Harmonicare Medical Holdings Limited
和美醫療控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1509)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

2016 ANNUAL RESULTS HIGHLIGHTS

- Total revenue for the year ended 31 December 2016 amounted to approximately RMB859.70 million, representing a decrease of 5.5% as compared with that of RMB909.36 million for the year ended 31 December 2015.

- The net profit attributable to equity holders of the Company was approximately RMB95.71 million for the year ended 31 December 2016, representing a decrease of 9.9% from that of RMB106.17 million for the year ended 31 December 2015.

- Basic earnings per share for the year ended 31 December 2016 amounted to RMB12.53 cents (2015: RMB15.84 cents).

- The Board recommended the declaration of a final dividend of RMB5.0 cents per share for the year ended 31 December 2016 (2015: RMB5.5 cents), representing approximately 40% of the net profit for the year attributable to equity holders of the Company.

The Board of Directors of Harmonicare Medical Holdings Limited announces the audited consolidated financial results of the Group for the year ended 31 December 2016 together with the comparative figures for the Corresponding Period as set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

		For the year ended 31 December	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
Revenue	*4*	**859,701**	909,362
Cost of sales and services		**(439,713)**	(448,557)
Gross profit		**419,988**	460,805
Other income	*5*	**18,339**	13,085
Other gains and losses	*6*	**27,258**	22,483
Selling and distribution expenses		**(214,931)**	(218,172)
Administrative expenses		**(123,177)**	(109,611)
Other expenses	*7*	**(2,768)**	(26,623)
Share of losses of associates		**(823)**	—
Profit before tax	*8*	**123,886**	141,967
Income tax expense	*9*	**(26,615)**	(31,566)
Profit for the year		**97,271**	110,401
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associates		**228**	—
Other comprehensive income for the year, net of income tax		**228**	—
Total comprehensive income for the year		**97,499**	110,401

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2016

	Notes	For the year ended 31 December **2016** *RMB'000*	2015 *RMB'000*
Profit for the year attributable to:			
Equity holders of the Company		**95,708**	106,173
Non-controlling interests		**1,563**	4,228
		97,271	110,401
Total comprehensive income for the year attributable to:			
Equity holders of the Company		**95,936**	106,173
Non-controlling interests		**1,563**	4,228
		97,499	110,401
Earnings per share			
— Basic and diluted (RMB cents per share)	*11*	**12.53**	15.84

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

		As at 31 December	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment		**253,262**	229,370
Goodwill	*12*	**49,302**	—
Intangible assets	*13*	**95,793**	33,860
Interests in associates	*14*	**7,628**	—
Prepaid rental		**1,222**	1,956
Rental deposits		**9,281**	9,482
Deferred tax assets	*15*	**33,080**	27,781
Financial assets designated as at fair value through profit or loss ("FVTPL")		**48,000**	—
		497,568	302,449
Current assets			
Inventories	*16*	**24,583**	22,253
Loan receivables		**5,000**	—
Trade receivables	*17*	**29,086**	38,094
Prepayments, deposits and other receivables		**56,327**	42,287
Amounts due from related parties		**4,015**	—
Certificates of deposit	*18*	**—**	320,984
Time deposits		**115,000**	—
Cash and cash equivalents		**951,996**	901,994
		1,186,007	1,325,612
Current liabilities			
Trade payables	*19*	**16,552**	28,494
Other payables and accruals		**141,300**	134,252
Amounts due to a related party		**70,253**	—
Tax payables		**24,087**	20,816
Provision		**1,053**	822
		253,245	184,384
Net current assets		**932,762**	1,141,228

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2016

		As at 31 December	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
Total assets less current liabilities		**1,430,330**	1,443,677
Non-current liabilities			
Accrued rental expenses		**31,438**	32,712
Deferred tax liabilities	*15*	**15,511**	—
		46,949	32,712
Net assets		**1,383,381**	1,410,965
Capital and reserves			
Share capital	*20*	**598**	608
Share premium and reserves		**1,388,500**	1,408,301
Equity attributable to equity holders of the Company		**1,389,098**	1,408,909
Non-controlling interests		**(5,717)**	2,056
Total equity		**1,383,381**	1,410,965

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit before tax	**123,886**	141,967
Adjustments for:		
Depreciation of property, plant and equipment	**39,471**	35,172
Amortisation of intangible assets	**4,201**	3,660
Share of losses of associates	**823**	—
Loss on disposal of property, plant and equipment, net	**918**	250
Impairment recognised on trade and other receivables	**111**	215
Foreign exchange gains	**(22,184)**	(22,195)
Expenses recognised on equity settled share-based payments	**25**	4,683
Interest income from bank deposits	**(15,374)**	(10,654)
Interest income from certificates of deposit	**(628)**	(654)
Gain on disposal of bank financial products	**(5,771)**	(753)
Operating cash flows before movements in working capital	**125,478**	151,691
Movements in working capital		
Increase in inventories	**(408)**	(2,422)
Decrease (increase) in trade receivables	**8,343**	(24,359)
Decrease (increase) in prepayments, deposits and other receivables	**3,730**	(13,672)
(Increase) decrease in amounts due from related parties	**(15)**	16
(Decrease) increase in trade payables	**(12,786)**	12,130
(Decrease) increase in other payables and accruals	**(5,842)**	20,573
Increase (decrease) in amounts due to a related party	**655**	(1,602)
Decrease (increase) in rental deposits	**201**	(431)
(Decrease) in accrued rental expenses	**(612)**	(190)
Increase (decrease) in provision	**231**	(578)
Cash generated from operations	**118,975**	141,156
Income taxes paid	**(28,643)**	(25,389)
Interest received from bank deposits	**15,560**	9,627
Net cash generated from operating activities	**105,892**	125,394

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2016

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cash flows from investing activities		
Purchases of property, plant and equipment	**(46,288)**	(61,844)
Proceeds from disposal of property, plant and equipment	**93**	16
Purchase of intangible assets	**(4,019)**	(33,210)
Proceeds on the disposal of investments in associates	**—**	800
Purchase of certificates of deposit	**(523,291)**	(314,417)
Interest income from certificates of deposit	**628**	654
Redemption of certificates of deposit	**848,160**	—
Purchase of bank financial products	**(1,133,440)**	(70,000)
Redemption of bank financial products	**1,139,211**	70,753
Placement of time deposits	**(115,000)**	—
Investments in associates	**(8,223)**	—
Advance to Heilongjiang HarMoniCare Hospital	**(11,000)**	—
Net cash inflow on acquisition of a subsidiary	**12,756**	—
Deposit paid for a proposed acquisition of a business	**(9,000)**	—
Loan to a third party	**(5,000)**	—
Payments to acquire financial assets designated as at FVTPL	**(48,000)**	—
Loan to an associate	**(4,000)**	—
Net cash generated from (used in) investing activities	**93,587**	(407,248)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2016

