RICI HEALTHCARE HOLDINGS LIMITED

瑞慈醫療服務控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1526)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2017

FINANCIAL HIGHLIGHTS

- Revenue for the year ended December 31, 2017 amounted to approximately RMB1,080.1 million, representing an increase of 15.5% from approximately RMB935.4 million in 2016.
- Gross profit for the year ended December 31, 2017 amounted to approximately RMB401.2 million, representing an increase of 13.3% from approximately RMB354.1 million in 2016.
- Loss attributable to owners of the Company for the year ended December 31, 2017 amounted to approximately RMB62.2 million, as compared to profit attributable to owners of the Company of approximately RMB58.9 million in 2016.
- Adjusted EBITDA for the year ended December 31, 2017 was approximately RMB153.7 million, representing a decrease of 38.5% from approximately RMB249.9 million in 2016.

In this announcement, "we", "us" and "our" refer to the Company (as defined below) and where the context otherwise requires, the Group (as defined below).

The board (the "**Board**") of directors (the "**Directors**") of Rici Healthcare Holdings Limited (the "**Company**") is pleased to announce that the consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2017 with the comparative figures for the year ended December 31, 2016 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the Year ended December 31, 2017

	Note	**Year ended December 31, 2017** *RMB'000*	2016 *RMB'000*
Revenue	11	**1,080,149**	935,383
Cost of sales	12	**(678,995)**	(581,252)
Gross profit		**401,154**	354,131
Distribution costs and selling expenses	12	**(175,324)**	(76,350)
Administrative expenses	12	**(292,818)**	(200,776)
Other income	13	**11,784**	14,229
Other losses	14	**(2,468)**	(859)
Operating (loss)/profit		**(57,672)**	90,375
Finance expenses	15	**(58,875)**	(20,795)
Finance income	15	**7,426**	22,428
Finance (expenses)/income—net	15	**(51,449)**	1,633
Share of results		**207**	(1,026)
(Loss)/profit before income tax		**(108,914)**	90,982
Income tax credit/(expenses)	16	**6,234**	(36,593)
(Loss)/profit for the year		**(102,680)**	54,389
(Loss)/profit attributable to:			
Owners of the Company		**(62,166)**	58,924
Non-controlling interests		**(40,514)**	(4,535)
(Loss)/profit for the year		**(102,680)**	54,389
(Losses)/earnings per share for (loss)/profit attributable to owners of the Company			
— Basic	17	**RMB(0.04)**	RMB0.04
— Diluted	17	**RMB(0.04)**	RMB0.04

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year ended December 31, 2017

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(102,680)**	54,389
Other comprehensive income	**—**	—
Total comprehensive (loss)/income for the year	**(102,680)**	54,389
Attributable to:		
Owners of the Company	**(62,166)**	58,924
Non-controlling interests	**(40,514)**	(4,535)
Total comprehensive (loss)/income for the year	**(102,680)**	54,389

CONSOLIDATED BALANCE SHEET

As at December 31, 2017

	Note	As at December 31, **2017** *RMB'000*	2016 *RMB'000*
ASSETS			
Non-current assets			
Property and equipment		**778,333**	393,223
Land use rights		**3,398**	3,498
Intangible assets		**17,528**	8,388
Investments accounted for using equity method		**5,166**	3,959
Deposits for long-term leases		**27,110**	18,955
Deferred income tax assets	4	**81,988**	47,077
Prepayments	7	**62,734**	52,500
		976,257	527,600
Current assets			
Inventories		**23,978**	19,131
Trade receivables	5	**195,462**	130,956
Other receivables		**26,625**	11,111
Prepayments		**27,225**	8,966
Amounts due from related parties		**1,627**	1,000
Cash and cash equivalents	6	**596,544**	881,028
Restricted cash	6	**215,629**	—
		1,087,090	1,052,192
Total assets		**2,063,347**	1,579,792
Equity attributable to owners of the Company			
Share capital	8	**1,066**	1,066
Reserves		**901,181**	946,235
		902,247	947,301
Non-controlling interests		**27,807**	3,454
Total equity		**930,054**	950,755

	Note	As at December 31, 2017 RMB'000	2016 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	9	**15,667**	4,633
Other long-term liabilities		**75,280**	46,195
		90,947	50,828
Current liabilities			
Borrowings	9	**579,000**	309,932
Trade and other payables	10	**377,146**	208,809
Amounts due to related parties		**898**	—
Income tax payables		**8,864**	16,904
Deferred income		**74,345**	40,693
Current portion of other long-term liabilities		**2,093**	1,871
		1,042,346	578,209
Total liabilities		**1,133,293**	629,037
Total equity and liabilities		**2,063,347**	1,579,792

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands on July 11, 2014. The address of the Company's registered office is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

The Company, an investment holding company and its subsidiaries are principally engaged in the provision of general hospital services and medical examination services in the People's Republic of China ("**PRC**").

The Company has its primary listing (the "**Listing**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

These consolidated financial statements are presented in thousands of Renminbi ("**RMB'000**"), unless otherwise stated.

The annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended December 31, 2017, but are extracted from those financial statements.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new standard, amendments and improvements to existing standards have been adopted by the Group for the financial year beginning on January 1, 2017 and are relevant to the Group's operations:

- Recognition of Deferred Tax Assets for Unrealised Losses — Amendment to HKAS 12, and
- Disclosure initiative — Amendment to HKAS 7;
- Disclosure of interest in other entities — Amendment to HKFRS 12.

The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities.

The adoption of the above new standard, amendments and improvements did not have any significant impact on the current period or any prior period.

(b) New standards and amendments not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017 and have not been early adopted by the Group.

