

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



New Century Healthcare Holding Co. Limited **新世紀醫療控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1518)

SUPPLEMENTAL ANNOUNCEMENT TO 2020 ANNUAL REPORT

Reference is made to the annual report of New Century Healthcare Holding Co. Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended December 31, 2020 (the “**2020 Annual Report**”). Unless otherwise defined, capitalized terms used herein shall bear the same meanings as those defined in the 2020 Annual Report.

In addition to the information disclosed in the 2020 Annual Report, the Company wishes to provide the Shareholders and the public with additional information in relation to the 2020 Annual Report as follows.

Reasons for and the circumstances leading to the recognition of Impairment

As disclosed on pages 11 and 132 of the 2020 Annual Report, during the year ended December 31, 2020, the Group recorded a goodwill impairment loss of approximately RMB220.1 million (the “**Impairment**”) of Chengdu New Century, which was attributable to the prolonged impact of COVID-19 outbreak and the uncertainty of the macroeconomic environment. The Company would like to provide supplemental information in respect of the Impairment as follows.

The outbreak of COVID-19 pandemic took place in late January 2020 and reached the peak between February and March 2020. During the same period, Chengdu New Century’s businesses were not severely affected as such period overlapped with the Chinese Lunar New Year holidays which were typically a slack season for hospitals, as such, the Company still expected a recovery of business performance after the outbreak was controlled.

Notwithstanding, the continuous implementation of various anti-pandemic policies and preventive measures (the “**Anti-pandemic Measures**”), such as social distancing, enhanced control measures on visits to certain premises (hospitals in particular) and lockdown, during the pandemic had brought certain restrictions over non-emergency medical services. In addition, routine medical needs of

patients had also been suppressed during the same period, resulting in a significant drop in the number of total patients, hospitalized patients and surgical operations as patients' visiting frequency had declined due to the pandemic.

Although the City of Chengdu had reduced the emergency level for the pandemic prevention and orderly resumed citizens' work and students' schooling as the COVID-19 pandemic had gradually been controlled in the PRC, Chengdu New Century's business volume had not restored accordingly as the patients' behavior has changed during the COVID-19 pandemic. The changes in patients' behavior does not only affect the operating results of Chengdu New Century for the first half of 2020 but would also be expected to negatively impact on its future business operation and operating results.

In June 2020, the government authority of Sichuan province further implemented the measures for normalized prevention and control of the COVID-19 pandemic. Having taken into account of the fact that the business volume and revenue of Chengdu New Century for the six months ended June 30, 2020 still saw significant decrease as compared to the same period for 2019, the Company realized that the impacts of the COVID-19 pandemic would not come to an end in the near future. The decrease in revenue of Chengdu New Century's pediatric, obstetrics and gynecology segments for the six months ended June 30, 2020 as compared to the same period for 2019 further affirmed the Company's view that its future operational and financial performance would be worse than expected due to changes and uncertainties in its hospital business operation (i.e. obstetrics and gynecology business and pediatric business) in Chengdu, details of which are set out below.

Obstetrics and Gynecology Business

Nowadays, people intended to avoid unnecessary chance in exposing themselves to COVID-19 in risky areas, for example hospitals, which resulted in lower inpatient days and pursuant to the Anti-pandemic Measures (e.g. social distancing, lockdown and enhanced measures on controlling visits to hospitals), cross region hospital visits or transfers have been restricted which resulted in decrease in the number of visits in obstetrics and thus, some gynecological patients choose to delay receiving medical treatment or stay in the public hospitals where they first visited to receive the treatment (in the past, certain patients used to transfer from public hospitals to Chengdu New Century for better medical environment), which resulted in lower number of new patients in obstetrics and gynecology than that under the management's previous forecast.

All the above changes are fundamentally due to the outbreak of the COVID-19 pandemic. According to the Company's original business development plan in Chengdu, it planned to enrich services offerings in obstetrics and gynecology in the next several years, so as to expand its business scale and increase market share in the obstetrics and gynecology segments. However, due to the COVID-19 pandemic, certain business plans formulated in 2019, such as expansion of post-partum recovery services and complex gynecological surgeries, have been greatly delayed in 2020.