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cash flows from financing activities		
Consideration paid for acquisition of non-controlling interest in a subsidiary	**(28,800)**	—
Dividend paid	**(43,698)**	(423)
Repayments to related parties	**(45,000)**	(1,862)
Capital injection by the shareholders of the Company	**—**	259,334
Consideration paid for acquisition of subsidiaries as part of reorganisation	**—**	(277,358)
Proceeds from new shares issuance on the Global Offering	**—**	1,161,042
Expenses incurred in connection with the Global Offering	**—**	(43,966)
Repurchase of ordinary shares, including transaction costs	**(50,637)**	—
Net cash (used in) generated from financing activities	**(168,135)**	1,096,767
Net increase in cash and cash equivalents	**31,344**	814,913
Cash and cash equivalents at the beginning of the year	**901,994**	72,063
Effect of foreign exchange rate changes, net	**18,658**	15,018
Cash and cash equivalents at the end of the year represented by bank balances and cash	**951,996**	901,994

1. GENERAL INFORMATION

Harmonicare Medical Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 26 August 2014. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, and its principal place of business is located in the PRC.

The Company is an investment holding company and its subsidiaries (collectively referred to as "the Group") are principally engaged in provision of specialised hospital services, especially in obstetrics and gynaecology and supply chain business in the PRC.

On 7 July 2015, the Company was listed on the Stock Exchange.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

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

Amendments to IFRSs that are mandatorily effective for the current year

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

Amendments to IFRS 11	Accounting for acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IAS 27	Equity Method in Separate Financial Statement
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRSs	Annual Improvements to IFRSs 2012 – 2014 Cycle

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

New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective.

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers[1]
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 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014–2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Except the effect of IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases, the directors of the Company do not anticipate that the application of the above mentioned new and amendments to IFRSs issued but not yet effective will have a material effect on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance ("CO").

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received or receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

4. REVENUE

Revenue represents the amount received or receivable from provision of specialised hospital services and supply of pharmaceuticals and medical devices business, net of discount and sales related taxes, are as follows:

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Specialised hospital services:		
Provision of healthcare services	**745,876**	773,904
Sales of pharmaceuticals and medical devices	**87,952**	100,329
Supply of pharmaceuticals and medical devices business	**25,873**	35,129
	859,701	909,362

5. OTHER INCOME

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interest income from bank deposits	**15,374**	10,654
Government grants	**723**	531
Interest income from certificates of deposit	**628**	654
Others	**1,614**	1,246
	18,339	13,085

6. OTHER GAINS AND LOSSES

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Foreign exchange gains	**22,184**	22,195
Net gain arising on bank financial products	**5,771**	753
Impairment recognised on trade and other receivables	**(111)**	(215)
Loss on disposal of property, plant and equipment, net	**(918)**	(250)
Others	**332**	—
	27,258	22,483

7. OTHER EXPENSES

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Medical disputes expenditure	**1,166**	1,067
Penalty expenditure	**518**	192
Provision for medical disputes	**776**	379
Expenses in relation to the listing	**—**	24,727
Others	**308**	258
	2,768	26,623

8. PROFIT BEFORE TAX

The Group's profit for the year has been arrived at after charging:

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cost of inventories recognised as expense	**124,345**	144,453
Depreciation of property, plant and equipment	**39,471**	35,172
Amortisation of intangible assets	**4,201**	3,660
Total depreciation and amortisation	**43,672**	38,832
Operating lease rentals in respect of rental premises	**68,319**	65,751
Directors' emoluments	**2,384**	2,796
Other staff costs		
Salaries and other allowance	**276,516**	264,115
Expenses on the Share Option Scheme	**(450)**	3,615
Retirement benefit contribution	**28,443**	27,386
Total staff costs	**306,893**	297,912
Auditor's remuneration	**2,900**	2,000

9. INCOME TAX EXPENSE

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Enterprise income tax ("EIT")		
Current tax in the PRC	**31,457**	27,225
Under provision in prior years	**457**	—
Deferred tax	**(5,299)**	4,341
Total income tax recognised in profit or loss	**26,615**	31,566

The Company is a tax exempted company incorporated in the Cayman Islands.

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profit subject to Hong Kong Profit Tax during the reporting period (2015: Nil).

Under the Law of the PRC on Enterprise Income Tax ("EIT Law") and Implementation Regulation of the EIT Law, the statutory EIT rate of all other PRC subsidiaries in the Group is 25%, except some subsidiaries were entitled the preference income tax rate of 15% (2015: 25% or 15%).

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

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit before tax	**123,886**	141,967
Tax at applicable EIT rate at 25%	**30,972**	35,492
Tax effect of income not taxable for tax purpose	**(7,136)**	—
Tax effect of expenses not deductible for tax purposes	**3,773**	2,640
Tax effect of tax losses not recognised	**2,503**	2,732
Tax effect of deductible temporary differences not recognised	**427**	—
Utilisation of deductible temporary differences previously not recognised	**(136)**	(480)
Tax effect on the preferential income tax rate	**(2,998)**	(6,444)
Utilisation of tax loss previously not recognised	**(1,686)**	(2,952)
Decrease in opening deferred tax assets resulting from a decrease in applicable tax rate	**—**	578
Under provision in respect of prior years	**457**	—
Others (Note ii)	**439**	—
Income tax expense	**26,615**	31,566

Note:

(i) Under the EIT Law, withholding tax is also imposed on dividends declared and paid to non-PRC resident in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred tax has not been provided for in the financial statement in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB156,124,000 as at 31 December 2016 (2015: RMB91,101,000), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

(ii) Included in others is an amount of RMB439,000 deferred tax recognized previously in relation to those tax losses that were expired in the current year.

10. DIVIDENDS

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Dividends recognised as distributions during the year		
2015 Final — RMB5.5 cents (2014: nil) per share	**42,057**	—

Subsequent to the end of the reporting period, a final dividend of RMB0.05 per share amounting to RMB38 million in respect of the year ended 31 December 2016 has been proposed by the Directors and is subject to approval by the Shareholders in the forthcoming annual general meeting.

11. EARNINGS PER SHARE

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

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share, representing profit for the year attributable to equity holders of the Company	**95,708**	106,173

Number of shares

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**763,844**	670,274

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share has been adjusted for shares repurchased and cancelled in the year ended 31 December 2016.

The computation of diluted earnings per shares in 2016 and 2015 does not assume the exercise of the Company's share options granted under share option scheme, because the exercise prices of those options were higher than the average market price for shares for 2016 and 2015. The computation of diluted earnings per share in 2015 also did not assume the exercise the Company's over-allotment option granted in relation to listing.

