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, 2020

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the year ended December 31, 2020 was approximately RMB1,426.1 million, representing a decrease of 13.5% when compared with that of approximately RMB1,648.5 million for the year ended December 31, 2019.

- Net profit of the Group for the year ended December 31, 2020 was approximately RMB260.5 million, representing a decrease of 38.1% when compared with that of approximately RMB420.7 million for the year ended December 31, 2019. Adjusted net profit(1) of the Group for the year ended December 31, 2020 was approximately RMB372.3 million, representing a decrease of 29.8% when compared with that of approximately RMB530.3 million for the year ended December 31, 2019.

- EBITDA(2) of the Group for the year ended December 31, 2020 was approximately RMB394.7 million, representing a decrease of 32.3% when compared with that of approximately RMB583.4 million for the year ended December 31, 2019. Adjusted EBITDA(3) of the Group for the year ended December 31, 2020 was approximately RMB484.4 million, representing a decrease of 28.3% when compared with that of approximately RMB675.5 million for the year ended December 31, 2019.

- Basic earnings per share for the year ended December 31, 2020 amounted to RMB0.10. Adjusted basic earnings per share(4) for the year ended December 31, 2020 amounted to RMB0.15.

- The Board does not recommend payment of a final dividend for the year ended December 31, 2020 (for the year ended December 31, 2019: HK$6.8 cents).

Non-IFRS Measures

To supplement the Group's consolidated financial statements which are presented in accordance with IFRS, the Company has provided EBITDA, adjusted EBITDA, and adjusted net profit as non-IFRS measures, which are not required by, or presented in accordance with, IFRS. The Company believes that the adjusted financial measures provide useful information to investors and others 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 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 the IFRS. You should not view the adjusted results on a stand-alone basis or as a substitute for results under IFRS.

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, HRC Management and Wuhan Jinxin Hospital acquisition; (iv) imputed interest income from related parties; (v) the loss associated with the disposal of two community health service centres of Shenzhen Zhongshan Hospital; and (vi) donation to Wuhan to better reflect the Company's current business and operations.

(2) 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.

(3) 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 two community health service centers of Shenzhen Zhongshan Hospital; and (v) donation to Wuhan to better reflect the Company's current business and operations.

(4) 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, 2020

The Board of Directors is pleased to announce the audited consolidated annual results of the Group for the year ended December 31, 2020, together with the comparative figures for the corresponding period in 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2020

	NOTES	2020 RMB'000	2019 RMB'000
Revenue	3	**1,426,088**	1,648,496
Cost of revenue		**(860,307)**	(831,701)
Gross profit		**565,781**	816,795
Other income	4	**74,113**	63,381
Other expenses	5	**(6,377)**	(1,828)
Other gains and losses	6	**57,108**	28,322
Research and development expenses		**(11,483)**	(13,298)
Selling and distribution expenses		**(41,357)**	(62,219)
Administrative expenses		**(275,260)**	(211,295)
Listing expenses		**–**	(62,635)
Finance costs	7	**(13,391)**	(9,323)
Profit before taxation	8	**349,134**	547,900
Income tax expenses	9	**(88,638)**	(127,223)
Profit for the year		**260,496**	420,677
Other comprehensive (expense) income:			
Item that will not be reclassified to profit or loss:			
Exchange difference on translation from functional currency to presentation currency		**(406,191)**	84,172
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**36,972**	(18,648)
Other comprehensive (expense) income for the year		**(369,219)**	65,524
Total comprehensive (expense) income for the year		**(108,723)**	486,201

	NOTE	2020 RMB'000	2019 RMB'000
Profit for the year attributable to:			
– Owners of the Company		**251,622**	409,623
– Non-controlling interests		**8,874**	11,054
		260,496	420,677
Total comprehensive (expense) income for the year attributable to:			
– Owners of the Company		**(117,597)**	476,887
– Non-controlling interests		**8,874**	9,314
		(108,723)	486,201
Earnings per share:	*11*		
– Basic (RMB)		**0.10**	0.19
– Diluted (RMB)		**0.10**	0.19

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2020

	NOTES	**2020**	2019
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**1,056,125**	856,691
Right-of-use assets		**222,421**	170,331
Goodwill		**889,642**	809,312
Licenses		**785,983**	388,130
Contractual right to provide management services		**1,839,369**	1,962,926
Trademarks		**1,255,735**	1,305,306
Interests in associates		**171,057**	–
Equity instrument at fair value through other comprehensive income ("**FVTOCI**")		**9,387**	10,017
Pledged bank deposits		**180,000**	–
Refundable deposits		**7,783**	4,996
Prepayments		**31,838**	7,343
Amounts due from related parties		**61,913**	–
		6,511,253	5,515,052
Current assets			
Inventories	*12*	**25,476**	26,083
Accounts and other receivables	*13*	**68,745**	46,060
Amounts due from related parties		**81,086**	49,653
Tax recoverable		**7,481**	8,180
Structured bank deposits		**1,724,567**	2,663,980
Financial assets at fair value through profit or loss ("**FVTPL**")		**63,000**	52,500
Bank balances and cash		**681,619**	579,637
		2,651,974	3,426,093
Current liabilities			
Accounts and other payables	*14*	**361,646**	319,757
Amounts due to related parties		**67,748**	40,729
Lease liabilities		**34,558**	29,244
Tax payables		**61,227**	46,465
Bank borrowing	*15*	**18,000**	–
Other financial liabilities		**11,904**	–
		555,083	436,195
Net current assets		**2,096,891**	2,989,898
Total assets less current liabilities		**8,608,144**	8,504,950

	NOTE	2020 RMB'000	2019 RMB'000
Non-current liabilities			
Lease liabilities		**209,774**	153,264
Deferred tax liabilities		**791,344**	709,291
Bank borrowing	*15*	**144,540**	–
		1,145,658	862,555
Net assets		**7,462,486**	7,642,395
Capital and reserves			
Share capital		**160**	160
Reserves		**7,282,860**	7,526,724
Equity attributable to owners of the Company		**7,283,020**	7,526,884
Non-controlling interests		**179,466**	115,511
Total equity		**7,462,486**	7,642,395

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 May 3, 2018 and the shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since June 25, 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 January 1, 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 the acquisition of Willsun Fertility (BVI) Company Limited in late December 2018, which holds 51% equity interests in HRC Management, and its remaining 49% equity interests through HRC Investment Holding LLC, 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 January 1, 2019.

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

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**") for the first time, which are mandatorily effective for the annual period beginning on or after January 1, 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to IFRS 16 "COVID-19 Related Rent Concessions".

Except as described below, the application of the *Amendments to References to the Conceptual Framework in IFRS Standards* and the amendments to IFRSs in the current year 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.

2.1 Impacts on application of Amendments to IAS 1 and IAS 8 *Definition of Material*

The Group has applied the Amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

2.2 Impacts on application of Amendments to IFRS 3 *Definition of a Business*

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The application of the amendments had no impact on the consolidated financial statements in the current year as similar conclusion would have been reached without applying the optional concentration test.

2.3 Impact on early application of Amendment to IFRS 16 *COVID-19 Related Rent Concessions*

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a COVID-19 related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 Leases if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the opening retained profits at January 1, 2020. The Group has benefited from one to eight months waiver of lease payments on several leases in the PRC and U.S.A. The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payments using the discount rates originally applied to these leases respectively, resulting in a decrease in the lease liabilities of RMB4,363,000, which has been recognised in profit or loss for the current year.

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 and the related Amendments[1]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[4]
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[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRSs Standards	Annual Improvements to IFRSs Standards 2018 – 2020[2]

[1] Effective for annual periods beginning on or after January 1, 2023

[2] Effective for annual periods beginning on or after January 1, 2022

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

[4] Effective for annual periods beginning on or after January 1, 2021

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 IFRS 3 *Reference to the Conceptual Framework*

The amendments:

- update a reference in IFRS 3 *Business Combinations* so that it refers to the Conceptual Framework for Financial Reporting issued by IASB in March 2018 (the "**Conceptual Framework**") instead of the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting issued in September 2010);

- add a requirement that, for transactions and other events within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, an acquirer applies IAS 37 or IFRIC 21 instead of Conceptual Framework to identify the liabilities it has assumed in a business combination; and

- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The Group will apply the amendments prospectively to business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after January 1, 2022.