HKFRS 9, "***Financial instruments***"

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

While the Group has yet to undertake a detailed assessment, the majority of the Group's financial assets currently measured at amortised cost would meet the conditions for classification at amortised cost under HKFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost. While the Group has not yet completed the detailed assessment, the new model introduced by HKFRS 9 will not have any significant impact on the Group's consolidated financial statements of the future periods.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 15, "***Revenue from contracts with customers***"

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

- revenue from service - the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.

- accounting for certain costs incurred in fulfilling a contract - certain costs which are currently expensed may need to be recognized as an asset under HKFRS 15, and

- variable consideration – certain breakage amount which is currently not recognized until the customer actually exercise the right, will be recognised as revenue in proportion to the expected pattern of rights exercised by the customer.

HKFRS 15 is mandatory for financial years commencing on or after January 1, 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. While the Group has not yet completed the detailed assessment, the Group considers that the adoption of HKFRS 15 will not have a significant impact on the Group's financial position and results of operations.

Amendments to HKFRS 2, "***Classification and Measurement of Share-based Payment Transactions***"

The HKICPA has issued amendments to HKFRS 2, which is effective for annual periods beginning on or after January 1, 2018. These amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception to the principles in HKFRS 2 that requires an award to be treated as if it is wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

HK (IFRIC) 22, "***Foreign Currency Transactions and Advance Consideration***"

The HK (IFRIC) has issued amendments to HK (IFRIC) 22, which is effective for annual periods beginning on or after January 1, 2018. The interpretations clarified the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

HKFRS 16, "*Leases*"

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB1,934,023,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

HK(IFRIC) 23 "***Uncertainty over Income Tax Treatments***"

HK (IFRIC) has issued HK (IFRIC) 23, which is effective for annual periods beginning on or after January 1, 2019. The interpretations clarified how the recognition and measurement requirements of HKAS 12 Income taxes, are applied where there is uncertainty over income tax treatments.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that approach will be accepted by the tax authority. HK (IFRIC) 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

Amendments to HKFRS 10 and HKAS 28, "***Sale or contribution of assets between an investor and its associate or joint venture***"

The amendments address an inconsistency between HKFRS 10 and HKAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

The management is in the process of assessing the impact of the above new standards and amendments on the financial statements of the Group.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated useful lives and residual values of property and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for the Group's property and equipment. This estimate is based on the historical experience of the actual useful lives of property and equipment of similar nature and functions. Management will revise the depreciation charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in future periods.

(b) Current and deferred income tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters are different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(c) Impairment of trade receivables

The Group's management determines the provision for impairment of trade receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provisions at each balance sheet date.

(d) Provision for medical dispute

The Group may be subject to legal proceedings and claims that arise in the ordinary course of business, which primarily include medical dispute claims brought by the patients. Provision for medical dispute claims is made based on the status of potential and active claims outstanding at the end of each reporting period, and take into consideration the assessment and analysis of external lawyer and the total claim exposure. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

Based on the assessment, the management believes that no material claims exposure or outstanding litigation on the medical dispute claim existed at the end of each reporting period and accordingly no additional provision was made. The situation is closely monitored by the management and provision will be made as appropriate. Where the actual claims are greater than expected, a material dispute claim expense may arise, which would be recognized in profit and loss for the period in which such a claim takes place.

(e) Impairment of property and equipment

The Group tests whether property and equipment has suffered any impairment when there is any impairment indicator. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. For the expected useful life of property and equipment are usually around 5 years, the financial budgets mentioned before are quite enough for the test and estimation.

No impairment charge is provided in current year.

4 DEFERRED INCOME TAX ASSETS

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Deferred income tax assets:		
— to be recovered within 12 months	**12,372**	9,773
— to be recovered after more than 12 months	**69,616**	37,304
	81,988	47,077

The gross movement on the deferred income tax account is as follows:

	Year ended December 31, **2017** *RMB'000*	2016 *RMB'000*
At beginning of the year	**47,077**	35,293
Credited to the statement of profit or loss	**34,911**	11,784
At ending of the year	**81,988**	47,077

Movement in deferred income tax assets for both years ended December 31, 2017 and 2016, without taking into consideration the offsetting of balance within the same tax jurisdiction, are as follows:

Deferred income tax assets	**Tax losses carried forward** *RMB'000*	**Assets impairment** *RMB'000*	**Accruals and deferred income** *RMB'000*	**Share option scheme** *RMB'000*	**Other long-term liabilities** *RMB'000*	**Total** *RMB'000*
At January 1, 2016	22,419	4,490	2,009	—	6,375	35,293
Credited/(charged) to the statement of profit or loss	6,641	(700)	2,158	760	2,925	11,784
At December 31, 2016	29,060	3,790	4,167	760	9,300	47,077
Credited/(charged) to the statement of profit or loss	25,682	(1,409)	728	2,976	6,934	34,911
At December 31, 2017	54,742	2,381	4,895	3,736	16,234	81,988

5 TRADE RECEIVABLES

	As at December 31, **2017** *RMB'000*	2016 *RMB'000*
Trade receivables	**207,311**	139,840
Less: Provision for impairment of trade receivables	**(11,849)**	(8,884)
	195,462	130,956

As at December 31, 2017 and 2016, the fair value of trade receivables of the Group approximated their carrying amounts.