12. GOODWILL

	2016
	RMB'000
COST	
Arising on acquisition of a subsidiary	**49,302**
At 31 December 2016	**49,302**
CARRYING AMOUNT	
At 31 December 2016	**49,302**

13. INTANGIBLE ASSETS

	Software	Trademark	Medical license	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
COST				
As at 1 January 2015	7,034	—	—	7,034
Addition	10	33,200	—	33,210
As at 31 December 2015	7,044	33,200	—	40,244
Addition	4,234	—	—	4,234
Acquired on acquisition of a subsidiary	—	—	61,900	61,900
As at 31 December 2016	11,278	33,200	61,900	106,378
Accumulated amortisation				
As at 1 January 2015	2,724	—	—	2,724
Charge for the year	894	2,766	—	3,660
As at 31 December 2015	3,618	2,766	—	6,384
Charge for the year	881	3,320	—	4,201
As at 31 December 2016	4,499	6,086	—	10,585
CARRYING AMOUNTS				
At 31 December 2015	3,426	30,434	—	33,860
At 31 December 2016	6,779	27,114	61,900	95,793

The following useful lives are used in the calculation of amortisation:

Software	5–10 years
Trademark	10 years
Medical license	10 years

14. INTERESTS IN ASSOCIATES

	2016	2015
	RMB'000	*RMB'000*
Cost of investments in associates	**8,223**	—
Share of post-acquisition losses and other comprehensive income	**(595)**	—
	7,628	—

15. DEFERRED TAXATION

The following is the analysis of the deferred tax assets and liabilities for financial reporting purposes:

	2016	2015
	RMB'000	*RMB'000*
Deferred tax assets	**33,080**	27,781
Deferred tax liabilities	**15,511**	—

The movement of the Group's deferred tax assets during the years are as follows:

	Accrued staff costs	**Tax losses**	**Accrued rental expenses**	**Advertisement expenditure (Note)**	**Unrealized profit from intra-group transaction**	**Provision**	**Allowance for doubtful debts**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	5,535	4,704	3,389	16,406	1,297	328	162	301	32,122
Credit (charge) to profit or loss	(4,359)	(4,265)	(43)	4,213	133	(125)	44	61	(4,341)
At 31 December 2015	1,176	439	3,346	20,619	1,430	203	206	362	27,781
Credit (charge) to profit or loss	—	(439)	24	5,385	228	35	5	61	5,299
At 31 December 2016	1,176	—	3,370	26,004	1,658	238	211	423	33,080

Note: The balance represents the non-deductible advertisement expense that exceed the annual deduction allowed by the EIT Law. This deductible temporary differences is allowed to be set-off against income from subsequent taxable years.

The movement of the Group's deferred tax liabilities during the year are as follows:

	Fair value adjustment on acquisition of a subsidiary
	RMB'000
Arising on acquisition of a subsidiary	15,511
At 31 December 2016	15,511

16. INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Pharmaceuticals	**15,940**	14,888
Medical devices and consumables	**8,643**	7,365
	24,583	22,253

17. TRADE RECEIVABLES

The Group allows a credit period of approximately 60 days to 180 days for the specialized hospital services to the patients which are due from medical and commercial insurance program, 0 day to 90 days for the sale of pharmaceuticals and medical devices after issuing invoice.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Less than 90 days	**21,480**	30,883
91 to 180 days	**5,287**	4,014
181 days to 1 year	**629**	578
Over 1 year	**1,690**	2,619
	29,086	38,094

For trade receivables disclosed below which are past due but not impaired, the directors of the Company access the customer's credit quality by evaluating their historical credit records and define credit limits for each customer. Recoverability and credit limits of the existing customers are evaluated by the directors of the Company regularly.

Aging of trade receivables that are past due but not impaired

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
181 days to 1 year	**629**	578
Over 1 year	**1,043**	2,619
	1,672	3,197

The trade receivables that were past due but not impaired related to receivables from the local medical insurance centers, receivables from certain medical insurance companies and receivables from the sale of pharmaceuticals and medical devices to certain customers that have a good trading record with the Group. Based on past experience, the directors of the Company believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality of the trade receivables from the date that credit was initially granted up to the end of each reporting period.

Movement in the allowance for doubtful debts

	RMB'000
As at 1 January 2015	648
Addition	115
As at 31 December 2015	763
Addition	111
Amounts written off as uncollectible	(91)
As at 31 December 2016	783

18. CERTIFICATES OF DEPOSIT

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Certificates of deposit	**—**	320,984

Note: The certificates of deposit were issued by Xiamen International Bank Co., Ltd., with variable interest rate based on LIBOR. The certificates of deposit were settled during the year.

19. TRADE PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade payables	**16,552**	28,494

Trade payables are non-interest bearing and are normally granted on 0 to 90 days credit term. An aged analysis of the Group's trade payables, as at the end of reporting period, based on the goods received date, is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 90 days	**13,790**	27,110
91 to 180 days	**251**	358
181 days to 1 year	**2,511**	1,026
	16,552	28,494

20. SHARE CAPITAL

The Company

	Number of ordinary shares	Nominal value per share	Share capital
		HKD	*HKD*
Authorised			
At 1 January 2015 (Note i)	380,000,000	0.001	380,000
Increase in authorised share capital (Note iii)	760,000,000	0.001	760,000
At 31 December 2015 and 2016	1,140,000,000		1,140,000
Issued but not fully paid			
On incorporation (Note i)	1	0.001	—
New issuance (Note i)	99,359,492	0.001	99,359
At 1 January 2015	99,359,493		99,359
Transfer to issued and fully paid (Note i)	(99,359,493)		(99,359)
At 31 December 2015 and 2016	—		—
Issued and fully paid			
At 1 January 2015 (Note i)	—	0.001	—
Transfer from issued but not fully paid (Note i)	99,359,493	0.001	99,360
New shares issuance to Concord Glory Limited (Note ii)	15,724,324	0.001	15,724
Capitalisation issue (Note iii)	460,335,268	0.001	460,335
New shares issuance on the Global Offering (Note iv)	191,810,000	0.001	191,810
New shares issuance on exercise of over-allotment option (Note v)	3,095,000	0.001	3,095
At 31 December 2015	770,324,085		770,324
Shares repurchased and cancelled (Note vi)	(11,906,000)	0.001	(11,906)
At 31 December 2016	758,418,085		758,418
	RMB'000		*RMB'000*
Presented as	598		608

During the year, the Company repurchased its own ordinary shares on market through the Stock Exchange as follows:

Month of repurchases	Number of ordinary shares	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
May	5,650,000	6.05	5.59	32,498
July	6,256,000	4.53	3.89	26,898
Total	11,906,000			59,396
				RMB'000
Presented as				50,428

The above ordinary shares were cancelled subsequent to the repurchase.

Notes:

(i) On 26 August 2014, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with authorised share capital comprised of 380,000,000 shares at par value of HKD0.001 per share. Upon its incorporation, one nil paid subscriber share of the Company was transferred to Homecare, which is wholly owned by Mr. Lin Yuming.