3. 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 December 31, 2020, the Group's revenue is contributed from its operation in Chengdu, Shenzhen, Wuhan and the U.S.A (2019: Chengdu, Shenzhen and the U.S.A.).

Information reported to the chief executive officer, being the chief operating decision maker ("**CODM**"), for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The information reported to CODM is categorised into different locations in various countries, each of which is considered as a separate operating segment by the CODM.

The Group's operating and reportable segments under IFRS 8 *Operating Segments* are operations located in the PRC and the U.S.A. during the years ended December 31, 2019 and 2020.

For the year ended December 31, 2020:

	PRC *RMB'000*	**U.S.A.** *RMB'000*	**Consolidated** *RMB'000*
Revenue			
Segment revenue from external customers	**1,046,381**	**379,707**	**1,426,088**
Segment profit	**344,360**	**32,923**	**377,283**
Unallocated administrative expenses			**(121,777)**
Gains on fair value change of interests in associates at FVTPL			**18,206**
Loss on fair value change of other financial liabilities at FVTPL			**(11,904)**
Exchange gain, net			**42,204**
Certain interest income from banks			**777**
Interest income from structured bank deposits			**42,522**
Interest income from pledged bank deposits			**1,823**
Profit before taxation			**349,134**

For the year ended December 31, 2019:

	PRC *RMB'000*	U.S.A. *RMB'000*	Consolidated *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

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the profit before taxation for each respective segment excluding unallocated administrative expenses (including the corporate expenses), gains on fair value change of interests in associates at FVTPL, loss on fair value change of other financial liabilities at FVTPL, certain net exchange gain or loss, interest income resulted from the corporate bank balances (including pledged bank deposits and structured bank deposits), and listing expenses.

Segment assets and liabilities

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

	2020 ***RMB'000***	2019 *RMB'000*
Segment assets		
PRC	**2,848,113**	2,130,085
U.S.A.	**3,848,161**	3,948,625
Total segment assets	**6,696,274**	6,078,710
Equity instrument at FVTOCI	**9,387**	10,017
Corporate structured bank deposits	**1,714,567**	2,643,980
Corporate bank balances and cash	**272,098**	176,061
Pledged bank deposits	**180,000**	–
Interests in associates	**171,057**	–
Unallocated (other assets)	**119,844**	32,377
Total	**9,163,227**	8,941,145

	2020 *RMB'000*	2019 *RMB'000*
Segment liabilities		
PRC	**887,299**	574,757
U.S.A.	**724,506**	695,973
Total segment liabilities	**1,611,805**	1,270,730
Unallocated (corporate liabilities)	**88,936**	28,020
Total	**1,700,741**	1,298,750

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 structured bank deposits, corporate bank balances and cash, pledged bank deposits, interests in associates and other unallocated corporate assets; and

- All liabilities are allocated to operating segments, other than other unallocated corporate liabilities.

Disaggregation of revenue from contracts with customers

	Notes	2020 *RMB'000*	2019 *RMB'000*
Types of services			
Assisted reproductive services – PRC			
A point in time recognition	*(i)*	**589,013**	573,272
Over time recognition	*(i)*	**389,834**	358,606
		978,847	931,878
Management services – Over time recognition			
– U.S.A.	*(ii), (iii)*	**342,399**	544,386
– PRC	*(i)*	**32,691**	104,103
		375,090	648,489
Ambulatory surgery centre facilities services – U.S.A.			
– A point in time recognition	*(ii)*	**25,804**	30,867
Ancillary medical services			
A point in time recognition			
– U.S.A.	*(ii)*	**11,504**	4,618
– PRC	*(i)*	**21,245**	18,082
		32,749	22,700
Ancillary medical services – PRC			
Over time recognition	*(i)*	**13,598**	14,562
		46,347	37,262
Total		**1,426,088**	1,648,496

Notes:

(i) Revenue generated in the PRC which amounted RMB1,046,381,000 (December 31, 2019: RMB1,068,625,000).

(ii) Revenue generated in the U.S.A. which amounted to RMB379,707,000 (December 31, 2019: RMB579,871,000).

(iii) Management services fee under the MSA for the year ended December 31, 2020 amounted to RMB385,628,000 (December 31, 2019: RMB610,562,000), net of cost reimbursed of RMB43,229,000 (December 31, 2019: RMB66,176,000) as purchasing agent for pharmaceuticals procurement pursuant to HRC Medical's medication supply program.

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 2020, the non-current assets located in the PRC, the U.S.A., Hong Kong and Lao People's Democratic Republic ("**Laos**") amounted to RMB2,384,273,000, RMB3,802,237,000, RMB11,594,000 and RMB54,066,000, respectively (31 December 2019: RMB1,716,576,000, RMB3,768,363,000, RMB15,100,000 and nil, respectively). Non-current assets as at 31 December 2020 and 2019 excluded equity instrument at FVTOCI, pledged bank deposits, refundable deposits, 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:

	2020	2019
	RMB'000	*RMB'000*
HRC Medical	**356,668**	552,981

4. OTHER INCOME

	2020	2019
	RMB'000	*RMB'000*
Imputed interest income from related parties	**–**	2,321
Interest income from banks	**4,274**	12,321
Interest income from structured bank deposits	**42,522**	31,537
Interest income from pledged bank deposits	**1,823**	–
Government grants *(Note)*	**7,778**	3,506
Consulting service income	**8,259**	9,171
Sponsorship income	**604**	1,258
Others	**8,853**	3,267
	74,113	63,381

Note: The government grants mainly represented the grant on cost incurred for research and development projects of Shenzhen Zhongshan Hospital and the grant as an incentive for the Company's listing on the Stock Exchange with no unfulfilled conditions.

5. OTHER EXPENSES

	2020	2019
	RMB'000	*RMB'000*
Late fees relating to unpaid PRC Enterprise Income Tax ("**EIT**") and value-added tax *(Note)*	**–**	1,778
Donations	**6,000**	–
Others	**377**	50
	6,377	1,828

Note: Amount for the year ended December 31, 2019 primarily represents late fees relating to unpaid PRC EIT and value-added tax arising from the revenue generated from the provision of management services.

6. OTHER GAINS AND LOSSES

	2020	2019
	RMB'000	*RMB'000*
Loss on disposal of a subsidiary	**–**	(21)
Gains (losses) on disposal of property, plant and equipment	**53**	(2,948)
Exchange gain, net	**42,204**	29,980
Gains on fair value change of financial assets at FVTPL	**2,325**	1,789
Gains on fair value change of interests in associates at FVTPL	**18,206**	–
Loss on fair value change of other financial liabilities at FVTPL	**(11,904)**	–
Gains on early termination of leases	**5,815**	–
Others	**409**	(478)
	57,108	28,322

7. FINANCE COSTS

	2020	2019
	RMB'000	*RMB'000*
Interest on bank borrowing	**2,243**	–
Interest on lease liabilities	**11,148**	9,323
	13,391	9,323

8. PROFIT BEFORE TAXATION

	2020	2019
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	**3,255**	3,150
Directors' remuneration	**8,405**	5,436
Other staff costs		
– salaries, allowances and other benefits	**348,927**	355,557
– retirement benefit schemes contributions for other staff	**14,972**	22,919
– share-based compensation benefits	**83,649**	27,237
Total staff costs	**455,953**	411,149
Cost of inventories recognised as expenses (representing pharmaceutical products and consumables used, included in cost of revenue)	**334,969**	379,309
Research and development expenses	**11,483**	13,298
Amortization of licenses (included in administrative expenses)	**17,745**	13,155
Depreciation of property, plant and equipment	**76,483**	66,156
Depreciation of right-of-use assets	**36,061**	33,239

9. INCOME TAX EXPENSES

	2020	2019
	RMB'000	*RMB'000*
Current tax:		
PRC EIT	**66,681**	58,349
U.S.A. Federal Income Tax	**–**	27,769
U.S.A. State Income Tax	**–**	12,762
	66,681	98,880
Deferred tax:		
Current year	**21,957**	28,343
	88,638	127,223

The Company is tax exempted under the laws of the Cayman Islands and its subsidiaries incorporated in the 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 January 1, 2008.