The aging analysis of trade receivables are as follows:

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables		
— Up to 3 months	**130,015**	79,652
— 3 to 6 months	**46,898**	33,975
— 6 months to 1 year	**20,890**	19,087
— 1 to 2 years	**6,203**	5,666
— 2 to 3 years	**2,288**	981
— 3 to 4 years	**697**	316
— 4 to 5 years	**207**	81
— Over 5 years	**113**	82
	207,311	139,840

As of December 31, 2017, trade receivables of RMB8,666,000 (2016: RMB16,797,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The aging analysis of these trade receivables is as follows:

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables		
— 3 to 6 months	**4,426**	11,324
— 6 months to 1 year	**4,240**	5,473
	8,666	16,797

As of December 31, 2017, trade receivables of RMB11,849,000 (2016: RMB8,884,000) were impaired. The aging of these receivables is as follows:

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables		
— Up to 3 months	**620**	622
— 3 to 6 months	**—**	59
— 6 months to 1 year	**1,721**	1,077
— 1 to 2 years	**6,203**	5,666
— 2 to 3 years	**2,288**	981
— 3 to 4 years	**697**	316
— 4 to 5 years	**207**	81
— Over 5 years	**113**	82
	11,849	8,884

Movements of impairment of trade receivables are as follows:

	Year ended December 31, **2017** *RMB'000*	2016 *RMB'000*
At beginning of the year	**8,884**	17,260
Provision/(reversal) for receivables impairment recognized during the year	**4,018**	(856)
Receivables written off as uncollectible	**(1,053)**	(7,520)
At the end of the year	**11,849**	8,884

The carrying amounts of the Group's trade receivables are all denominated in RMB.

6 CASH AND BANK BALANCE

(a) Cash and cash equivalents

	As at December 31, **2017** *RMB'000*	2016 *RMB'000*
Cash at bank and on hand		
— Denominated in RMB	**388,831**	279,384
— Denominated in USD	**188,237**	257,663
— Denominated in HKD	**19,476**	343,981
	596,544	881,028

(b) Restricted Cash

As at 31 December 2017, fixed deposits of USD33,000,000 (31 December 2016: nil) are pledged at bank for borrowings of RMB200,000,000.

7 PREPAYMENTS

	As at December 31, **2017** *RMB'000*	2016 *RMB'000*
Prepayment for equipment	**60,574**	37,260
Prepayment for lease contract	**2,160**	3,240
Prepayment for buildings	**—**	12,000
	62,734	52,500

8 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of ordinary shares	Share capital *RMB'000*
As at January 1, 2017 and December 31, 2017	1,592,079,000	1,066

9 BORROWINGS

	As at December 31, **2017** *RMB'000*	2016 *RMB'000*
Non-current:		
Bank borrowings — secured and/or guaranteed (i)	**19,667**	31,190
Other borrowings (ii)	**—**	1,875
Less: Current portion of non-current borrowings	**(4,000)**	(28,432)
	15,667	4,633
Current:		
Bank borrowings — secured and/or guaranteed (i)	**575,000**	281,500
Add: Current portion of non-current borrowings	**4,000**	28,432
	579,000	309,932
Total borrowings	**594,667**	314,565

(i) The Group's bank borrowings are secured by property and equipment, bank deposit (Note 6) and guaranteed by subsidiaries of the Company for each other.

(ii) The balance represents the loan borrowed with a principal amount of RMB37,500,000 from Yuan Dong International Leasing Co., Ltd. in 2014, which was secured by Nantong Rich Real Estate Development Co., Ltd. and Shanghai Rich Healthcare Management Co., Ltd. and is bearing a floating interest rate stipulated by the People's Bank of China plus 0.45% per annum. Such security was released upon Listing.

The Group paid a deposit of RMB7,500,000 to Yuan Dong International Leasing Co., Ltd. in 2014, which will be used to net off the last two instalments of principal repayment in accordance with the loan agreement.

(a) The borrowings are all denominated in RMB and their fair value approximates their carrying amount.

(b) The maturity of borrowings is as follows:

	As at December 31, **2017** *RMB'000*	2016 *RMB'000*
Within 1 year	**579,000**	309,932
Between 1 and 2 years	**4,000**	2,557
Between 2 and 5 years	**11,667**	2,076
	594,667	314,565

(c) The weighted average effective interest rates as at December 31, 2017 and 2016 were as follows:

	As at December 31, **2017**	2016
Bank borrowings	**4.47%**	5.37%
Other borrowings	**—**	5.20%
Short-term borrowings from a micro credit company	**—**	11.00%

(d) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity whichever is the earlier date is as follows:

	6 months or less *RMB'000*	6–12 months *RMB'000*	1–5 years *RMB'000*	Total *RMB'000*
Borrowings:				
As at December 31, 2016	267,779	45,786	1,000	314,565
As at December 31, 2017	**594,667**	**—**	**—**	**594,667**

10 TRADE AND OTHER PAYABLES

	As at December 31, **2017** *RMB'000*	2016 *RMB'000*
Trade payables due to third parties	**102,825**	89,064
Payables for purchase of property and equipment	**91,925**	10,391
Advances from customers	**74,647**	58,832
Staff salaries and welfare payables	**62,939**	22,357
Loan from non-controlling interests of a subsidiary (a)	**10,500**	4,500
Accrued advertising expense	**5,366**	3,086
Accrued professional service fees	**4,612**	4,170
Deposits payable	**2,724**	1,985
Notes payable	**1,205**	—
Interest payables	**849**	428
Accrued taxes other than income tax	**831**	1,803
Accrued initial public offering fees	**—**	317
Others	**18,723**	11,876
	377,146	208,809

(a) Balance represents loan from the non-controlling interests of subsidiaries, which is unsecured and non-interest bearing.

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	As at December 31, **2017** *RMB'000*	2016 *RMB'000*
RMB	**377,146**	208,708
HKD	**—**	101
	377,146	208,809

The aging analysis of the trade payables based on invoice date is as follows:

	As at December 31,	
	2017	2016
	RMB'000	*RMB'000*
— Up to 3 months	**81,169**	73,755
— 3 to 6 months	**5,083**	3,826
— 6 months to 1 year	**8,592**	1,664
— 1 to 2 years	**1,056**	4,638
— 2 to 3 years	**2,769**	759
— Over 3 years	**4,156**	4,422
	102,825	89,064

The normal credit term of the Group is 30 days to 90 days. As at December 31, 2017 and 2016, all trade and other payables of the Group were non-interest bearing, and their fair value approximated to their carrying amounts due to their short maturities.