In December 2014, the Company issued 90,152,787 shares to Homecare, 9,206,705 shares to Mighty Sky Investments Limited at a total consideration of RMB240,304,000, which was fully paid on 16 March 2015.

(ii) In January 2015, the Company newly issued 15,724,324 ordinary shares to acquire Galaxy Power Solution Limited.

(iii) On 9 June 2015, the Company increased its authorised share capital to HKD1,140,000 divided into 1,140,000,000 shares of HKD0.001 each. Immediately following the global offering becoming unconditional, 460,335,268 shares were allotted and issued, credited as fully paid, to shareholders pursuant to the capitalisation issue.

(iv) On 7 July 2015, 191,810,000 ordinary shares with par value of HKD0.001 each of the Company were issued at HKD7.55 per share by way of placing and global offering. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange.

(v) On 30 July 2015, the over-allotment option had been partially exercised and 3,095,000 shares with par value of HKD0.001 each of the Company were issued at HKD7.55 per share.

(vi) In May and July 2016, a total of 11,906,000 ordinary shares had been repurchased on market and subsequently cancelled by the Company.

BUSINESS OVERVIEW AND OUTLOOK

Business Overview for 2016

On 1 January 2016, the decision to revise the Population and Family Planning Law of the People's Republic of China officially came into effect, and the two-child policy was fully implemented in China. The 2016 National Economic Review published by the National Statistics Bureau showed that the new born population in 2016 was 17.86 million, representing an increase of 1.31 million as compared with that in the previous year, of which more than 8 million is the second child, demonstrating that the policy effects have gradually emerged. In the face of rapid development of the obstetric services market and favorable opportunities brought by the effect from the Year of the Monkey, we continued to strengthen our service quality, while constantly enhance customer stickiness by exploring customer needs and providing innovative services, which helped the Group's obstetrics business achieve substantial growth in the previous year. By these efforts, hospitals including Beijing HarMoniCare Hospital, Guiyang HarMoniCare Hospital and Fuzhou Modern Woman Hospital, which specialize in obstetric services, all recorded particularly strong performance. In 2016, the number of newborns in our hospitals reached 9,966, an increase of 13.2% as compared with that for the Corresponding Period. However, the "Wei Zexi Incident" (魏則西事件) has a huge impact on some gynecologic-focused private hospitals in the industry. As a result, the performance of the Group's gynecologic business in 2016 was far from expected. In view of the unfavorable market conditions, on the one hand we continued to provide customers with high quality gynecologic medical services, on the other hand, we also sped up the upgrade of qualified hospitals, so that they can make a headstart in entering the high-end obstetrics services market. In 2016, the total number of outpatient visits at the hospitals owned by the Group was 585,591 (2015: 601,723), representing a YoY decrease of 2.7%. The number of inpatient visits was 23,368 (2015: 25,668), representing a YoY decrease of 9.0%, with the average spending per visit decreased by 1.7% YoY to RMB1,369.3 (2015: RMB1,393.4).

As always, we have been strictly implementing the national policies on medical and healthcare industry and the international standard of JCI certification and continuously provide high-quality medical services to our customers. In November 2016, after a rigid assessment delivered by the expert team of the Joint Commission on Accreditation of Healthcare Organizations, Beijing HarMoniCare Hospital obtained the JCI certification with a high score of 99.37, becoming the second JCI accredited hospital in the Group, also the first women and children's hospital with JCI certification in Beijing.

In respect of refurbishing and renovation, Beijing HarMoniCare Hospital has completed the construction of its post-natal care center which provides comprehensive care services for post–partum patients and newborns; Wuhan Modern Hospital has completed the renovation and reconstruction of inpatient rooms; Guiyang Modern Woman Hospital has completed interior renovation and reinstallation of water and electrical works during 2016. In the beginning of 2017, Guiyang HarMoniCare Hospital has completed the construction of its post-natal care center and the VIP obstetrics inpatient rooms of Chongqing Modern Woman Hospital have completed upgrading works. These renovation and reconstruction works will lay a good foundation for the future development of our Group. Meanwhile, in terms of information technology construction, we have actively advanced the construction of our information technology system construction in accordance with our plan upon listing and continuously improved "HarMoniCare Cloud" information management system to achieve mobile office management.

In the beginning of 2016, the Company devoted more resources on investment and merger by assigning professional staff to establish an investment and merger panel. In May 2016, the Group invested in an associate, Harmonicare International Medical Group Limited (美泰國際醫療集團有限公司), with two international partners to set up an international platform for ancillary reproductive treatment. In September 2016, the Group and two partners jointly funded the establishment of Beijing Kaibeimu Health Management Co., Ltd. (北京凱貝姆健康管理有限公司) ("**Kaibeimu**") which focuses on post-natal care services. In November 2016, Taikang Insurance Group Inc. became our second largest shareholder. In December 2016, the Group completed the acquisition of 95% equity interests in Heilongjiang HarMoniCare Hospital, whilst the establishment of a new cooperated hospital in Wuxi, namely Wuxi HarMoniCare Obstetrics and Gynecology Hospital Co., Ltd. (無錫和美婦產醫院有限公司) ("**Wuxi HarMoniCare Hospital**") which we partook through extending a loan convertible into shares, was also progressing steadily. During the Review Period, the Group has attained effective progress on upstream and downstream of the industry chain including mergers and establishment of hospitals, ancillary reproductive services, post-natal care services and mobile internet of things.

Industry Outlook and the Group's Strategy

Industry Outlook

On 29 October 2015, the bulletin of the Fifth Plenary Session of the 18th Communist Party of China Central Committee put emphasis on the policy to "improve the population development strategy by promoting a balanced development of population and upholding the basic state policy of family planning, and implementing the policy of allowing all couples to have two children, actively take action to deal with the aging of population". On 1 January 2016, with the decision to revise the Population and Family Planning Law of the PRC having come into effect, the universal two-child policy of the PRC was formally implemented. With the opening up of the universal two-child policy, there will be another baby boom from the second pregnancy of the 70's and 80's generations, and the birthrates of urban population will significantly improve. Amidst the implementation of the favorable policy, some women of advanced maternal age, however, are facing many problems when planning their second pregnancy. Meanwhile, the market demands for eugenics and ancillary reproductive services have hiked significantly as the rate of infertility in the PRC has reached a high level.

On the other hand, with the upgrading of household consumption structure driven by the increased per capita income of the PRC in recent years, women are also more mindful of their own well–being. More and more families not only prefer high-end obstetrics and gynecology specialty hospitals for quality medical services, but are also paying more attention to professional healthcare to mothers and infants and medical cosmetic services.