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 years ended December 31, 2019 and 2020 for their operations in the U.S.A.

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

	2020	2019
	RMB'000	*RMB'000*
Profit before taxation	**349,134**	547,900
Tax at PRC EIT rate of 25%	**87,284**	136,975
Tax effect of expenses not deductible for tax purposes	**44,094**	31,348
Tax effect of income not taxable for tax purpose	**(12,155)**	(15,990)
Effect of tax exemption and concessions granted to a PRC subsidiary	**(30,585)**	(30,151)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**–**	4,343
Others	**–**	698
Income tax expenses	**88,638**	127,223

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

10. DIVIDENDS

	Year ended December 31	
	2020	2019
	RMB'000	*RMB'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year: 2019 final – HK$6.8 cents (2019: 2018 final dividend RMB0.15) per share *(Note)*	**149,675**	303,961

Note: On May 27, 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.

A final dividend in respect of the year ended December 31, 2019 of HK$6.8 cents (equivalent to RMB0.06) per ordinary share, in an aggregate amount of RMB149,675,000, has been proposed by the Directors and approved by the shareholders in the annual general meeting held on June 29, 2020.

No dividend was paid or proposed for ordinary shareholders of the Company during 2020, nor has any dividend been proposed since the end of the reporting period.

11. 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:

	2020	2019
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**251,622**	409,623

	2020	2019
	'000	*'000*
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**2,400,385**	2,199,011
Effect of dilutive potential ordinary shares:		
Restricted Shares Units ("**RSUs**") issued by the Company	**15,371**	7,176
Over-allotment option issued by the Company	**–**	152
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,415,756**	2,206,339

For the year ended 31 December 2020, 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 ordinary shares held by the nominee under the Restricted Share Award Scheme by the RSU Scheme's Nominee and the effect of the 6,800,000 ordinary shares repurchased by the Company.

For the year ended 31 December 2020, the restricted shares (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 (2019: the restricted shares and the over-allotment option granted by the Company).

12. INVENTORIES

	2020	2019
	RMB'000	*RMB'000*
Pharmaceutical products	**12,080**	13,936
Consumables and others	**13,396**	12,147
	25,476	26,083

13. ACCOUNTS AND OTHER RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Accounts receivables	**11,289**	12,247
Other receivables and prepayment:		
Prepayments to suppliers	**21,980**	28,282
Prepayments to property, plant and equipment	**31,838**	–
Refundable deposits	**7,783**	4,996
Interest receivables	**4,773**	9,296
Loan receivables *(Note)*	**26,100**	–
Others	**4,603**	3,578
	97,077	46,152
Total accounts and other receivables	**108,366**	58,399
Analysed as:		
Current	**68,745**	46,060
Non-current	**39,621**	12,339
Total	**108,366**	58,399

Note: The amount represents US$1,000,000 (equivalent to approximately RMB6,525,000) loan receivable from supplier IVF Universal, LLC, a supplier to the Group, and US$3,000,000 (equivalent to approximately RMB19,575,000) loan receivable from a shareholder of an associate, and both are unsecured, interest-free and repayable on demand.

As at 1 January 2019, accounts receivables amounted to RMB9,385,000.

The individual customer of Chengdu Xinan Hospital, Shenzhen Zhongshan Group and Wuhan Jinxin Hospital 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 customers 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 forward looking information at the reporting date. The Directors considered that the ECL for accounts receivables is insignificant as at 31 December 2019 and 2020.

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.

	2020	2019
	RMB'000	*RMB'000*
Within 90 days	**5,560**	5,582
91 to 180 days	**2,406**	2,880
Over 180 days	**3,323**	3,785
	11,289	12,247

The Directors closely monitor the credit quality of accounts and other receivables and consider the debts are of a good credit quality.

14. ACCOUNTS AND OTHER PAYABLES

	2020	2019
	RMB'000	*RMB'000*
Accounts payables	**124,715**	114,916
Other payables:		
Construction payables	**1,295**	3,695
Refundable customers' deposits	**64,840**	54,347
Accrued employee expenses (including social insurances and housing fund contributions)	**98,151**	102,555
Value-added tax and other tax payables	**18,379**	22,302
Deferred income *(note i)*	**4,130**	5,753
Interest payables	**1,224**	–
Consideration payable for acquisition of a subsidiary	**32,250**	–
Others	**16,662**	16,189
	236,931	204,841
Total accounts and other payables	**361,646**	319,757

Note:

(i) 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.

	2020	2019
	RMB'000	*RMB'000*
Within 90 days	**104,341**	93,497
91 to 180 days	**16,536**	20,595
181 to 365 days	**2,221**	106
Over 365 days	**1,617**	718
	124,715	114,916

15. BANK BORROWING

	As at December 31,	
	2020	2019
	RMB'000	*RMB'000*
Bank borrowing		
Secured	**162,540**	–

The carrying amount of the above borrowing is repayable:

Within one year	**18,000**	–
Within a period of more than one year	**144,540**	–
	162,540	–

As at December 31, 2020, bank borrowing carries fixed interest rate which is determined at loan prime rate less 0.33% (2019: N/A) per annum upon drawdown of the bank borrowing and is secured by pledged bank deposits. During the year ended December 31, 2020, the effective interest rate on the bank borrowing is 3.52% (2019: N/A).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS UPDATES

Despite the challenges the overall ARS industry faced in 2020, the COVID-19 pandemic presented and continues to present unique opportunities for the Company to expedite its acquisition and growth strategy in order to take advantage of new business opportunities. This will enable the Company to further bolster its leading national ARS network in the PRC and continue its international expansion to becoming a leading global ARS platform with integrated abilities to address increasing unmet demands for ARS, in particular from Chinese patients.

We have built a strong market reputation stemming from our superior success rates, experienced medical staff, high quality patient care and sophisticated management experience, all of which have greatly contributed to our role as a leading ARS provider in the PRC and the United States. With this strategy and reputation in mind and against the backdrop of the COVID-19 pandemic in 2020, we continued to expand our network operations, enhance patient experience and loyalty, improve brand awareness through marketing and cooperation initiatives, recruit talent to our network of experienced physicians and maintain superior success rates across our network of operations.

Expansion of business operations

During the Reporting Period, we continued to adhere to our strategy of expanding our global network and brand through acquisitions and cooperation agreements, increasing the operational capacity of our existing network through relocation and renovation, and expanding our service offerings to better cater for patient's demand on ARS. Key highlights are as follows:

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. The IVF clinic offers 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), and egg and sperm cryopreservation and other various IVF technology and treatment options. 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, which is due to be completed in 2021 as part of the Belt and Road Initiative. This IVF clinic will allow us to further expand our global outreach by tapping into the Southeast Asian market, providing Chinese patients with an overseas option and a wider range of services at a lower price point. As such, establishment of the IVF clinic in Laos is in line with our internationalization strategy to expand and provide ARS outside of China as well as catering to the surging patient flow from the Chinese market.