11 REVENUE AND SEGMENT INFORMATION

Management has determined the operating segments based on the information reviewed by the chief operating decision-maker ("**CODM**") for the purpose of corporate planning, allocating resources and assessing performance.

Management considers the business from a business perspective, and assesses the performance of the business segment based on segment profit without allocation of administrative expenses, interest income, interest expenses, other finance expense and income tax expense.

The amounts provided to management with respect to total assets and total liabilities are measured consistent with that of the financial statements. These assets are allocated based on the operations of segment. Investment in shares (classified as available-for-sale financial assets or financial assets at fair value through profit or loss) held by the Group are not considered to be segment assets but rather are managed by the treasury function. The measure of assets reviewed by the CODM does not include assets held for sale. The Group's interest-bearing liabilities are not considered to be segment liabilities but rather are managed by the treasury function.

The Group manages its business by three operating segments based on their services, which is consistent with the way in which information is reported internally to the Group's CODM for the purpose of resources allocation and performance assessment:

(i) General hospital

The business of this segment is in Nantong, a city of Jiangsu Province. Revenue from this segment is derived from general hospital services provided by Nantong Rich Hospital Co., Ltd. ("**Nantong Rich Hospital**").

(ii) Specialty hospital

The business of this segment is in Shanghai and Jiangsu Province. Revenue from this segment is to be derived from specialty hospital services.

(iii) Medical examination centers

The business of this segment is in Shanghai, Jiangsu Province and other provinces in China. Revenue from this segment is derived from medical examination services and clinic services.

(a) Revenue

Revenue of the Group consists of the following:

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Hospital		
Outpatient pharmaceutical income	**38,704**	34,836
Outpatient service income	**43,510**	39,328
Inpatient pharmaceutical income	**130,130**	119,482
Inpatient service income	**103,922**	91,538
Medical Examination		
Examination service	**760,365**	642,708
Management service fee and others	**3,518**	7,491
	1,080,149	935,383

(b) Segment information

Segment information about the Group's reportable segment is presented below:

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same way as in the statement of profit or loss.

	General Hospital	Specialty Hospital	Medical Examination Centers	Unallocated	Elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended December 31, 2017						
Revenue	346,825	—	764,443	—	(31,119)	1,080,149
Segment profit	101,047	—	124,783	—	—	225,830
Administrative expenses						(292,818)
Finance income						6,372
Finance expenses						(25,246)
Exchange losses — net						(33,629)
Other finance income						1,054
Total loss before income tax expenses						(108,914)
Income tax credit						6,234
Loss for the year						(102,680)

	General Hospital RMB'000	Specialty Hospital RMB'000	Medical Examination Centers RMB'000	Unallocated RMB'000	Elimination RMB'000	Total RMB'000
As at December 31, 2017						
Segment assets	541,637	303,693	1,594,495	736,724	(1,113,202)	2,063,347
Segment liabilities	210,929	165,918	1,138,574	61,219	(443,347)	1,133,293
Other information						
Addition to property and equipment, land use rights and intangible assets	31,072	204,347	244,352	—	—	479,771
Depreciation and amortization	14,562	1,347	68,886	—	—	84,795

	General Hospital RMB'000	Specialty Hospital RMB'000	Medical Examination Centers RMB'000	Unallocated RMB'000	Elimination RMB'000	Total RMB'000
For the year ended December 31, 2016						
Revenue	313,035	—	651,098	—	(28,750)	935,383
Segment profit	89,541	—	188,240	—	—	277,781
Administrative expenses						(200,776)
Finance income						1,169
Finance expenses						(20,795)
Exchange gains — net						20,698
Other finance income						561
Total profit before income tax expenses						90,982
Income tax expenses						(36,593)
Profit for the year						54,389

	General Hospital RMB'000	Specialty Hospital RMB'000	Medical Examination Centers RMB'000	Unallocated RMB'000	Elimination RMB'000	Total RMB'000
As at December 31, 2016						
Segment assets	472,340	112,720	1,055,937	754,479	(815,684)	1,579,792
Segment liabilities	188,572	17,247	679,780	62,069	(318,631)	629,037
Other information						
Addition to property and equipment, land use rights and intangible assets	36,575	1,245	58,124	—	—	95,944
Depreciation and amortization	14,585	—	67,032	—	—	81,617

12 EXPENSES BY NATURE

	Year ended December 31, 2017 RMB'000	2016 RMB'000
Employee benefits expense	**484,792**	295,356
Operating lease rental expenses	**170,471**	110,796
Pharmaceutical costs	**98,216**	88,237
Depreciation and amortization	**84,795**	81,617
Medical consumables costs	**73,086**	70,214
Outsourced testing expenses	**56,145**	44,836
Utility expenses	**39,041**	30,830
Advertising expenses	**29,697**	20,246
Office expenses	**25,674**	20,772
Professional service charge	**11,406**	1,579
Entertainment expenses	**18,787**	17,992
Travel expenses	**8,900**	6,094
Maintenance expenses	**6,469**	7,327
Auditor's remuneration		
— Audit services	**4,335**	2,900
— Non-audit services	**1,114**	600
(Reversal)/provision for receivables impairment	**4,767**	(1,800)
Stamp duty and other taxes	**3,115**	2,780
Labor union dues	**2,040**	2,074
Washing charge	**1,817**	1,773
Medical risk insurance	**1,150**	740
Security costs	**869**	774
Deferred income amortization	**210**	316
Working meal	**13**	1,743
Initial public offering fees	**—**	37,966
Other expenses	**20,228**	12,616
	1,147,137	858,378

13 OTHER INCOME

	Year ended December 31, 2017 RMB'000	2016 RMB'000
Government grants	**9,841**	9,690
Rental income	**771**	771
Others	**1,172**	3,768
	11,784	14,229