The Group's Strategy

In 2017, the Company will continue to strive for further development of the high-end women and children's specialty hospital chain, so as to build and foster Harmonicare as a leading brand in the high-end ob-gyn and paediatric healthcare industry. Benefiting from the favorable policy and substantial market potential, in 2017, the Group will focus on the following strategies:

- To speed up the upgrade and reconstruction of existing hospitals, with an aim to transforming the traditional hospital medical care business into a high-end ob-gyn and paediatric business; to vigorously promote the preparation for construction of numerous new hospitals, which will provide excellent medical care services by adhering to the JCI standards;

- To dedicate more efforts on investment and merger and acquisition. Industrial synergy will be achieved through conducting various mergers and acquisitions along the industrial chain covering postpartum recovery, medical beauty, ancillary reproductive programs etc., through the foundation built with synergies on existing projects. The construction of new hospitals and mergers and acquisitions have enabled the Group to achieve leap-frog growth in terms of business scope, hospital scale and number of beds, and to offer an integrated service platform for the healthcare of women and children; and

- To put more efforts in recruiting and training talents, and strengthening cooperation and exchanges with medical institutes and medical groups in home country and abroad, and sharing of knowledge within the Group, in a bid to boost improvement in the quality of each hospital's medical care and services; to continue to enhance our management capabilities through further improving informatization, standardization and streamlization of the Group; to consolidate O2O (online to offline and vice versa) quality resources by conducting in-depth collaboration with online healthcare platforms and explore innovative operational models, so as to provide quality medical services for a more vast base of women and children.

FINANCIAL REVIEW

During the Review Period, the Group recorded a revenue of RMB859.70 million, representing a decrease of 5.5% as compared with that of RMB909.36 million in the Corresponding Period. The revenue from the provision of hospital services accounted for 97.0% of the total revenue of the Group in the Review Period, which basically maintained at a stable level as compared with 96.1% for the Corresponding Period. During the Review Period, the Group's total gross profit margin decreased to 48.9% (the Corresponding Period: 50.7%).

The net profit attributable to equity holders of the Company for the Review Period was RMB95.71 million, representing a decrease of 9.9% as compared with that of RMB106.17 million for the Corresponding Period.

Segment Revenue

We generate revenue primarily from the following two sources: (i) providing inpatient and outpatient healthcare services at our hospitals located in the PRC, including fees for healthcare services, pharmaceuticals and medical devices; and (ii) supplying of pharmaceuticals and medical devices to external customers and related companies by our subsidiary, namely Tai He Tang. The segment revenue generated by transactions between Tai He Tang and our hospitals is recorded as inter-segment revenue and eliminated after consolidation.

Provision of hospital services

The Group has 12 ob-gyn and paediatrics specialty hospitals which mainly provide ob-gyn and paediatric services. The revenue of hospital services primarily includes providing inpatient and outpatient healthcare services at our hospitals located in the PRC, including fees for healthcare services, pharmaceuticals and medical devices. The following table sets forth the revenue, cost of sales and services, gross profit and gross profit margin of the Group's provision of hospital services segment for the periods indicated:

	Year ended 31 December	
	2016	2015
	(RMB'000)	*(RMB'000)*
Revenue	**833,828**	874,233
Cost of sales and services	**426,194**	425,254
Gross profit	**407,634**	448,979
Gross profit margin	**48.9%**	51.4%

Revenue from the Group's provision of hospital services segment reached RMB833.8 million in the Review Period, accounting for 97.0% of our total revenue and representing a decrease of 4.6% from that of RMB874.2 million for the Corresponding Period. The following table sets forth certain key operational information of the Group for the periods indicated:

	Year ended 31 December[1]	
	2016	2015
Outpatient visits	**585,591**	601,723
Inpatient visits	**23,368**	25,668
Average spending per visit (RMB)[2]	**1,369.3**	1,393.4
Number of registered beds at the end of each period	**942**	842
Number of beds in operation at the end of each period	**649**	561
Number of employees at the end of each period	**3,241**	3,113
Number of employee physicians at the end of each period[3]	**261**	255
Number of contract physicians at the end of each period[4]	**249**	224

Notes:

1. As Heilongjiang HarMoniCare Hospital was not consolidated into the Group until 31 December 2016, the data on outpatient visits, inpatient visits and average spending per visit (RMB) only included the 11 hospitals of the Group excluding Heilongjiang HarMoniCare Hospital, while the figures as at the end of the period was the summation of the 12 hospitals of the Group.

2. Average spending per visit is calculated by dividing our hospital services revenue by total patient visits.

3. Employee physicians refer to the physicians who only practice at one of our hospitals as our employees and entered into employment contracts with us.

4. Contract physicians refer to the physicians who are employees or retirees of other third-party hospitals. They practice at one of our hospitals full-time or part-time on a contractual basis. We entered into service contracts instead of employment contracts with them.

During the Review Period, the number of outpatient visits at our hospitals was 585,591, representing a decrease of 2.7% as compared with that of 601,723 for the Corresponding Period, due to the adverse effect of the "Wei Zexi Incident" on our gynecology business. Our inpatient visits reached 23,368 during the Review Period, representing a decrease of 9.0% as compared with that of 25,668 for the Corresponding Period. The following table sets forth the revenue and gross profit as well as certain key operational information of our five largest hospitals by revenue for the periods indicated:

	Year ended 31 December									
Name of the hospital	**Revenue**		**Gross Profit**		**Outpatient visits**		**Inpatient visits**		**Average spending[1]**	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***visits***	*visits*	***visits***	*visits*	***RMB***	*RMB*
Beijing HarMoniCare Hospital	**209,264**	153,650	**112,682**	73,034	**86,560**	63,648	**3,213**	2,043	**2,331**	2,339
Chongqing Modern Woman Hospital	**101,933**	135,222	**49,904**	71,074	**78,868**	99,972	**3,937**	5,078	**1,231**	1,287
Shenzhen HarMoniCare Hospital	**98,442**	97,360	**46,589**	48,212	**38,587**	37,169	**1,399**	1,271	**2,462**	2,533
Fuzhou Modern Woman Hospital	**87,866**	79,320	**46,225**	42,667	**90,472**	67,107	**2,906**	2,753	**941**	1,135
Guangzhou Woman Hospital	**87,650**	110,673	**44,508**	62,960	**80,106**	76,005	**3,691**	4,683	**1,046**	1,372

Note:

1. Average spending per visit is calculated by dividing our hospital services revenue by total patient visits.

Supply of pharmaceuticals and medical devices

The Group's revenue from the supply of pharmaceuticals and medical devices was primarily derived from the sales of pharmaceuticals and medical devices to our related companies and external customers. During the Review Period, the Group's revenue from the supply of pharmaceuticals and medical devices was RMB25.87 million (the Corresponding Period: RMB35.13 million). Revenue from this business segment accounted for 3.0% of our total revenue for the Review Period, which was insignificant to our total revenue.

Gross Profit

During the Review Period, the Group's total gross profit amounted to RMB419.99 million, representing a decrease of 8.9% as compared with that of RMB460.81 million for the Corresponding Period. During the Review Period, the total gross profit margin decreased to 48.9% (the Corresponding Period: 50.7%), which was primarily due to the decrease in revenue while the cost remained stable.

