarterly Update Announcement, the Company responded to the findings in the Report and the Review has been completed on 3 December 2020. The Company hereby sets out below the key internal control deficiencies identified by the Internal Control Consultant during the Review, their corresponding recommendations (the “**Improvement Recommendations**”) and the corresponding responses and the respective measures of the Group.

No.	Internal control deficiencies	Improvement Recommendations	The Group’s responses and the respective measures
<i>A. Corporate Governance under Appendix 14 of the Listing Rules</i>			
1.	No segregation of the role of chairman and chief executive officer of the Company, which is both served by Mr. Lin Yuming (“ Mr. Lin ”).	The role of chairman and chief executive officer of the Company shall be separated and taken by different person.	<p>The Board considers its founder, Mr. Lin, has been responsible for its overall strategic planning, which has enhanced the efficient business development and prospects of the Group. As such, the Board believes that such arrangement would not compromise the balance of powers.</p> <p>Furthermore, on 11 August 2020, the Board appointed Mr. Yang Guo as the chief executive officer of the Company to take full charge of the daily management of the Group. Mr. Lin can then focus on the operation of the Board.</p>
2.	The management submitted quarterly financial reports in lieu of monthly financial reports to the Board for evaluation.	Monthly financial reports shall be provided to the Board for assessment.	The Group has submitted monthly financial reports to the Board for assessment, starting from August 2020.
3.	The Company did not hold the annual general meeting in 2019 as required by the Listing Rules.	Annual general meetings shall be held in accordance with the Listing Rules.	The Company planned to publish the audited financial reports of 2018 and 2019 in January 2021 and hold the annual general meeting in March 2021.

No.	Internal control deficiencies	Improvement Recommendations	The Group's responses and the respective measures
<i>B. Information and Communication Management</i>			
4.	The Company did not despatch the annual reports of 2018 and 2019 and the interim report as of 30 June 2019 to the Company's shareholders as required by the Listing Rules.	The annual reports of 2018 and 2019 and the interim report as of 30 June 2019 shall be published as soon as practicable.	The Internal Control Consultant reviewed the preliminary drafts of the audited financial reports of 2018 and 2019 and the Company planned to publish the audited financial reports and the interim report of 2019 in January 2021.
<i>C. Revenue, receivables and receipt (Medical Specialty Services)</i>			
5.	Invoice of certain subsidiary of the Group showed that the operation rights income from its medical institution was not properly classified by the finance department as general medical income and no value-added tax invoice was issued.	All the invoices shall be issued and value-added tax for income in relation to operation rights shall be paid according to the relevant PRC laws and regulations.	The Group will issue the relevant invoice by setting up a separate accounting item.
6.	No segregation of the role of clinical pathologist and the re-check physician as required under the relevant PRC laws and regulations.	It is recommended that the clinical pathologists of the relevant companies conduct the examination in accordance to the relevant PRC laws and regulations and the clinical reports shall be executed by two different persons, being the clinical pathologist and the re-check physician.	The Group has conducted examination in accordance to the relevant PRC laws and regulations and have two different persons, being the clinical pathologist and the re-check physician, to execute the clinical reports.
7.	Certain subsidiaries of the Group omitted to examine the need to set aside provisions for bad debts and write off receivables of hospital specialty services when preparing the interim report of the Company.	The account receivables of each subsidiary shall be reviewed according to the Listing Rules to set aside provisions for bad debts and write off receivables.	The Internal Control Consultant has reviewed the drafts of the audited financial reports of 2018 and 2019 and has been aware that, the relevant provisions of bad debts and write-off of receivables were analyzed and disclosed therein. It is planned that the audited financial reports will be published in January 2021.