14 OTHER LOSSES

	Year ended December 31, 2017 RMB'000	2016 RMB'000
Losses on disposal of property and equipment	**782**	616
Others	**1,686**	243
	2,468	859

15 FINANCE (EXPENSES) /INCOME — NET

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Interest on borrowings	**(25,246)**	(20,795)
Exchange losses — net	**(33,629)**	—
	(58,875)	(20,795)
Exchange gains — net	**—**	20,698
Interest income	**6,372**	1,169
Others	**1,054**	561
	7,426	22,428
Finance (expenses)/income — net	**(51,449)**	1,633

16 INCOME TAX (CREDIT)/EXPENSES

The amounts of income tax (credit)/expenses charged to the consolidated statement of profit or loss represent:

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
Current income tax		
— Current year	**29,865**	46,104
— Adjustments for current tax of prior periods	**(1,188)**	2,273
Deferred income tax (Note 4)	**(34,911)**	(11,784)
Income tax (credit)/expenses	**(6,234)**	36,593

The income tax on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the companies within the Group as follows:

	Year ended December 31,	
	2017	2016
	RMB'000	*RMB'000*
(Loss)/profit before tax	**(108,914)**	90,982
Tax calculated at the applicable income tax rate (25%)	**(27,229)**	22,746
Tax effect of:		
Tax loss expired	**551**	—
Expenses not deductible for tax purpose	**3,228**	4,913
Utilization of prior year tax losses and temporary differences not recognized as deferred tax assets	**(298)**	(471)
Temporary differences not recognized as deferred tax assets	**568**	101
Tax losses not recognized as deferred tax assets	**18,134**	7,031
Adjustments for current tax of prior periods	**(1,188)**	2,273
Income tax (credit)/expenses	**(6,234)**	36,593

On March 16, 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "**CIT Law**") which became effective on January 1, 2008. Under the CIT Law, the CIT rate applicable to the Group's subsidiaries located in mainland China from January 1, 2008 is 25%.

The Company is registered in the Cayman Islands, and hence is not subject to enterprise income tax. Two subsidiaries in the Group registered in the British Virgin Islands are not subject to enterprise income tax.

No provision for Hong Kong profits tax has been made as the Group does not have assessable profits subject to Hong Kong profits tax during the years.

The CIT Law and its implementation rules impose a withholding tax at 10% for dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC for earnings generated beginning January 1, 2008 and undistributed earnings generated prior to January 1, 2008 are exempted from such withholding tax. A lower 5% withholding tax rate may be applied when the immediate holding companies are established in Hong Kong according to the tax treaty arrangement between the PRC and Hong Kong. The Directors had confirmed that retained earnings of the Group's PRC subsidiaries as at December 31, 2017 will not be distributed in the foreseeable future.

17 (LOSSES)/EARNINGS PER SHARE

(a) Basic

Basic (losses)/earnings per share is calculated by dividing the net (loss)/profit attributable to the owners of Company by the weighted average number of ordinary shares in issue during 2017 and 2016, respectively.

	Year ended December 31,	
	2017	2016
Net (loss)/profit attributable to owners of the Company *(RMB'000)*	**(62,166)**	58,924
Weighted average number of ordinary shares in issue	**1,592,079,000**	1,347,312,448
Basic (losses)/earnings per share *(RMB)*	**(0.04)**	0.04

(b) Diluted

Diluted (losses)/earnings per share is calculated by adjusting the weighted number of ordinary shares in issue for the potential dilutive effect caused by the share options granted under share option scheme assuming they were exercised.

	Year ended December 31,	
	2017	2016
Net (loss)/profit attributable to owners of the Company *(RMB'000)*	**(62,166)**	58,924
Weighted average number of ordinary shares in issue	**1,592,079,000**	1,347,312,448
Adjustment for share options granted under the share option scheme	**8,060,627**	13,426,725
Weighted average number of ordinary shares for diluted (losses)/earnings per share	**1,600,139,627**	1,360,739,173
Diluted (losses)/earnings per share *(RMB)*	**(0.04)**	0.04

18 DIVIDENDS

The Board does not propose a final dividend for the year ended 31 December 2017 (2016: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Year 2017 marks another new milestone for the Group following the completion of our initial public offering ("**IPO**") in October 2016. Since our IPO, the Group has striven to expand its medical examination business, and over the past year, we established 16 new medical examination centers and rapidly expanded our service network. During the year under review, the Group established strategic cooperation with Ping An Trust Co., Ltd. (平安信託有限責任公司) ("**Ping An Trust**"), Ping An Life Insurance Company of China, Ltd. (中國平安人壽保險股份有限公司) ("**Ping An Life Insurance**") and Ping An Health Cloud Co., Ltd. (平安健康互聯網股份有限公司) ("**Ping An Good Doctor**", together with Ping An Trust and Ping An Life Insurance, "**Ping An Cooperative Partners**"), with details set out in the announcement and the circular of the Company dated November 8, 2017 and December 7, 2017, respectively, aiming to establish and operate medical examination centers, speed up the development of the layout of high-end medical examination market and promote high-quality medical services to a broad customer base, and therefore increase the market share of the Group and reinforce our reputation in the medical examination industry.

During the year under review, the Group vigorously developed its hospital business and planned to set up specialty hospitals, in particular, actively deploying in the field of obstetrics and gynecology hospitals and expanding its existing principal businesses to three core segments: medical examination, specialty hospital and general hospital. In response to consumption upgrade and market demand, the Group actively developed its specialty hospitals, introduced five-star obstetrics and gynecology and postpartum care services, and strengthened the expertise of specialty hospitals through the strategic cooperation with Obstetrics and Gynecology Hospital of Fudan University (復旦大學附屬婦產科醫院).

The Group continuously optimized its procurement system to effectively enhance its cost-effectiveness.