Other Income

During the Review Period, other income increased to RMB18.34 million (mainly consisting of interest income from bank deposits of RMB15.37 million, interest income from certificates of deposit of RMB628,000, and government grants of RMB723,000), representing an increase of RMB5.25 million as compared with that of RMB13.09 million for the Corresponding Period, primarily attributable to the increase in interest income from bank deposits.

Other Gains and Losses

During the Review Period, other gains amounted to RMB27.26 million (mainly consisting of foreign exchange gains of RMB22.18 million and gains arising from bank products of RMB5.77 million), representing an increase of RMB4.78 million as compared with other gains of RMB22.48 million for the Corresponding Period, primarily due to the increase in gain of RMB5.02 million in 2016 arising from bank products placed by the Group for which the Group has received the entire principal and interest gain during the Review Period.

Selling and Distribution Expenses

During the Review Period, selling and distribution expenses decreased by 1.5% from RMB218.17 million in the Corresponding Period to RMB214.93 million, primarily due to the reduction in advertising and promotion expenses of RMB5.94 million in 2016.

Administrative Expenses

During the Review Period, the Group's administrative expenses amounted to RMB123.18 million, representing an increase of RMB13.57 million as compared with that of RMB109.61 million for the Corresponding Period. The increase was mainly due to the increases in (i) consulting services fees of RMB6.09 million; and (ii) staff remuneration and welfare and travelling expenses of RMB11.84 million in aggregate in 2016 as compared with that of the Corresponding Period.

Other Expenses

During the Review Period, other expenses amounted to RMB2.77 million, representing a decrease of RMB23.86 million or 89.6% as compared with that of the Corresponding Period. The decrease was mainly due to the fact that no listing expenses, which were incurred in 2015, were incurred in 2016.

Income Tax Expense

The income tax expense decreased by RMB4.95 million from RMB31.57 million in the Corresponding Period to RMB26.62 million during the Review Period, mainly due to the offset of the increase in the current income tax expense of RMB4.23 million by the decrease in the deferred income tax expense of RMB9.64 million.

Net Profit

During the Review Period, net profit attributable to equity holders of the Company was RMB95.71 million, representing a decrease of 9.9% from RMB106.17 million for the Corresponding Period.

FINANCIAL POSITION

Inventories

As at 31 December 2016, the balance of inventories increased by RMB2.33 million to RMB24.58 million (2015: RMB22.25 million), primarily due to the increase in pharmaceuticals inventories in certain hospitals and the increase in finished goods in Tai He Tang.

Trade Receivables

As at 31 December 2016, the balance of trade receivables decreased by RMB9.00 million from that of the Corresponding Period to RMB29.09 million (2015: RMB38.09 million), primarily due to the recovery of trade receivables of RMB10.00 million from the sales of pharmaceuticals and medical devices by Tai He Tang.

Trade Payables

As at 31 December 2016, the balance of trade payables decreased by RMB11.94 million, or 41.9%, to RMB16.55 million (2015: RMB28.49 million), mainly attributable to a decrease of RMB13.43 million in trade payables by Tai He Tang.

Other Payables and Accruals

As at 31 December 2016, the balance of other payables and accruals of the Group was RMB141.30 million, which primarily included advances from patients of RMB95.44 million and staff cost payables of RMB29.11 million, while as at 31 December 2015, the balance of other payables of the Group was RMB134.25 million, which primarily included advances from patients of RMB95.95 million and staff cost payables of RMB28.87 million.

Net Current Assets Position

As at 31 December 2016, the Group's net current assets were RMB932.76 million (2015: RMB1,141.23 million), which was mainly due to the decrease in certificates of deposit of RMB320.98 million combined with the increase in time deposits of RMB115.00 million.

LIQUIDITY AND CAPITAL RESOURCES

The following sets forth the information in relation to our Group's consolidated statement of cash flows during the periods indicated:

	Year ended 31 December	
	2016	2015
	(RMB'000)	*(RMB'000)*
Net cash generated from operating activities	**105,892**	125,394
Net cash generated from (used in) investing activities	**93,587**	(407,248)
Net cash (used in) generated from financing activities	**(168,135)**	1,096,767
Net increase in cash and cash equivalents	**31,344**	814,913

Net Cash Generated from Operating Activities

During the Review Period, the net cash generated from operating activities was RMB105.89 million, primarily attributable to (i) profit before taxation of RMB123.89 million, as adjusted to reflect non-cash items, which principally included depreciation of property, plant and equipment of RMB39.47 million and foreign exchange gains of RMB22.18 million as well as bank and certificates of deposits interest income of RMB16.00 million; (ii) an increase of RMB8.34 million resulting from the decrease of trade receivables; (iii) an increase of RMB3.73 million resulting from the decrease of prepayments, deposits and other receivables; (iv) a decrease of RMB12.79 million resulting from the decrease of trade payables, a decrease of RMB5.84 million resulting from the decrease in other payables and accruals; (v) interest received on bank deposits in an amount of RMB15.56 million; and (vi) income tax paid of RMB28.64 million in 2016.

Net Cash Generated from Investing Activities

During the Review Period, the net cash generated from investing activities was RMB93.59 million, primarily attributable to the (i) net cash generated from purchase, redemption and relevant interest of certificates of deposit in an amount of RMB325.50 million; (ii) placement of time deposits of RMB115.00 million; (iii) the purchase of property, plant and equipment and intangible assets of approximately RMB50.31 million (mainly consisting of (a) purchase of fixed assets, including medical equipment, renovation of some of our hospitals and Tai He Tang etc., of approximately RMB46.29 million; and (b) purchase of software of approximately RMB4.02 million); (iv) the loans convertible into shares extended to Wuxi HarMoniCare Hospital of approximately RMB48.00 million; (v) due diligence fee and borrowings and loans amounting to RMB18.00 million which included the deposit of RMB9.00 million paid for conducting due diligence in respect of a proposed acquisition by the Group, advance to a third party and an associate, Kaibeimu, of RMB5.00 million and RMB4.00 million respectively; (vi) advance to Heilongjiang HarMoniCare Hospital amounting to RMB11.00 million; and (vii) investment in the establishment of Kaibeimu and Harmonicare International Medical Group Limited in a total amount of RMB8.22 million. For details in respect of the loans convertible into shares extended to Wuxi HarMoniCare Hospital, please refer to the Company's announcement dated 11 October 2016 published on the respective websites of the HKEx and the Company.

Net Cash Used in Financing Activities

During the Review Period, net cash used in financing activities was RMB168.14 million, which was primarily attributable to (i) the repurchase of shares amounting to RMB50.64 million in total; (ii) the repayment to Bosheng Medical which is a connected party in a total amount of RMB45.00 million in respect of an interest-free loan extended to Heilongjiang HarMoniCare Hospital; (iii) the distribution of the dividend for FY2015 amounting to approximately RMB43.70 million; and (iv) the acquisition of the minority interests in Fuzhou Modern Woman Hospital amounting to RMB 28.80 million.