No.	Internal control deficiencies	Improvement Recommendations	The Group's responses and the respective measures
8.	Certain subsidiaries of the Group omitted to sign any termination document to terminate service contract with their customers, which may cause legal disputes when termination and refund issues arise.	The customers shall be required to enter into a termination contract to ensure they aware and consent to any termination and refund.	The Group has asked the relevant companies to prepare template for customer termination and refund confirmation, and such measure has become effective since September 2020.
9.	Certain subsidiaries of the Group did not formulate any annual sales plan, rendering it impossible to compare the estimated sales with the actual sales to evaluate sales performance.	Annual sales plans for the coming year shall be formulated and a comparison analysis shall be submitted to the chief financial officer and chief executive officer for review and approval.	The Group formulated the 2020 fourth quarter sales plan and 2021 annual sales plan starting from August 2020 and November 2020, respectively, which would then be submitted to the Company's chief financial officer and chief executive officer for review and approval.
<i>D. Revenue, receivables and receipt (Medicine Supply and Medical Facility Business)</i>			
10.	A subsidiary of the Group omitted to examine the need to set aside provisions for bad debts and write off receivables of medicine supply and medical equipment business when preparing the interim report of the Company.	The account receivables of each subsidiary shall be reviewed to set aside provisions for bad debts and write off receivables of medicine supply and medical equipment business.	The Internal Control Consultant has reviewed the drafts of the audited financial reports of 2018 and 2019 and has been aware that, the relevant provisions of bad debts and write-off of receivables were analyzed and disclosed therein. It is planned that the audited financial reports will be published in January 2021.
<i>E. Subcontracting Services Management</i>			
11.	Construction department personnel of a subsidiary of the Group did not compile a construction project budget approval form and submit to the chief executive officer for approval as required by the relevant internal manual.	The construction project budget approval form shall be compiled in accordance to the relevant internal manual and submit to the chief executive officer for approval.	The Group has followed this recommendation to compile the construction project budget approval form in accordance to the relevant internal manual and submit to the chief executive officer for approval since August 2020.
12.	Subcontracted construction projects of a subsidiary of the Group did not go through bidding process for subcontracted construction projects as required by the relevant internal manual.	Bidding process for new subcontracted construction projects shall be conducted in accordance to the relevant internal manual.	The Group has followed this recommendation to select eligible subcontractors through bidding process since August 2020.

No.	Internal control deficiencies	Improvement Recommendations	The Group's responses and the respective measures
13.	Procurement personnel of a subsidiary of the Group omitted to fill in the newly added subcontractors approval form in relation to new subcontractors as required by the relevant internal manual.	The approval form shall be filled out in accordance to the relevant internal policy and shall be submitted to the general manager for approval before engaging any subcontractor.	The Group has followed this recommendation to fill in the approval form according to the relevant internal manual and submit to the general manager for approval since August 2020.
14.	Construction department personnel of a subsidiary of the Group did not compile construction project reports for subcontracted construction projects regularly as required by the relevant internal manual.	The management is recommended to compile construction project reports based on the construction progress on a regular basis and send to the responsible staff for review.	The Group has followed this recommendation to compile construction project reports based on the construction progress according to the relevant internal manual and report accordingly since August 2020.
15.	Subcontracted construction projects of a subsidiary of the Group did not issue acceptance report for those that have passed the acceptance test.	An acceptance report shall be issued in accordance to the relevant internal manual after the acceptance test is passed.	The Group has followed this recommendation to issue acceptance report in accordance to the relevant internal manual since August 2020.
16.	A subsidiary of the Group did not obtain written approval for final accounts application of subcontracted constructions projects.	The Group is recommended to request the constructors to submit final accounts application in accordance with the relevant internal manual, and the head of the engineering department, authorised person by the Group or chief executive officer to issue written approval.	The Group has followed this recommendation to request the constructors to submit final accounts application in accordance to the relevant internal manual, and the head of the engineering department, authorised person by the Group or chief executive officer to issue written approval since August 2020.
F. Inventory Management			
17.	Certain subsidiaries of the Group did not purchase insurance for the warehouses and inventories, which would cause loss to inventories and related equipment if there is any accidents occur to the warehouses.	The Group is recommended to purchase insurance to insure any accidental damage and loss to their inventories, properties and medical equipment.	<p>The Group has followed this recommendation and formulated assets insurance price comparison plan starting from August 2020 and require its subsidiaries to compile a price comparison log.</p> <p>The Company would purchase unified property insurance after the resumption of trading of its shares.</p>