Medical Examination Business

In 2017, the medical examination business of the Group developed rapidly, and the number of medical examination centers almost doubled as compared with the number at the time of the listing of the shares of the Company (the "**Shares**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on October 6, 2016 (the "**Listing Date**"). As of December 31, 2017, the Group had 44 medical examination centers (2016: 28) across the country, among which, 30 medical examination centers have commenced operation (2016: 22). During the year under review, the medical examination centers under the Group served 1,542,577 individuals in total (2016: 1,302,410), representing a year-on-year increase of 18.4%, among which, corporate customers were the principal customer base of the medical examination services of the Group. During the year under review, we served 1,281,013 individuals under corporate customers (2016: 1,082,998) and 261,564 individual customers (2016: 219,412), representing a year-on-year increase of 18.3% and 19.2%, respectively.

In November 2017, the Group established cooperative relationship with Ping An Cooperative Partners, for synergetic development of high-end medical examination services business and promotion of synergy between insurance and healthcare industries in order to maximize effectiveness. Through this cooperation, the Group planned to establish or acquire no less than 35 medical examination centers with

For-profit Medical Institution Practice License (營利性醫療機構執業許可證) (“**Practice License**”) through a subsidiary established by Shanghai Rich Medical Investment Group Co., Ltd. (上海瑞慈醫療投資集團有限公司) (**“Shanghai Rich Medical”**) and Shenzhen Ping An Health and Technology Equity Investment LLP* (深圳市平安健康科技股權投資合夥企業(有限合夥)) (**“Ping An Health Technology Fund”**) in China by the end of 2019 to further expand the medical examination network and regional coverage of the Group. Besides, to tap into the large customer base of Ping An Cooperative Partners, our Group will provide the high net worth clients of Ping An Cooperative Partners with high-end medical examination services, which will effectively help to increase the market share of medical examination services of the Group and improve its brand reputation.

During the year under review, the Group further enhanced the team’s execution capability, and effectively implemented the strategies of the medical examination business with the edges of its own operation and brand, and thus the number of medical examination centers increased significantly as compared with 2016. Meanwhile, the Group enhanced the capabilities in administration, procurement, customer-supporting system and services, which not only allowed us to better control the Group’s medical examination business but also deepened our understanding of demands from different customer bases. Furthermore, the Group further strengthened the sales and marketing teams to better support the newly established medical examination centers. In addition, the Group also actively improved the service process of medical examination, such as implementing a service reservation system, under which we encouraged customers to reserve medical examination services through the mobile application “Medical Helper” (幫忙醫) or service hotlines to reduce waiting time for each examination session and delivered better customer experiences.

Due to the increasingly aging Chinese population and unreasonable allocation of healthcare resources, along with the economic development and income growth, the demand for healthcare services has become increasingly diversified. Clinics are the connection between hospital and medical examination, and is also one of the sites for medical referral system. Since the establishment of outpatient clinic in Shanghai in 2016, the Group currently has 8 clinics across the country. Leveraging on its advanced internet healthcare technologies, the Group has established cooperative relationship with public hospitals and hospitals of traditional Chinese medicine in third-tier regions. This has formed the medical referral system of “RICI Medical Alliance”, in which reputable physicians from clinics can be introduced to people across the country. The clinics of the Group currently provide 23 types of specialty medical services including internal medicine, surgery, gynecology, pediatrics, dermatology, rehabilitation medicine, ophthalmology, otolaryngology, dentistry and traditional Chinese medicine. The Group has also established an extensive technological cooperative relationship with the Children’s Hospital of Fudan University (復旦大學附屬兒科醫院) and Guang’anmen Hospital of China Academy of Chinese Medical Sciences (中國科學院廣安門中醫院) to ensure green channel services such as follow-up hospitalization, surgery and complex examinations for all patients.

Specialty Hospital Business

Along with the increase of residential disposable income, the rise of social consumption level and the upgrade of consumption structure, the specialty medical market of the PRC continued to expand. Together with the implementation of “Two-child” Policy, the obstetrical and gynecological market had urgent demand for high-quality medical services. In regard of this, our Group has been actively planning the layout of specialty hospital business in order to better seize the opportunities for rapid market growth. During the year under review, the Group actively set up a high-end obstetric and gynecology hospital in each of Shanghai (Jing’an District) and Changzhou, which respectively had

96 and 268 registered beds, mainly providing professional medical services in gynecology, obstetrics, pediatrics, as well as post-delivery services. In January 2018, our Changzhou Rich Obstetrics & Gynecology Hospital obtained Practice License and commenced operation, and in March 2018 Shanghai Shuixian Obstetrics & Gynecology Hospital Co. Ltd. (**"Shanghai Shuixian"**) obtained the Practice License and is expected to commence business and operate in early April, 2018.

In addition, during the year under review, the Group actively prepared for the establishment of a specialty hospital in each of Wuxi, Shanghai (Baoshan District) and Nanjing.

General Hospital Business

Nantong Rich Hospital is a Class III Grade B private general hospital with 520 registered beds and a total floor area of approximately 72,084 square meters. As of December 31, 2017, Nantong Rich Hospital had 241 doctors, 78 healthcare technical staff and 372 nurses. During the year under review, Nantong Rich Hospital served a total of 324,487 out-patients (2016: 281,853), and 20,157 in-patients (2016: 18,006), representing an increase of 15.1% and 11.9% as compared with last year, respectively.

Nantong Rich Hospital has a number of clinical departments, among which pediatric surgery is a National Key Clinical Discipline Construction Project (國家臨床重點專科建設項目) awarded by National Health and Family Planning Commission of the PRC. In November 2017, Pediatric International Department (兒科國際部) of Nantong Rich Hospital had completed its renovation work and commenced operation, providing a comfortable, safe and modern diagnosis environment for pediatric patients to satisfy the residential demand in Nantong for high-quality medical services.