In June 2020, Sichuan Jinxin Fertility Medical Management Co., Ltd.* (四川錦欣生殖醫療管理有限公司) ("**Sichuan Jinxin**"), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement to acquire an aggregate of 75% equity interests in Wuhan Huangpu Integrated Gynecology and Obstetrics Hospital Co., Ltd.* (武漢黃浦中西醫結合婦產醫院有限責任公司) ("**Wuhan Jinxin Hospital**") (of which 70% equity interests is held by Sichuan Jinxin and 5% equity interests is held by a separate legal entity designated by Sichuan Jinxin for the purpose of employee incentives in the future). Wuhan Jinxin Hospital, a for-profit Class III specialized maternity hospital located in Jiang'an District, Wuhan, Hubei Province, the PRC, is one of only two non-public and for-profit hospitals in Wuhan possessing an IVF license to provide ARS to its patients, including conventional IVF-ET and ICSI. The acquisition of Wuhan Jinxin Hospital allows us to strategically expand into a new region that has a sizable population and high income per capita. We plan to accelerate the development of Wuhan Jinxin Hospital with our extensive network and fulfill the potentially large unmet medical need in the region. During the second half of 2020, Wuhan Jinxin Hospital underwent extensive renovation in order to expand its capacity and provide patients with high-quality fertility treatment services. During the renovation period, apart from the IVF department which has been in operation, all other departments of Wuhan Jinxin Hospital resumed their operations in February 2021.

In November 2020, HRC Fertility relocated one of its clinics in Pasadena, California, for the purposes of doubling its existing capacity and enhancing its service offerings to patients. The new clinic in Pasadena has a floor area of more than 2,000 sq.m and has the annual capacity to conduct over 5,000 IVF treatment cycles. The new clinic is divided into several functional areas including a B-ultrasound room, an operating theatre and an embryo laboratory, and is designed to ensure operational efficiency by diverting the flow of people during peak periods and minimizing waiting time of our patients.

Throughout the Reporting Period, we continued to expand our service offerings at both Chengdu Xinan Hospital and Shenzhen Zhongshan Hospital in order to provide patients with comprehensive services in infertility treatment. We introduced and launched various newly add-on services, including MDT (Multi-disciplinary Team), Breast Surgeries, and PCOS (Polycystic Ovary Syndrome) departments in Chengdu Xinan Hospital and outpatient pre-natal center in Shenzhen Zhongshan Hospital.

Enhance patient experience

Chengdu Xinan Hospital continued to provide an array of services to its patients to meet the increasing demand for highly personalized services. In particular, the upgraded VIP center continues to be led by a team of expert physicians with world-class medical equipment and diagnostic technology to provide patients with full-service support and personalized fertility treatment solutions. Among other things, VIP patients have access to a 24-hour dedicated consultation hotline, an exclusive butler to provide timely and personalized concierge services, increased consultation time with our physicians and psychological counseling to support patients throughout the entire treatment process. The penetration rate of our VIP services in Chengdu Xinan Hospital and Jinjiang IVF Center increased from 5.8% as of December 31, 2019 to 10.8% as of December 31, 2020, primarily attributable to increasing demand from patients for personalized and high-end IVF services.

In April 2020, Shenzhen Zhongshan Hospital launched the Mini-VIP service which provided patients with premium services for certain procedures in IVF treatment process. For example, the patient is assigned an experienced physician and butler to provide timely and personalized concierge services in egg retrieval and embryo transfer procedures. In January 2021, Shenzhen Zhongshan Hospital upgraded its Mini-VIP service to an integrated VIP center, which is similar to the VIP center at Chengdu Xinan Hospital, and is led by expert physicians and provides patients with a full suite of privileged services throughout the entire treatment process.

HRC Fertility's primary mission is to provide world-class medical services to patients through compassion, expertise, innovation and personalized care. During the Reporting Period, HRC Fertility has been investing actively in its IT infrastructure. The construction of new infrastructure enables HRC Fertility to assemble a new call center primarily for new patient inquiries, requests, follow up on leads and reach out to patients whom have missed their appointments. In order to ensure that patients are aware of their scheduled appointments, HRC Fertility has further implemented a patient reminder system, and also made available of internal mental health resources to support patients in having successful IVF treatment cycles.

Marketing and cooperation initiatives

We continued to develop our brand and expertise through various marketing and cooperation initiatives. As of December 31, 2020, we cooperated with 66 medical institutions at Chengdu Xinan Hospital, which involve two-way referrals or specialty alliance cooperation agreements. Since July 2020, Shenzhen Zhongshan Hospital has vigorously promoted two-way referrals in Northern and Eastern Guangdong Province. Furthermore, we endeavor to further expand our cooperation network with medical institutions in the PRC, particularly in Guangdong Province and Hubei Province where Shenzhen Zhongshan Hospital and Wuhan Jinxin Hospital possess huge potential to broaden their cooperation network with local medical institutions. Additionally, in July 2020, Chengdu Xinan Hospital obtained an online hospital license which will also enhance our geographical penetration into markets that Chengdu Xinan Hospital has yet to cover, including second to third-tier cities in Sichuan Province and other regions surrounding Sichuan Province.

In order to further promote our international influence in the ARS industry, in August 2020, we established Jinxin International Medical Services Company Limited, a joint venture committed to providing high-quality, patient-centric services to its customers. It serves as an open platform to attract more business partners and expand our reach in other regions, including the United States, Southeast Asia and other Asia-Pacific countries, to become a leading international IVF medical service platform for customers in need of ARS.

HRC Fertility 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 its marketing efforts. This centralized all of our creative, media, events, social media, digital and production initiatives, which resulted in a much more cost efficient and strategic approach. The in-house team has been focusing on three key areas, namely lead nurturing, digital presence and creative development. The customer-relationship management (CRM) system continues to provide insight into marketing efforts and conversions of pre-NPV (new patient visit) through lead nurturing activities that are built via marketing funnels. In terms of HRC Fertility's conversions of pre-NPV digital presence, webinars have been rebranded into Facebook Live sessions to provide seminars with more consistent lead flow. Additionally, HRC Fertility has been investing actively in data warehouse which enables HRC Fertility to better manage market trends, further develop key performance indicators, ensure that all internal software programs communicate with one another, perform predictive analytics, develop strategic initiatives and further enhance privacy and data security protections. Apart from strengthening its marketing strategy, HRC Fertility also adopted a business development strategy which allows it to continue to expand its market share and develop cooperative relationships with physicians in the community.

Furthermore, 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. With its facilities and solid experience in serving Chinese and international patients, HRC Fertility is equipped with the ability to recover its business once the United States government lifts travel restrictions resulting from the outbreak of COVID-19.

Research and development

In September 2020, Chengdu Jinxin Medical Investment Management Group Co., Ltd. ("**Chengdu Jinxin Investment**") established Jinxin Medical Innovation Research Center. We obtained exclusive rights for the application of the technology in Jinxin Medical Innovation Research Center for the purpose of integrating our network's expansive resources and experienced medical team in Shenzhen and Chengdu to conduct high-level clinical research in the ARS field to explore new and innovative methods to improve clinical pregnancy rate, including carrying out endometrial receptivity testing, developing an IVF-AI (artificial intelligence) diagnostic system and developing reproductive related immune cells culture system.

During the Reporting Period, our Group's embryo laboratory successively obtained its ISO9001 International Quality Management System Certification. HRC Fertility's laboratories are also dual certified by the Clinical Laboratory Improvement Amendments (CLIA) under the U.S. FDA (Food and Drug Administration) and the College of American Pathologists (CAP).

Talents recruitment

As a leading ARS provider, we are committed to a talent strategy of recruiting and retaining the best and most experienced medical professionals. This year, we implemented an equity incentive plan to award shares of our Company to key employees of Chengdu Xinan Hospital, Shenzhen Zhongshan Hospital and HRC Fertility. Through this equity incentive plan, our Group has been able to retain and recruit a new generation of talent to support its continued rapid development.