No.	Internal control deficiencies	Improvement Recommendations	The Group's responses and the respective measures
<i>G. Fixed Assets Management</i>			
18.	Certain subsidiaries of the Group did not purchase assets insurance for the fixed assets, which would cause loss to medical equipment if there is any accidents occur to the warehouse.	The Group is recommended to purchase insurance to insure any accidental damage and loss to the medical equipment and facilities.	<p>The Group has followed this recommendation and formulated assets insurance price comparison plan starting from August 2020 and require its subsidiaries to compile a price comparison log.</p> <p>The Company would purchase unified medical property insurance after the resumption of trading of its shares.</p>
<i>H. Human Resources and Remuneration</i>			
19.	A subsidiary of the Group did not compile resignation proof for the resigned staff, update staff information and keep the record of such.	The Group is recommended to issue resignation proof in duplicate, one for the resigned staff and one for the human resources staff for record, in accordance to the relevant internal manual.	The Group has followed this recommendation and issued issue resignation proof in duplicate for record.
20.	Certain subsidiaries of the Group did not prepare performance evaluation reports and keep proper record to evaluate and record staff performance, respectively.	The Group is recommended to prepare performance evaluation reports in duplicate for record, which serves as basis for staff promotion.	The Group has followed this recommendation and prepared performance evaluation reports in duplicate for record.
21.	The Company did not pay the social insurance and housing provident fund based on the standards stipulated under the relevant PRC laws and regulation.	The Group is recommended to pay the social insurance and housing provident fund as required.	The Group has planned to adjust the relevant amount for its staff who commenced work before September 2020 and pay the social insurance and housing provident fund for its staff who commenced work after September 2020 as required.
22.	The Company did not make timely salary payment to the staff according to the relevant PRC laws and regulation.	The Group is recommended to pay salaries on time via bank transfers.	The Group has been actively looking for source of funds and will settle all the outstanding salaries payment immediately after the resumption of trading of its shares or the fund raising.

No.	Internal control deficiencies	Improvement Recommendations	The Group's responses and the respective measures
23.	The Group's related companies did not pay housing provident fund for all the staff according to the relevant PRC laws and regulations.	The Group is recommended to settle all the outstanding housing provident fund.	The Group would set up housing provident fund accounts for the staff that has not paid housing provident fund, and will contribute to the housing provident fund after the resumption of trading of its shares or the fund raising.
<i>I. Cash, Banks and Funds Management</i>			
24.	Cash is kept in a safe with passcode and key security, which were both under one personnel's custody, thereby gave rise to risks of being stolen.	The Group is recommended to assign the passcode and key to different personnel's custody.	The Group has followed this recommendation and have the passcode and key to the safe be kept by different person.
<i>J. Financial Reporting Procedures</i>			
25.	A subsidiary of the Group did not divide labour in relation to preparation and approval of finance reports.	The Group is recommended to appoint or designate other personnel to prepare the finance report and submit to the manager for approval.	The Group has followed this recommendation and adopted the measures accordingly since August 2020.
<i>K. Tax Reporting Procedures</i>			
26.	A subsidiary of the Group did not declare operation rights income and pay value-added tax according to the relevant PRC laws and regulations.	The Group is recommended to declare all the operating income on a timely basis and pay value-added tax accordingly.	The Group has followed this recommendation and would timely pay the relevant value-added tax.
<i>L. Legal and Regulatory Compliance</i>			
27.	Certain subsidiaries of the Group did not purchase medical liability insurance for the medical staff.	The Group is recommended to purchase medical liability insurance for all the medical staff to avoid sever monetary compensation resulting from medical negligence incidents.	<p>The Group has followed this recommendation and formulated medical liability insurance price comparison plan to record the insurance price of different insurance companies.</p> <p>The Company would purchase unified medical liability insurance after the resumption of trading of its shares.</p>

No.	Internal control deficiencies	Improvement Recommendations	The Group's responses and the respective measures
<i>J. Equity Transfer Transaction, Funds and Investment Management</i>			
28.	The Company did not retain sufficient fund for payment under the Hibaby Equity Transfer Agreement to fulfil obligations thereunder.	The Group is recommended to retain sufficient fund or borrow from banks for equity transfer transactions and investments to fulfil the Company's contractual obligations.	The Group has revised its outbound investment policy and stipulated that all equity investments shall be submitted to the chief executive officer and the strategic investment committee for review before submitting to the Board for approval.
29.	<p>The Company did not provide feasibility report or application for investment approval relating to the Hibaby Equity Transfer.</p> <p>The Company did not specify in the equity investment management policy that all investment opportunities shall be submitted to the Board for review and approval.</p> <p>This may lead to equity investments carried out by subsidiaries beyond their capacity, or not follow the Listing Rules to disclose, approve and announce for discloseable transactions.</p>	The Group is recommended to update the equity investment management system and appoint qualified financial advisors, auditors or legal advisors to conduct due diligence of the investment targets. After that, the feasibility report, the application for investment approval as well as the due diligence report shall be submitted to the strategic investment committee for approval and record.	The Group has revised the equity investment management system according to the recommendation, with effect from September 2019.
30.	Lack of approval of the financing management policy by the Board.	The management is recommended to pass the financing management policy to the Board for approval and implement the relevant policies as soon as possible.	The Board has approved the financing management policy and it has been in effect since September 2020.

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

CONTINUED SUSPENSION OF TRADING

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

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

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

Hong Kong, 8 January 2021

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