Meanwhile, the Group also actively planned expansion projects of Nantong Rich Hospital to meet its demand for future development.

Prospects

It is proposed in the "13th Five-Year" Plan and the "Plan of Health China 2030" to advance the establishment of China's health industry and prioritize the development of hygiene and health industries in the overall economic development. Meanwhile, with the continuous improvement of living standards, people's demand for health has become increasingly diversified. The healthcare services industry has embraced a rare historical opportunity.

The Group attaches the greatest importance to the development of healthcare quality, further implements a diversified health development strategy and actively promotes the layout of healthcare industry chain. Leveraging on its precise and extensive professional services, effective management system and its leading edges in the Yangtze River Delta region, the Group will further strengthen the development of its medical examination business, specialty hospital business and general hospital business.

For the medical examination business, the Group will continue to take advantage of its professional medical examination services and highly effective management system to improve the layout of the service network of medical examinations across the country. The Group plans to establish or acquire 30 medical examination centers with business license in 2018 to further improve the network layout of medical examination business and the total number of medical examination centers is expected to reach 74 by end of 2018.

Through the strategic cooperation with Ping An Cooperative Partners, the Group will implement the cooperative projects of new medical examination centers as soon as possible. On one hand, the Group has been cooperating and exploring the local business of medical examinations with the branches of Ping An Cooperative Partners, and providing medical examination services to the local employees and customers of Ping An Cooperative Partners; on the other hand, the Group will provide staff training, add machinery and update operating systems for the new medical examination centers to ensure the high operational capability and high service quality of the newly established institutions.

The Group will also commence business cooperation through the Ping An Good Doctor platform, vigorously promote individual medical examination packages and marketing services of medical examinations, and provide medical examinations across the country to customers, including full offline high-quality services on pre-examination, mid-examination and post-examination stages, to increase sales contributions from medical examinations offered to individual customers. Customers of medical examinations can also undergo outpatient medical consultations through such platform and enjoy immediate online services, which will encourage communications, strengthen the loyalty of users and expand the user base of Ping An Good Doctor. In addition, the Group's high-end medical examination services will also attract more customers of Ping An Cooperative Partners to upgrade consumption, which will in turn be beneficial for increasing the market share of the Group and solidify our position in the industry.

Through the cooperation with members of Ping An Cooperative Partners, the Group believes that it will promote synergy between healthcare insurance products and medical services and achieve complementarity of advantages. The Group expects that in 2018, the scale of the medical examination business will be further expanded and service capacity will be further improved, realizing the mutual benefits of the partnership.

For the general hospital business, the Group will make plans on the expansion project of Nantong Rich Hospital to upgrade the hardware equipment of the hospital. The Group intends to build a new annex in the recreational space of Nantong Rich Hospital and increase the number of registered beds to deal with the situation of overloading capacity for inpatient accommodation and registered beds. Meanwhile, the Group will continue to improve the services for out-patients to provide better medical and waiting environment for patients, which will further solidify the competitive edges of the Group.

For the specialty hospital business, Shanghai Shuixian and the specialty hospital in Wuxi are expected to commence operation in the first half and the second half of 2018, respectively to provide high-quality obstetrical and gynecological, pediatric and post-delivery care services for the residents. As "Two-child" Policy has been fully implemented and driven by demand and favorable policies, specialty hospitals, especially the high-end obstetrics and gynecology services, will become the Group's new driving force for growth. In the future, the Group will enhance the marketing promotion of its specialty hospitals. Apart from the promotion on WeChat platform, the Group will conduct a series of promotional activities, including seminars in relation to obstetrics and gynecology, early-bird discount, hospital open day and etc., with a focus on promoting the high-end obstetrics and gynecology services of the Group, to attract more pregnant women to choose our delivery services of the two new hospitals under the Group. The Group will also actively increase the puerperium service standard, in hopes of providing the most attentive and suitable care for each mother.

The Group will continue to increase the brand value of Rici, persist the key strategy of optimization of structure and resources, improve the internal synergies and solidify the leading position of the Group in the healthcare service industry. The Group will continue to pay close attention to the changes in the market, and carefully formulate and adjust strategies where appropriate in order to get best prepared to seize opportunities in the future.

Principal Risks and Uncertainties

The Group conducts business in a heavily regulated industry. If the Group fails to obtain or renew any licenses or permits required for our operations, or is found to be non-compliant with such licenses or permits, or any applicable laws or regulations, the Group may face penalties, suspension of operations or even revocation of such licenses or permits, depending on the nature of the findings. Any of such events could materially and adversely affect the business, financial condition and results of operations of the Group. The Group has duly obtained or renewed the licenses or permits required for our operations and none of our hospitals, medical examination centers and clinics has been notified of any material non-compliance with such licenses, permits or applicable laws or regulations.

The Group is exposed to related potential risks that are inherent to the provision of healthcare services from the Group. In recent years, physicians, hospitals and other healthcare service providers in China have become subject to an increasing number of medical disputes or legal actions alleging malpractice or other causes of action. The Group purchased medical liability insurance for our clinics and Nantong Rich Hospital. However, the Group did not purchase medical liability insurance for our medical examination business which the Group believes is consistent with industry practice. The Group has implemented stringent internal operating procedures to monitor the physicians and other medical staff of the Group regarding their professional responsibilities in examining and treating our customers. More detailed analysis on the risk management and internal control systems of the Group will be disclosed in the annual report of the Company for the year ended December 31, 2017.

Financial Review

Revenue

We derive revenue mainly from our general hospital business and medical examination business. The following table sets forth the components of our revenue by operating segment for the years indicated:

	Year ended December 31,		
	2017	2016	**% of Change**
	(RMB'000)	*(RMB'000)*	
General hospital business	**346,825**	313,035	10.8%
Medical examination business	**764,443**[1]	651,098[1]	17.4%
Inter-segment	**(31,119)**	(28,750)	8.2%
Total	**1,080,149**	935,383	15.5%

Note:

(1) Included the revenue from our clinic business.