Significant Investments, Acquisitions and Disposals

During the Review Period, the Group did not have any significant investment save for the acquisition of Heilongjiang HarMoniCare Hospital in December 2016. For details, please refer to the Company's announcement published on 21 December 2016 on the respective websites of the HKEx and the Company.

During the Review Period, the Group had no material disposals.

Capital Expenditures

Our capital expenditures principally consist of expenditures for purchase of medical devices and equipment by the Group's hospitals, renovation and improvement of these hospitals and offices and upgrading and improvement of the Group's information technology system. The amount of capital expenditures of the Group was approximately RMB50.31 million for the Review Period, representing a decrease of RMB44.75 million as compared with that of the Corresponding Period. During the Review Period, our capital expenditures principally included: (i) purchase of fixed assets, including medical equipment, the renovation of some of our hospitals and Tai He Tang etc., of approximately RMB46.29 million; and (ii) purchase of software system of approximately RMB4.02 million.

Use of Proceeds from the Global Offering

The net proceeds the Company obtained from the issuance of new Shares through Global Offering are approximately RMB1,127 million (equivalent to approximately HK$1,427 million upon listing) after excluding the underwriting fees and relevant expenses, and as at 31 December 2016, the unutilized balance of net proceeds of RMB1,016.9 million were deposited in the bank account of the Group.

The net proceeds from the Global Offering (subject to pro rata adjustment according to the actual net proceeds) have been and will be utilized in accordance with the intended uses as stated in the Prospectus. The table below sets out the intended uses and actual application of the net proceeds as at 31 December 2016:

Use of proceeds	**Amount of intended uses** *(RMB Million)*	**Approximate percentage of the total net proceeds** *(%)*	**Amount of actual uses as at 31 December 2016** *(RMB Million)*	**Unutilized net proceeds as at 31 December 2016** *(RMB Million)*
Establishing new hospitals in Beijing, Xiamen, Nanjing, Hangzhou and Chongqing	676.2	60	—	676.2
Upgrading the facilities of the existing hospitals and purchasing additional equipment	112.7	10	74.8	37.9
Upgrading and improving the information technology system	56.3	5	35.3	21.0
Acquiring new hospitals	169.1	15	—	169.1
Working capital and other general corporate uses	112.7	10	—	112.7
Total	1,127.0	100	110.1	1,016.9

INDEBTEDNESS

Borrowings

As at 31 December 2016, the Group had no significant borrowings (2015: Nil).

Contingent Liabilities

As at 31 December 2016, the Group had a few medical disputes arising in the ordinary and usual course of business. Based on the existing pending claims and potential claims as at 31 December 2016, an estimated amount of RMB1.05 million was recognised as provision for medical dispute claims as of 31 December 2016 (2015: RMB0.82 million). The increase of 28.1% in contingent liabilities was primarily due to an increase of RMB0.23 million for damage claims in respect of medical disputes involving the Group during the Review Period.

Exposure to Fluctuation in Exchange Rates

The Group is not exposed to significant foreign exchange risks. The Group did not use any derivative contracts to hedge against our exposure to currency risk.

Interest Rate Risk

The Group currently does not have a specific policy to manage our interest rate risk and has not entered into interest rate swaps to prevent the exposure, but will closely monitor the interest rate risk exposure in the future.

Pledge of Assets

As at 31 December 2016, there was no charge on the assets of the Group (2015: Nil).

Capital Commitments

As at 31 December 2016, the Group had contractual obligations of approximately RMB1.64 million, representing a decrease of RMB15.83 million as compared to that of approximately RMB17.47 million as at 31 December 2015. Such decrease was mainly due to the fact that most of the upgrade and improvement works of the hospitals has been completed in 2016.

Financial Instruments

The Group's major financial instruments include loan receivables, trade receivables, other receivables, amounts due from related parties, financial assets designated as at fair value through profit or loss, certificates of deposit, time deposits, trade payables, other payables and amounts due to a related party. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Gearing Ratio

As at 31 December 2016, the Group had no significant interest-bearing liabilities. The Group's gearing ratio was nil as at 31 December 2016 (2015: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group had 3,277 employees (2015: 3,149), of which 3,241 employees (2015: 3,113) were involved in the general hospital services and management sector and 36 employees (2015: 36) in the supply of pharmaceuticals and medical devices sector. Total staff remuneration expenses including Directors' remuneration for the Review Period amounted to RMB306.9 million (the Corresponding Period: RMB297.9 million). Remuneration is determined with reference to performance, skills, qualifications and experience of the staff concerned and in accordance with the prevailing industry practice. On top of salary payments, other staff benefits include a state-managed retirement pension scheme, a discretionary bonus program and the Share Option Scheme.

The Group has adopted the Share Option Scheme to provide incentive or reward to eligible participants for their contribution or potential contribution to the Group.

The Group also organises professional and vocational trainings to its employees.

The remuneration of the Directors is reviewed by the Remuneration Committee and approved by the Board. The relevant director's experience, duties and responsibilities, time commitment, the Company's performance and the prevailing market conditions are taken into consideration in determining the emolument of the directors.

FINAL DIVIDEND

The Board recommended the declaration of a final dividend of RMB5.0 cents per Share for the Review Period (the Corresponding Period: RMB5.5 cents per Share). The proposed final dividend will be payable to Shareholders whose names appear on the register of members of the Company on Friday, 23 June 2017, subject to the approval of the Shareholders at the AGM. It is expected that the final dividend will be paid on or before Wednesday, 5 July 2017.

OTHER INFORMATION

Annual General Meeting

The 2017 AGM of the Company will be held on Thursday, 15 June 2017. A notice convening the AGM will be published and dispatched to the Shareholders in accordance with the requirements of the Listing Rules in due course.

Closure of Register of Members

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 12 June 2017 to Thursday, 15 June 2017, 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, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 9 June 2017.

For determining the entitlement to the proposed final dividend (subject to approval by the Shareholders at the AGM), the register of members of the Company will be closed from Wednesday, 21 June 2017 to Friday, 23 June 2017, both dates inclusive, during which period no transfer of Shares will be registered. In order to qualify for the proposed final dividend, 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, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 20 June 2017.

CORPORATE GOVERNANCE PRACTICE

The Board is committed to maintaining high corporate governance standards. The Board believes that good corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has applied the principles as set out in the CG Code contained in Appendix 14 to the Listing Rules.