During the first half of 2020, Dr. Geng Qiang (耿薔), a renowned assisted reproductive physician, joined as the associate chief physician of Shenzhen Zhongshan Hospital. Dr. Geng Qiang is the founder, and director of the reproductive fertility center of Shenzhen Hengsheng Hospital, and previously studied under an acclaimed Chinese professor of reproductive medicine. In the second half of 2020, Dr. Yang Jing (楊菁) joined as an executive director of Wuhan Jinxin Hospital. Dr. Yang Jing is also the director of Obstetrics and Gynecology center of Renmin Hospital of Wuhan University. In January 2021, Dr. Zhu Minghui (朱明輝), a chief physician of Chengdu University of Traditional Chinese Medicine, Reproductive and Women-Children Hospital, joined our Group as head of quality control of Chengdu Xinan Hospital, and Dr. Xu Wangming (徐望明）, the chief physician of Renmin Hospital of Wuhan University, joined our Group as Medical President of Wuhan Jinxin Hospital. They bring their wealth of experience to our already robust medical team, which allows us to continue to expand our capabilities and capacity to serve high-quality care to more patients. 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 years ended December 31, 2019 and 2020.

	Year ended December 31,	
	2020	2019
Number of IVF treatment cycles	**22,879**	27,854
Overall success rate		
Xinan Hospital Group and Jinjiang IVF Center	**55.0%**	55.2%
Shenzhen operations	**53.7%**	54.1%
United States operations	**54.2%**	55.2%

During the Reporting Period, the slight decrease in overall success rate was mainly attributable to the increased age of patients and complication of certain individual cases. Success rate largely depends on the patient's age, the level of complication of each individual case and other factors. During the outbreak of COVID-19, usually, patients with the most urgent medical needs are immediately sent to the hospital. After the COVID-19 outbreak being under controlled in the PRC, the success rate in Chengdu Xinan Hospital and Shenzhen Zhongshan Hospital rebounded in the second half of 2020.

OUTLOOK AND FUTURE

Despite the impact of the COVID-19 pandemic on the ARS industry, the global ARS market is expected to recover once the pandemic is under control and continue its growth trend as demonstrated over the years. The growth is particularly due to an increased prevalence of infertility caused by lifestyle changes, increase in the average age of the parents when having their first childbirth, and increased public awareness on birth defects and prevention. In facing the challenges of decreasing fertility rates, it is inclined that the government encourages patients in need of ARS in treatment. Compared with Japan, Europe and the United States, the market penetration of ARS in China is still relatively low. With the improved awareness and increasing disposable income, patients in China tend to seek for more sophisticated IVF treatments and are opened to 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. All hospitals established in our network are recognized as top-notch in their respective regional market, including but not limited to Sichuan Province, Shenzhen and the Western United States, which contributes to our leading position in the ARS markets in China and the United States. In 2020, we further expanded our network to the Wuhan and Southeast Asia markets through the acquisition of Wuhan Jinxin Hospital and Jinrui Medical Center in Laos, respectively. We believe, by leveraging our existing resources and continuously recruiting talents and elites in joining our Group, we are able to replicate our success to the new regions we have entered into. 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, the average success rate of an IVF treatment cycle in the United States in 2016 was 52.5% compared to our network in the United States of 62%.

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

Increase market share, productivity and capacity

In both China and the United States, we will continue to promote educational activities to improve public awareness of our high quality ARS services, which in turn will increase our market share. Additionally, we plan to focus on increasing our market positions in Southeast Asia, Wuhan and their neighboring respective regions through our recent acquisitions. Furthermore, leveraging on our existing market leadership in Sichuan and Guangdong Provinces, we plan to penetrate into markets of neighboring regions (e.g. Southwest China, Eastern and Northern Guangdong Province and Hong Kong) by fully utilizing our (i) recently obtained internet hospital license at Chengdu Xinan Hospital, (ii) our continuous hiring of experienced physicians to join Shenzhen Zhongshan Hospital, which consequently led to a market gain in the Guangdong Province, and (iii) collaboration with local hospitals by way of mutual referral and alliances.

In Shenzhen, we are in the process of identifying a new building for Shenzhen Zhongshan Hospital to expand its capacity and capabilities of offering enhanced services. In the United States, we recently doubled the capacity of our clinic in Pasadena, California in November 2020. We also intend to expand the capacities of other clinics by relocating our existing centers and penetrate into untapped markets by hiring new physicians and opening new centers, in particular, in the Western United States.

Continue to improve our brand awareness

We intend to boost our branding efforts, which will allow us to maintain and improve our reputation and attract new patients. By leveraging our existing market leadership, long-standing experience and strong reputation in the ARS market, we will continue to adopt branding strategies that are effective towards improving our brand awareness and educate intended patients of ARS.

We utilize our online platform and a variety of social media tools 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 outreach. In particular, we endeavor to further expand our cooperation network with medical institutions in the PRC, particularly in Guangdong Province and Hubei Province where Shenzhen Zhongshan Hospital and Wuhan Jinxin Hospital possess huge potential to broaden their cooperation network with local medical institutions. We are also in discussion with privileged and reputable universities in China and overseas to explore potential cooperation opportunities in research and development and talent cultivation. By collaborating with our leading vendor, we established Jinxin International Medical Services Company Limited, which serves as an open platform to attract more business partners and expand our reach in other regions, including the United States, Southeast Asia and other Asia-Pacific countries, to become a leading international IVF medical service platform for mid- to high-end customers. At the same time, we are committed to continuously improving our branding, services and clinical outcomes for our patients, so as to becoming more competitive in the industry.

Expand our service offerings to provide comprehensive services in fertility treatment

We intend to continue expanding our service offerings to provide patients with comprehensive and high-quality services in fertility treatment. We also plan to expand facilities for fast-growing value-added services, including andrology, traditional Chinese medicine, immunology and gynecology services in our network to explore high potential opportunities in these businesses. In particular, in Chengdu, we intended to expand the andrology department, and in Shenzhen, we intended to extend our service offerings with post-IVF services, such as pre-natal and obstetrics services, in order for Shenzhen Zhongshan Hospital to be classified as a Class III hospital and obtain the PGS/PGD license.

Remain dedicated to improving patient's experience

While we have made major strides in enhancing the service and experience our patients receive, such as introducing an upgraded VIP center at Chengdu Xinan Hospital, we remain dedicated to serving our patients by upgrading our facilities and adjusting our service offerings to meet their ever-changing and multi-dimensional needs. In January 2021, we also opened an upgraded VIP center with a suite of premium services in Shenzhen Zhongshan Hospital. We expect to replicate the VIP business model in Wuhan Jinxin Hospital and HRC Fertility in the near future.

Maintain investments in research and development to enhance overall performance

By leveraging our market positioning as one of the pioneers in the ARS industry in both China and the United States, we intend to continue investing in research and development initiatives to maintain our leading position in the application of assisted reproductive technologies and improve clinical outcomes of our patients.

We will continue to collaborate with Chengdu Jinxin Investment to conduct research and development initiatives including endometrial receptivity testing and developing an IVF-AI diagnostic system and reproductive related immune cells culture system. We believe the application of these technologies is likely to expand our service offerings as well as improve our clinical outcomes. We intend to collaborate with top tier universities and medical schools in research and development, to maintain our leading position in the application of assisted reproductive technologies, which in turn upholds our high success rate. Furthermore, we seek to actively deploy technologies that we possess to expand our service offerings, and invest in targets equipped with advanced technology to enhance our treatment technique and clinical outcome. We will continue to adhere to our high quality standards and explore new methods of improving quality control in our IVF laboratories, which are critical 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 our medical teams in China and the United States.

Expand our platform reach through acquisitions

We have been expanding our network in China, the United States and Southeast Asia to address the increasing demands from patients. In China, we plan on continuing mergers and acquisitions of ARS-licensed providers located in regions in China with relatively high demand for ARS, such as in East China, the Beijing-Tianjin-Hebei region, and other regions with high potential. Similarly, in the United States, we intend to acquire fertility clinics to expand our reach in the Western United States.

We will also continue stick to our mergers and acquisitions strategy by selectively entering into other countries and markets with relatively high demand for ARS or are of particular significance to providing ARS to international patients, such as other Southeast Asia countries and Eastern European countries that are becoming increasingly popular as medical tourism destinations for Chinese patients. To help accomplish our mergers and acquisitions strategy, on February 9, 2021, the Company completed a placing of 80,000,000 new shares at the price of HK$15.85 per share. Details of the use of proceeds from such placing is set out in the section "Use of Proceeds from Placing" below.