The Company predicts that Anti-pandemic Measures will continue to impact on obstetrics and gynecology patients' decisions in medical treatment in the future.

During the past several years, the Company's competitors who were optimistic about the obstetrics and gynecology markets in Southwest China had also vigorously developed their business in the region. Due to the impacts brought by the COVID-19 pandemic, the Company's competitors are also coping with the changing circumstances now, which resulted in more severe competition among the services providers in Chengdu. As a result, the Company is facing external pressure caused by more severe competition and decline in patients' needs.

Pediatric business

In the Company's pediatrics business, the outpatient department services are of utmost importance. Since the outbreak of COVID-19 pandemic, the implementation of the various administration measures of fever clinics has greatly impacted on the reception of patients. In addition, the implementation of Anti-pandemic Measures (i.e. isolation, suspension and other policies) had also greatly reduced the number of medical treatments given to children, which resulted in decline in business volume. And, due to school suspension and mask wearing policy in public area, people, especially children, have got used to good hygiene habits, which results in less seasonal infectious diseases. Additionally, patients' behavior has changed during the COVID-19 pandemic, especially in first-tier and second-tier cities and in relation to non-severe syndromes, e.g. certain patients switch from offline to online diagnosis and drug purchases, which brings significant challenges to the business model of traditional medical institutions including hospitals and clinics.

Due to the pandemic situation as well as the supportive policies imposed by the government, many technology-based enterprises have invested resources in online diagnosis and drug purchases, so as to facilitate safe and convenient medical treatments. As convenient service and relaxed environment are two of the key factors for the Company's patients to consider while deciding to choose private or public hospitals, the availability of online medical diagnosis platforms is expected to have a prolonged effect on the changes in consumption habits of patients. The Company predicts that it will be exposed to competition from new industry entrants which are equipped with strong technological capabilities in addition to the more severe competition brought by traditional medical institutions in the industry.

As the COVID-19 pandemic is expected to co-exist with us for years, the Company considered aforementioned changes and uncertainties might not be temporary and their impact on the business development and operation results of Chengdu New Century will be prolonged.

According to Hong Kong Accounting Standard 36 ("**HKAS 36**"), goodwill will be tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Due to the above indicators, the Company had performed an impairment test on goodwill in accordance with HKAS 36 and recognized the Impairment in the interim condensed consolidated financial information for the six months ended June 30, 2020. Please see the table below for details of the goodwill of Pediatric in Chengdu New Century cash generation unit (“CGU”) and Obstetrics and Gynecology in Chengdu New Century CGU:

	As of December 31, 2019	Impairment	As of June 30, 2020
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Pediatric in Chengdu New Century CGU	88,695	(76,567)	12,128
Obstetrics and Gynecology in Chengdu New Century CGU	<u>165,002</u>	<u>(143,532)</u>	<u>21,470</u>
Total	<u>253,697</u>	<u>(220,099)</u>	<u>33,598</u>

The Company had also performed the annual impairment test during the preparation of its 2020 Annual Report and it was concluded that no additional impairment had to be made in respect of the goodwill of Chengdu New Century.

Prior to the release of the interim results announcement for the six months ended June 30, 2020 (the “**2020 Interim Results**”) on August 28, 2020, the Company, with assistance by a valuer on model selection and discount rate determination (the “**Valuer**”), prepared a self-assessment for the Impairment and the Valuer also issued a report for calculation of discount rates as of June 30, 2020 (the “**Discount Rates Report**”) to suggest the appropriate discount rate for the impairment test.

In making the Impairment, the Company applied discounted cash flow model to determine the fair value less cost of disposal and value in use for pediatric of Chengdu New Century CGU and obstetrics and gynecology of Chengdu New Century CGU. In accordance with HKAS 36, the Company selected value in use as the recoverable amount for calculation of the Impairment, as it is slightly higher than fair value less cost of disposal.