In the opinion of the Directors, throughout the Review Period, the Company has complied with all applicable code provisions as set out in the CG Code, save and except for code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Lin Yuming is the Chairman and President (equivalent to chief executive officer) of the Company. Mr. Lin is the founder of the Group and has been responsible for managing the operation and overall strategic planning of the Group since its establishment. The Directors believe that vesting the roles of both the Chairman and President in Mr. Lin is beneficial to the business outlook and management of the Group and can ensure consistent leadership within the Group for more effective and efficient overall strategic planning for the Group. After considering all the corporate governance measures that have been taken, the Board considers that the balance of power and authority will not be impaired by the present arrangement and the current structure will enable the Company to make and implement decisions more promptly and effectively. Thus, the Company does not segregate the roles of Chairman and President. The Board will continue to review the situation and consider splitting the roles of Chairman and President of the Company in due course after taking into account of the then overall circumstances of the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct for securities transactions by the Directors.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the Review Period.

The Company has also established the Written Guidelines on terms no less exacting than the Model Code for securities transactions by employees who are likely to possess unpublished price-sensitive information of the Company. No incident of non-compliance of the Written Guidelines by the employees was noted by the Company.

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

During the year ended 31 December 2016, the Company repurchased its own ordinary shares on market through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares repurchased	Price per share repurchased Highest	Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
May	5,650,000	6.05	5.59	32,498
July	6,256,000	4.53	3.89	26,898
Total	11,906,000			59,396
				RMB'000
Presented as				50,428

The Directors were of the view that the repurchase of the Shares would enhance the earnings per Share, and benefit the Company and the Shareholders as a whole. All the repurchased Shares were subsequently cancelled.

Saved as disclosed herein, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Review Period.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely, Ms. Fang Lan, Mr. Kong Aiguo, and Mr. Cai Jiangnan, and a non-executive Director, Mr. Qiu Jianwei. The chairman of the Audit Committee is Ms. Fang Lan.

The Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2016 and has recommended for the Board's approval 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 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

EVENTS AFTER THE REVIEW PERIOD

There is no significant event after the Review Period.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the HKEx (www.hkexnews.hk) and the Company (www.hemeiyl.com). The 2016 annual report of the Company containing all the information required by the Listing Rules will be dispatched to the Shareholders and made available on the above websites in due course.

DEFINITIONS

"AGM"	the forthcoming annual general meeting of the Company to be convened and held on Thursday, 15 June 2017
"Articles of Association"	the articles of association of the Company adopted on 9 June 2015 which became effective on the Listing Date
"Audit Committee"	the audit committee of the Board
"Beijing HarMoniCare Hospital"	Beijing HarMoniCare Gynecology and Paediatrics Hospital Co., Ltd. (北京和美婦兒醫院有限公司), a limited liability company established in the PRC, a wholly-owned subsidiary of our Company
"Board" or "Board of Directors"	the board of Directors
"Bosheng Medical"	Bosheng Medical Investment Co., Ltd. (博生醫療投資股份有限公司), a joint stock limited liability company established in the PRC, a connected person of our Company by virtue of Mr. Lin Yuming, one of our Directors and substantial Shareholders, holding 37.43% of the equity interest in Bosheng Medical
"CG Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"China" or "PRC"	the People's Republic of China; for the purpose of this announcement only, references to "China" or the "PRC" do not include Taiwan, the Macau Special Administrative Region and Hong Kong
"Chongqing Modern Woman Hospital"	Chongqing Modern Woman Hospital Company Ltd. (重慶現代女子醫院有限公司), a limited liability company established in the PRC, a wholly-owned subsidiary of our Company
"Company" or "our Company" or "Harmonicare"	Harmonicare Medical Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability on 26 August 2014
"Corresponding Period"	the year ended 31 December 2015
"Directors"	directors of the Company
"Fuzhou Modern Woman Hospital"	Fuzhou Modern Woman Hospital Co., Ltd. (福州現代婦產醫院有限公司), a limited liability company established in the PRC, a non-wholly-owned subsidiary of our Company
"FY"	financial year
"Global Offering"	the offering by the Company of Shares for subscription by the public in Hong Kong and placing with professional and institutional investors outside the United States of America in 2015

"Group", "our Group", "we" or "us"	the Company and its subsidiaries
"Guangzhou Woman Hospital"	Guangzhou Woman Hospital Co., Ltd. (廣州女子醫院有限公司), a limited liability company established in the PRC, a non-wholly-owned subsidiary of our Company
"Guiyang HarMoniCare Hospital"	Guiyang HarMoniCare Obstetrics and Gynecology Hospital Co. Ltd. (貴陽和美婦產醫院有限公司), a limited liability company established in the PRC, which is a wholly-owned subsidiary of our Company
"Guiyang Modern Woman Hospital"	Guiyang Modern Woman Hospital Co., Ltd. (貴陽現代女子醫院有限公司), a limited liability company established in the PRC, a non-wholly-owned subsidiary of our Company
"Heilongjiang HarMoniCare Hospital"	Heilongjiang HarMoniCare Obstetrics and Gynecology Hospital Co., Ltd. (黑龍江和美婦產醫院有限公司), a limited liability company established in the PRC, a non-wholly-owned subsidiary of our Company
"HIS"	Hospital Information System
"Homecare"	Homecare International Investment Limited
"HKEx"	Hong Kong Exchanges and Clearing Limited
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"JCI"	the Joint Commission International, an international arm of The Joint Commission. The Joint Commission is a United States–based independent, not–for–profit organization which accredits and certifies healthcare organizations and programs
"Listing Date"	the date on which dealings in the Shares first commenced on the Stock Exchange i.e. 7 July 2015
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"ob-gyn"	obstetrics and gynecology
"Prospectus"	the prospectus dated 25 June 2015 issued by the Company
"Remuneration Committee"	the remuneration committee of the Board
"Review Period"	the period from 1 January 2016 to 31 December 2016
"RMB"	Renminbi, the lawful currency of the PRC

"Share(s)"	share(s) with par value of HK$0.001 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Share Option Scheme"	the share option scheme conditionally adopted by the Company pursuant to a resolution passed by the Shareholders on 9 June 2015 which became effective on the Listing Date
"Shenzhen HarMoniCare Hospital"	Shenzhen HarMoniCare Gynecology and Paediatrics Hospital Co., Ltd. (深圳和美婦兒科醫院有限公司), previously known as "Shenzhen HarMoniCare Gynecology Hospital Co., Ltd. (深圳和美婦科醫院)", a limited liability company established in the PRC, a non-wholly-owned subsidiary of our Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tai He Tang"	Shanxi Tai He Tang Pharmaceuticals Co., Ltd. (山西太和堂藥業有限公司), a limited liability company established in the PRC, a wholly-owned subsidiary of our Company
"Written Guidelines"	written guidelines on securities transactions by employees
"Wuhan Modern Hospital"	Wuhan Modern Obstetrics and Gynecology Hospital Co., Ltd. (武漢現代婦產醫院有限公司), a limited liability company established in the PRC, a wholly-owned subsidiary of our Company
"YoY"	year-on-year

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

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

Hong Kong, 22 March 2017

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