Minimize the impact of the outbreak of COVID-19

The outbreak of COVID-19 in China is currently under control and the business operations managed to resume its operations back to normal. Similar business recovery progress was also observed in our local business in the United States. Since the initial outbreak in December 2019, we have instituted, and will continue to institute, various emergency measures and alternative arrangements to minimize the impact of the outbreak on patients. In particular, digital channels are fully utilized 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 in-person. We will also continue to foster closer cooperation with different online platforms, such as through minority shareholding investments and long-term cooperation agreements. We believe these measures can help maintain our business growth despite any potential outbreak in future. Additionally, during this outbreak, we will continue to increase our marketing and patient outreach through various agents and online channels. We are also working on several marketing campaigns to incentivize our patients to return to our hospitals and receive treatments after the COVID-19 outbreak.

The Company will continue to assess the impact of the COVID-19 outbreak by measuring the operational and financial performance of the Group, while closely monitoring the development of the COVID-19 outbreak and the risks and uncertainties faced by the Group. The Company will take appropriate measures as necessary.

Talent recruitment initiatives

We are committed to recruiting and retaining the best and most experienced medical professionals in the field of assisted reproduction to support our medical facilities in both China and the United States. We have implemented a "physician as partner" mechanism to grant physicians with equity ownership as a partner of the Company. In 2020, as part of our talent strategy, we have implemented an equity incentive plan to award shares of our Company to certain medical professionals who has contributed to the development of our business. The management believes that the equity incentive plan encourages our medical professionals to continue providing excellent medical services to our patients, which further facilitates our future expansion plans. To further enhance the "physician as partner" mechanism, we established a "Partner Election Committee" in March 2021.

We equip our team of medical professionals with the necessary infrastructure and resources that facilitates optimal performance. We will continue expanding and penetrating into markets with unmet demands, and this will provide our team of medical professionals with opportunities to undertake more important roles beyond medical practice, such as management, in the new markets. Furthermore, we enhance our research capabilities by increasing our investment in our research and development teams and research initiatives that are in conjunction with our clinical practice. Additionally, we have an international platform allowing medical professionals in our network to exchange ideas and communicate with each other.

FINANCIAL REVIEW

Revenue

Revenue of the Group decreased by 13.5% from approximately RMB1,648.5 million for the year ended December 31, 2019 to approximately RMB1,426.1 million for the year ended December 31, 2020. The overall decrease was primarily due to the outbreak of COVID-19 and the travel restrictions imposed by the United States.

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,			
	2020		2019	
	Revenue		*Revenue*	
	(RMB in thousands, except percentages)			
Revenue				
ARS				
Xinan Hospital Group	**699,716**	**49.1%**	628,400	38.1%
Shenzhen Zhongshan Hospital	**267,968**	**18.8%**	303,478	18.4%
Wuhan Jinxin Hospital	**11,163**	**0.8%**	–	–
Sub-total	**978,847**	**68.7%**	931,878	56.5%
Management service fee				
Jinjiang IVF Center	**32,691**	**2.3%**	104,103	6.3%
HRC Medical	**342,399**	**24.0%**	544,386	33.0%
Sub-total	**375,090**	**26.3%**	648,489	39.3%
Ancillary medical services(1)				
Shenzhen Zhongshan Hospital	**31,942**	**2.2%**	32,644	2.0%
HRC Management	**37,308**	**2.6%**	35,485	2.2%
Wuhan Jinxin Hospital	**2,901**	**0.2%**	–	–
Sub-total	**72,151**	**5.0%**	68,129	4.2%
Total	**1,426,088**	**100.0%**	1,648,496	100.0%

Note:

(1) Ancillary medical services provided by HRC Medical include ambulatory surgery centre facility services and PGS (preimplantation genetic screening) testing services.

Chengdu operations

The revenue contributed by the medical facilities in the Group's network in Chengdu remained stable from approximately RMB732.5 million for the year ended December 31, 2019 to approximately RMB732.4 million for the year ended December 31, 2020.

The revenue from ARS provided at Xinan Hospital Group increased by 11.3% from approximately RMB628.4 million for the year ended December 31, 2019 to approximately RMB699.7 million for the year ended December 31, 2020, as a result of an increase in the average spending per IVF treatment cycle performed at Xinan Hospital Group resulting from the increased penetration rate of VIP packages and the increase in IVF related services.

The revenue from management services provided in Chengdu decreased by 68.6% from approximately RMB104.1 million for the year ended December 31, 2019 to approximately RMB32.7 million for the year ended December 31, 2020, primarily due to the outbreak of COVID-19, which slowed down the Group's business operations. In addition, more patients were assigned to Jinjiang IVF Center due to the relocation of Chengdu Xinan Hospital in the first half of 2019.

Shenzhen operations

The revenue contributed by the Group's Shenzhen operations decreased by 10.8% from approximately RMB336.1 million for the year ended December 31, 2019 to approximately RMB299.9 million for the year ended December 31, 2020, primarily due to the outbreak of COVID-19 and the travel restrictions imposed by the Hong Kong government. Prior to the COVID-19 pandemic, approximately 10% of the patients in the Group's Shenzhen operations were from Hong Kong.

United States operations

The revenue from management services provided by the Group under the MSA with HRC Medical in California, the United States decreased by 37.1% from approximately RMB544.4 million for the year ended December 31, 2019 to approximately RMB342.4 million for the year ended December 31, 2020, primarily due to the outbreak of COVID-19 and the travel restrictions imposed by the United States.

Ancillary medical and facilities services provided by HRC Management including ambulatory surgery centre facility services and PGS testing services increased by 5.1% from approximately RMB35.5 million for the year ended December 31, 2019 to approximately RMB37.3 million for the year ended December 31, 2020. Ambulatory surgery centre facilities services revenue relates to provision of ambulatory surgery centre facilities at RSA Centers to doctors in exchange for a fee. PGS testing services revenue relates to provision of preimplantation genetic screening service at its in-house clinical laboratory called NexGenomics.

Cost of Revenue

Cost of revenue of the Group increased by 3.4% to approximately RMB860.3 million for the year ended December 31, 2020 from approximately RMB831.7 million for the year ended December 31, 2019. The increase of the cost of revenue was primarily due to the increase in ESOP expenses of RMB33.6 million.

Cost of revenue of the Group consists primarily of 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, bonus of the Group's medical staff and ESOP expenses. Depreciation primarily consists of depreciation of property, plant and equipment.

Gross Profit and Gross Profit Margin

Gross profit of the Group decreased by 30.7% from approximately RMB816.8 million for the year ended December 31, 2019 to approximately RM565.8 million for the year ended December 31, 2020. The decrease in the gross profit was mainly attributable to the decrease in revenue. The Group's gross profit margin decreased from 49.5% for the year ended December 31, 2019 to 39.7% for the year ended December 31, 2020. The decrease in the gross profit margin was due to the fixed costs primarily including staff costs, depreciation and amortization, lease cost did not decrease as much as the decrease of revenue while the Group's business slowed down due to the outbreak of COVID-19.

Other Income

Other income of the Group increased by 16.9% from approximately RMB63.4 million for the year ended December 31, 2019 to approximately RMB74.1 million for the year ended December 31, 2020, primarily due to an increase in interest income from the bank deposits.

Other income consists primarily of interest income from bank deposits, 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 RMB42.2 million for the year ended December 31, 2020, resulting from converting the Renminbi 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 decreased by 13.5% from approximately RMB13.3 million for the year ended December 31, 2019 to approximately RMB11.5 million for the year ended December 31, 2020, primarily due to a decrease in the cost of materials used by the Group's research and development team.

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.