Key assumptions to determine the Impairment disclosed in the interim condensed consolidated financial information as of June 30, 2020 are set out as below:

	Pediatric of Chengdu New Century CGU		Obstetrics and gynecology of Chengdu New Century CGU		Note
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	
Revenue (Compound annual growth rate, “CAGR”)	11.93%	18.01%	10.83%	19.95%	(a)
Costs and operating expenses (% of revenue)	114.75%	76.17%	135.22%	73.54%	(b)
Pre-tax discount rate (%)	14.02%	16.51%	14.02%	16.59%	(c)
Long-term growth rate (%)	3.00%	3.00%	3.00%	3.00%	(d)

Notes:

- (a) The CAGRs were estimated by analyzing the variance between historical financial budgets and actual results before and after the outbreak of COVID-19; and analyzing the adjustments, including the number of total patients and the average spending per patient, in the estimates made in response to these variances. Due to the prolonged impact of COVID-19 mentioned above, the Company reduced its forecast of future revenue and resulted in a lower CAGR as of June 30, 2020 compared with December 31, 2019.
- (b) The costs and operating expenses to revenue percentages were estimated based on approved financial budgets. The increases were mainly attributable to the lower CAGR of revenue and certain fixed expenditures (e.g. fixed portion human resource costs, routine maintenance cost for medical equipment etc.) which does not vary according to the Company’s level of revenue.
- (c) Pre-tax discount rate applied by the Company was derived from the weighted average cost of capital (the “WACC”) under the Discount Rates Report. Due to lower risk-free rate and risk premium in WACC calculation, a lower pre-tax discount rate was derived for the six months ended June 30, 2020.
- (d) The long-term growth rates were determined by reference to long term inflation rate and economic growth rate in China from commonly used data sources. It did not change for the six months ended June 30, 2020 compared to the year ended December 31, 2019 due to no change in relation to the long-term average growth rate (i.e. long-term inflation rate and economic growth rate) for the products, industries, or country in which the Company operates.

Reasons for changes in the value of the inputs and assumptions

According to an industry report issued in 2019, in the City of Chengdu and during the period between 2013 and 2017, the CAGR of the newborn, the private pediatric service market and the private obstetrics and gynecology market was 16.0%, 16.5% and 20.7% respectively. Indeed, Chengdu New Century had performed quite well in the fields of pediatrics, obstetrics and gynecology till the outbreak of the COVID-19 pandemic, which was attributable to the state’s implementation of the

“Two-child Policy” and the robust growth of the obstetrics and gynecology market in the Southwest region in the PRC. Accordingly, the Company did not make any impairment of goodwill of Chengdu New Century for the year ended December 31, 2019.

According to the assumptions adopted in the impairment test, certain key assumptions had changed compared to those in the Company’s 2019 annual report as (i) the CAGR of revenue decreased and costs and expenses to revenue percentage increased due to the prolonged impact of COVID-19; and (ii) the pre-tax discount rate decreased due to lower risk-free rate and risk premium. Change of the inputs and assumptions had been disclosed from page 40 to 42 of our 2020 interim report published on 24 September 2020.

The Company constantly applies the discounted cash flow model when determine the fair value less cost of disposal and value in use of the CGUs.

The above additional information does not affect other information contained in the 2020 Annual Report and the contents of the 2020 Annual Report remain unchanged.

By order of the Board
New Century Healthcare Holding Co. Limited
Mr. Jason ZHOU
Chairman, Executive Director and Chief Executive Officer

Beijing, PRC, 21 September 2021

As of the date of this announcement, the Board comprises Mr. Jason ZHOU, Ms. XIN Hong and Mr. XU Han, as executive Directors; Mr. GUO Qizhi, Mr. WANG Siye, Dr. CHENG Chi-Kong, Adrian, Mr. YANG Yuelin and Mr. XIE Qiang, as non-executive Directors; and Mr. WU Guanxiong, Mr. SUN Hongbin, Mr. JIANG Yanfu and Dr. MA Jing, as independent non-executive Directors.