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 30.3% from approximately RMB211.3 million for the year ended December 31, 2019 to approximately RMB275.3 million for the year ended December 31, 2020, primarily due to the increase in ESOP expenses from RMB27.2 million for the year ended December 31, 2019 to RMB50.0 million for the year ended December 31, 2020.

Finance Costs

Finance costs consist of interest on bank borrowings of RMB2.2 million and interest on lease liabilities of RMB11.1 million due to the application of IFRS 16.

Income Tax Expenses

Income tax expenses of the Group primarily consist of PRC enterprise income tax and U.S.A. income tax. Income tax expenses of the Group decreased by 30.3% from approximately RMB127.2 million for the year ended December 31, 2019 to approximately RMB88.6 million for the year ended December 31, 2020, primarily due to the decrease in the Group's profit before taxation.

The effective tax rate of the Group increased from 23.2% for the year ended December 31, 2019 to 25.4% for the year ended December 31, 2020, primarily due to the increase in the non-deductible expenses at the Group's offshore entities.

Non-IFRS Measures

To supplement the Group's consolidated financial statements which are presented in accordance with IFRS, the Company has provided EBITDA, adjusted EBITDA, and adjusted net profit as non-IFRS measures, which are not required by, or presented in accordance with, IFRS. The Company believes that the adjusted financial measures provide useful information to investors and others 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 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 the IFRS. You should not view the adjusted results on a stand-alone basis or as a substitute for results under IFRS.

The following tables set forth the reconciliation of the Group's non-IFRS financial measures for the years ended December 31, 2020 and 2019 to the nearest measures prepared in accordance with IFRS:

	Year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Profit for the year	**260,496**	420,677
Add:		
Listing expenses[(1)]	**–**	62,635
ESOP expenses[(2)]	**83,649**	27,246
Amortization and depreciation of medical practice license and property, plant and equipment arising from Shenzhen Zhongshan Hospital, HRC Management and Wuhan Jinxin Hospital acquisition[(3)]	**22,133**	17,553
Imputed interest income from related parties[(4)]	**–**	(2,321)
Donation to Wuhan[(5)]	**6,000**	–
Loss associated with the disposal of Shenzhen Zhongshan Hospital's two community health service centers	**–**	4,557
Adjusted Net Profit	**372,278**	530,347
EBITDA	**394,743**	583,354
Add:		
Listing expenses[(1)]	**–**	62,635
ESOP expenses[(2)]	**83,649**	27,246
Imputed interest income from related parties[(4)]	**–**	(2,321)
Donation to Wuhan[(5)]	**6,000**	–
Loss associated with the disposal of Shenzhen Zhongshan Hospital's two community health service centers	**–**	4,557
Adjusted EBITDA	**484,392**	675,471

Notes:

(1) Listing expenses: Listing expenses are expenses incurred during the listing of the Company on the Main Board of the Stock Exchange, which are considered as non-recurring.

(2) ESOP expenses: As ESOP expenses are regarded as non-cash items, the Company has eliminated the effect of the grant of restricted shares under the RSU Scheme when calculating the earnings per Share to ensure disclosure consistency.

(3) Amortization and depreciation of medical practice license and property, plant and equipment arising from Shenzhen Zhongshan Hospital, HRC Management and Wuhan Jinxin Hospital acquisition: By eliminating the effect of these items from the profit attributable to the owners of the Company, it serves the purpose of demonstrating the endogenous growth of the Company.

(4) Imputed interest income from related parties: This imputed interest is arisen from advanced payments by the Company on behalf of its related parties, which is merely a result of accounting treatment and therefore is regarded as non-operating item.

(5) Donation to Wuhan: This donation is to fight against COVID-19 which is regarded as a non-operating item.

Net Profit and Net Profit Margin

As a result of the foregoings, net profit of the Group decreased by 38.1% from approximately RMB420.7 million for the year ended December 31, 2019 to approximately RMB260.5 million for the year ended December 31, 2020. Net profit margin of the Group for the year ended December 31, 2020 was 18.3%, compared to 25.5% for the year ended December 31, 2019. The lower net profit margin compared to the year ended December 31, 2019 was primarily due to the fixed cost, primarily including labor cost, lease cost and depreciation did not decrease as much as the decrease of revenue while the Group's business slowed down due to the outbreak of COVID-19.

Adjusted net profit[1] of the Group decreased by 29.8% from approximately RMB530.3 million for the year ended December 31, 2019 to approximately RMB372.3 million for the year ended December 31, 2020. The adjusted net profit margin of the Group for the year ended December 31, 2020 was 26.1%, compared to 32.2% for the year ended December 31, 2019. The lower adjusted net profit margin of the Group for the year ended December 31, 2020 was primarily due to the fixed cost, primarily including labor cost, lease cost and depreciation did not decrease as much as the decrease of revenue while the Group's business slowed down due to the outbreak of COVID-19.

EBITDA

EBITDA[2] of the Group decreased by 32.3% from approximately RMB583.4 million for the year ended December 31, 2019 to approximately RMB394.7 million for the year ended December 31, 2020. The EBITDA margin of the Group for the year ended December 31, 2020 was 27.7%, compared to 35.4% for the year ended December 31, 2019. The lower EBITDA margin of the Group for the year ended December 31, 2020 was mainly because the decrease in fixed costs, which primarily comprises of labor cost, was not as much as the decrease in the Group's revenue due to its business slowdown during the outbreak of COVID-19.

Adjusted EBITDA[3] of the Group decreased by 28.3% from approximately RMB675.5 million for the year ended December 31, 2019 to approximately RMB484.4 million for the year ended December 31, 2020. The adjusted EBITDA margin of the Group for the year ended December 31, 2020 was 34.0%, compared to 41.0% for the year ended December 31, 2019. The lower adjusted EBITDA margin of the Group for the year ended December 31, 2020 was mainly because the decrease in fixed costs, which primarily comprises of labor cost, was not as much as the decrease in the Group's revenue due to its business slowdown during the outbreak of COVID-19.

---

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, HRC Management and Wuhan Jinxin Hospital 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) donation to Wuhan to better reflect the Company's current business and operations.

2 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.

3 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) donation to Wuhan to better reflect the Company's current business and operations.

Basic Earnings per Share

The basic earnings per share of the Group for the year ended December 31, 2020 amounted to RMB0.10, as compared to RMB0.19 for the year ended December 31, 2019. Please refer to note 11 to the consolidated financial statements in this announcement.

Interests in associates

Interests in associates mainly represent our investments in Mengmei, Kangseed and Jinxin International Medical Services Company Limited.

Inventories

Inventories of the Group decreased by 2.3% from approximately RMB26.1 million as at December 31, 2019 to approximately RMB25.5 million as at December 31, 2020, which primarily remained stable.

Accounts and Other Receivables

Accounts and other receivables of the Group increased by 49.0% from approximately RMB46.1 million as at December 31, 2019 to approximately RMB68.7 million as at December 31, 2020, primarily due to the increase in prepayment to suppliers.

Accounts and Other Payables

Accounts and other payables of the Group increased by 13.1% from approximately RMB319.8 million as at December 31, 2019 to approximately RMB361.6 million as at December 31, 2020, primarily because the Group was able to better utilize credit terms with its suppliers.

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 requirement. 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.

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,	
	2020	2019
	RMB'000	*RMB'000*
Net cash generated from operating activities	**308,039**	452,568
Net cash used in investing activities	**(130,984)**	(2,705,963)
Net cash (used in) from financing activities	**(55,582)**	1,647,149
Cash and cash equivalents at the beginning of the year	**579,637**	1,184,190
Cash and cash equivalents at the end of the year	**681,619**	579,637

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 for the years indicated:

	For the year ended December 31,	
	2020	2019
	RMB'000	*RMB'000*
Capital expenditure in respect of property, plant and equipment contracted for but not yet provided	**39,144**	4,606
Total	**39,144**	4,606

Significant Investments, Material Acquisitions and Disposals

Save as disclosed above, as at December 31, 2020, there were no significant investment held by the Company, nor were any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Indebtedness

Lease liabilities

The Group recognized right-of-use assets and corresponding lease liabilities in respect of all leases, except for short-term leases and leases of low value assets. As at December 31, 2020, the Group, as a lessee, had outstanding lease liabilities for the remaining terms of relevant lease agreements in an aggregate amount of RMB244.3 million. The lease liabilities of RMB222.4 million represent payment for right of using underlying assets.

Borrowings

As of December 31, 2020, the Group had bank borrowings of RMB162.5 million (December 31, 2019: Nil).

Contingent Liabilities and Guarantees

As at December 31, 2020, the Group did not have any material contingent liabilities or guarantees.

Charge of Assets

As at December 31, 2020, there was no charge on the material assets of the Group.

Contractual Obligations

As at December 31, 2020, 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, 2020, the Group's gearing ratio is 2.18% (December 31, 2019: not applicable).

Currency Risk

The business of the Group operates in both the PRC and the United States with its transactions settled in Renminbi and U.S. dollar, respectively. Renminbi is not a freely convertible currency and is subject to changes in central government policies and to international economic and political developments. Despite the fact that the Company currently has not adopted any hedging measure, the cost of U.S. dollar is covered by the revenue generated in U.S. dollar, which serves as a natural hedging purpose. As a result, the Company does not believe that it currently has any significant direct foreign exchange risk and has not used any derivative financial instruments to hedge our exposure to such risk.

Interest Rate Risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances. Its cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. The Directors consider that the overall interest rate risk is not significant and no sensitivity analysis is presented. The Company considers the interest rate risk associated with the financial assets at fair value through profit or loss and fixed rate structured bank deposit to be limited because the tenor of such instruments are short, ranging from 35 to 90 days.

Liquidity Risk

The Group aims to manage liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2020, the Group and the medical facilities in its network had a total of 1,421 employees, of whom 1,238 were located in China and 183 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 RMB357.3 million for the year ended December 31, 2020, as compared to approximately RMB361.0 million for the year ended December 31, 2019.

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. Besides, 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, 2020, no option has been granted pursuant to the Share Option Scheme.

FINAL DIVIDEND

The Board does not recommend payment of a final dividend for the year ended December 31, 2020 (for the year ended December 31, 2019: HK$6.8 cents).

OTHER INFORMATION

AGM AND CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company will be held on Tuesday, June 29, 2021. 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 Thursday, June 24, 2021 to Tuesday, June 29, 2021, 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 Wednesday, June 23, 2021.

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.

The Company has complied with all applicable code provisions of the CG Code for the year ended December 31, 2020. 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 year ended December 31, 2020.

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 and the unutilized net proceeds were kept at the bank accounts of the Group as at December 31, 2020.

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, 2020:

Use of proceeds	Planned applications *(HK$ million)*	Percentage of total net proceed	Actual usage up to December 31, 2020 *(HK$ million)*	Net proceeds brought forward for the Reporting Period *(HK$ million)*	Unutilized net proceeds as at December 31, 2020 *(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]	24.7	702.0	677.3	By June 2024
For the potential acquisition of additional assisted reproductive medical facilities in provinces in China we are currently not operating in[3]	561.6	20.0%	484.6	561.6	77.0	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%	38.4	280.8	242.4	By June 2024
For the potential acquisitions of ARS service providers and businesses along the ARS service chain[4]	561.6	20.0%	272.9	561.6	288.7	By June 2022
To improve brand awareness and general ARS awareness in both China and the United States	421.2	15.0%	–	421.2	421.2	By June 2024
For the Group's working capital and general corporate purposes[5]	280.9	10.0%	45.3	280.9	235.6	By June 2024
Total	2,808.1	100.0%	865.9	2,808.1	1,942.2	

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.

(3) Including the acquisition of equity interests of a hospital in Wuhan with assisted reproductive medical facilities and subsequent capital expenditure in connection with improving the hospital.

(4) Including (i) formation of joint venture with the shareholders of Mengmei Life Pty. Ltd. and Jinxin Hospital Management Group Limited in relation to, among others, the promotion, customers acquisition and channels management related to IVF (actual usage up to December 31, 2020 amounting to HK$235 million) and (ii) other expenditures (actual usage up to December 31, 2020 amounting to HK$38 million).

(5) Namely (i) consultation fees, including but not limited to fees for legal compliance, audit, investor relations/public relations, human resources, and operations; (ii) rental and office expense; and (iii) remuneration packages of the existing management team.

USE OF PROCEEDS FROM PLACING

On February 2, 2021, the Company entered into a placing agreement with Morgan Stanley & Co. International plc (the "**Placing Agent**"), pursuant to which the Placing Agent agreed to place 80,000,000 shares (or, failing which, to purchase itself as principal) on a fully underwritten basis to not less than six independent investors (the "**Placing**"). The Placing price was HK$15.85 per share.

The closing of the Placing took place on February 9, 2021, which is after the Reporting Period. The net proceeds from the Placing were approximately HK$1,253.47 million, which will be used (i) to fund potential merger and acquisition opportunities of ARS-licensed providers located in regions in the PRC with relatively high demand for ARS, such as in East China, the Beijing-Tianjin-Hebei region, and other highly potential regions; (ii) to fund potential merger and acquisition opportunities of ARS-licensed providers located outside the PRC, such as in Southeast Asia and other Asia-pacific countries, to further expand the Group's global reach; and (iii) for other general corporate purposes where appropriate, as disclosed in the announcements of the Company dated February 2, 2021 and February 9, 2021, respectively. As of the date of this announcement, none of the net proceeds has been utilized by the Company. The expected timeline for utilizing the net proceeds of the Placing is by December 2023. Such timeline 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.

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

During the Reporting Period, the Company had repurchased a total of 6,800,000 Shares on the Stock Exchange at an aggregate purchase price of HK$66,520,817.4. As of the date of this announcement, the repurchased shares had been cancelled by the Company.

Save as the aforesaid repurchases of shares, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company 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. Fang Min and Ms. Hu Zhe. 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, 2020, 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, 2020 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.

EVENT AFTER THE REPORTING PERIOD

The Group has the following event taken place subsequent to December 31, 2020:

- On February 2, 2021, the Company entered into a placing agreement with the Placing Agent, pursuant to which the Placing Agent agreed to place 80,000,000 shares (or, failing which, to purchase itself as principal) on a fully underwritten basis to not less than six independent investors. The Placing price was HK$15.85 per share. For more details, please refer to the Company's announcements dated February 2, 2021 and February 9, 2021, respectively.

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 2020 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 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 PRC 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
“COVID-19”	Coronavirus disease of 2019
“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, the 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 Jinjiang District Maternity and Child Health Hospital
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on June 25, 2019
"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
"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
"PRC"	the People's Republic of China
"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
"Renminbi" or "RMB"	Renminbi Yuan, the lawful currency of the PRC

"Reporting Period"	the twelve-month period from January 1, 2020 to December 31, 2020
"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
"Shareholder(s)"	holder(s) of Share(s)
"Share(s)"	ordinary share(s) in the capital of the Company with nominal value of US$0.00001 each
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on June 3, 2019, the principal terms of which are summarized in "Share Option Scheme" in Appendix V to the Prospectus
"Shenzhen Zhongshan Hospital"	Shenzhen Zhongshan Urological Hospital (深圳中山泌尿外科醫院) (previously known as Shenzhen Zhongshan Urological Hospital Co., Ltd (深圳市中山泌尿外科醫院有限公司)), a company established in Shenzhen, PRC with limited liability on May 18, 2004, the Group's indirect subsidiary that is a for-profit specialty hospital
"sq.m."	square metre
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S. dollar(s)" or "US$"	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 28, 2021

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Zhong Ying, Mr. Zhong Yong, Dr. John G. Wilcox and Mr. Dong Yang, as executive Directors; Mr. Wang Bin, Mr. Fang Min and Ms. Hu Zhe, 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*