Our revenue increased by 15.5% from RMB935.4 million in 2016 to RMB1,080.1 million in 2017, mainly due to an increase in revenue from both our general hospital business and medical examination business.

Revenue from our general hospital business in 2017 amounted to approximately RMB316.3 million, representing an increase of 10.9% from approximately RMB285.2 million in 2016, excluding inter-segment revenue of RMB30.5 million and RMB27.8 million in 2017 and 2016, respectively. The increase was mainly attributable to an increase in the number of visits of our patients as we further improve our operational efficiency. The outpatient and inpatient pharmaceutical income amounted to RMB168.9 million (2016: RMB154.3 million), while the outpatient and inpatient service income amounted to RMB147.4 million (2016: RMB130.9 million). The proportion of outpatient and inpatient pharmaceutical income in revenue from our general hospital business decreased from 54.1% in 2016 to 53.4% in 2017 while the proportion of outpatient and inpatient service income in revenue from our general hospital business increased from 45.9% in 2016 to 46.6% in 2017, indicating our efforts for less dependence on pharmaceutical income to further fulfil our commitment to premium service quality.

Revenue from our medical examination business in 2017 amounted to approximately RMB763.9 million, representing an increase of 17.5% from approximately RMB650.2 million in 2016, excluding inter-segment revenue of RMB0.6 million and RMB0.9 million in 2017 and 2016, respectively. The increase in revenue from our medical examination business is mainly attributable to the operation of eight new medical examination centers in 2017 and the further expansion of the branding effects, which caused an increase in the number of visits for medical examination services. The number of individuals who used our services was 1,542,577 and 1,302,410 in 2017 and 2016, respectively, representing a year-on-year increase of 18.4%. The average spending per individual in our medical examination business was RMB489.0 and RMB493.0 in 2017 and 2016, respectively, which remained relatively stable.

The medical examination business includes a portion of clinic business. Revenue from our clinic business in 2017 amounted to approximately RMB6.7 million (2016: RMB2.4 million), mainly from diagnostic income. As the operation sites for clinics have officially expanded and been in operation since July 2016, the number of patient visits increased significantly in 2017 as compared to that of last year. The number of clinic visits was 5,908 and 2,683 in 2017 and 2016, respectively, representing a year-on-year increase of 120.2%. The average spending per individual in our clinic business also increased. The average spending per individual in our clinic business was RMB1,130.1 and RMB899.6 in 2017 and 2016, respectively, representing a year-on-year increase of 25.6%.

Cost of Sales

Cost of sales primarily consists of pharmaceuticals and medical consumables costs, staff costs, rental expenses and depreciation and amortization expenses. The following table sets forth a breakdown of our cost of sales by operating segment for the years indicated:

	Year ended December 31, 2017 (RMB'000)	2016 (RMB'000)	% of Change
General hospital business	**242,415**	219,764	10.3%
Medical examination business	**467,699**(1)	390,238(1)	19.8%
Inter-segment	**(31,119)**	(28,750)	8.2%
Total	**678,995**	581,252	16.8%

Note:

(1) Included the cost of sales of our clinic business

Our cost of sales increased by 16.8% from RMB581.3 million in 2016 to RMB679.0 million in 2017.

Cost of sales of our general hospital business in 2017 amounted to approximately RMB242.4 million, representing an increase of 10.3% from approximately RMB219.8 million in 2016. The increase was generally in line with the growth in revenue.

Cost of sales of our medical examination business in 2017 amounted to approximately RMB467.7 million, representing an increase of 19.8% from approximately RMB390.2 million in 2016. The increase was mainly attributable to the adjustment of remuneration system of medical staff by the Group during the year under review, causing an increase of the remuneration expenses of medical staff. In addition, the variable cost of our medical examination centers including medical consumable costs and outsourcing testing expenses increased, which was generally in line with the revenue growth of our medical examination business. Meanwhile, some fixed cost, such as rental expenses, increased, due to the operation of new medical examination centers.

Gross Profit

Our gross profit increased by 13.3% from approximately RMB354.1 million in 2016 to approximately RMB401.2 million in 2017. The gross profit margin slightly decreased from 37.9% in 2016 to 37.1% in 2017, which was primarily attributable to the slight decrease of gross profit margin of our medical examination business. The gross profit margin of our general hospital business in 2017 was 30.1%, which remained stable as compared to that of 29.8% in 2016. The gross profit margin of our medical examination business slightly decreased to 38.8% in 2017 from 40.1% in 2016, primarily as a result of the eight newly-operated medical examination centers with initially lower gross profit margins.

Distribution Costs and Selling Expenses

Our distribution costs and selling expenses increased by 129.6% from approximately RMB76.4 million in 2016 to approximately RMB175.3 million in 2017. The increase was mainly attributable to the increase in sales staff costs, given that the Group adjusted the remuneration system of sales staff in order to increase the basic salary of sales staff, and established a better rewarding scheme for sales staff for the boost of sales performance of the medical examination business and maintaining a stable sales team to satisfy the need for rapid expansion of medical examination centers. In addition, the Group strengthened sales promotion in order to enhance branding effects, which resulted in an increase in promotion expenses.

Administrative Expenses

Our administrative expenses increased by 45.8% from approximately RMB200.8 million in 2016 to approximately RMB292.8 million in 2017. The increase was mainly due to (i) the increase of pre-opening expenses, such as the rental expenses, for the pre-operation of new medical examination centers and specialty hospitals; (ii) the increase in the number of administrative employees due to the expansion of medical examination centers, and the increase of salary and improvement of welfare; and (iii) the increase in share option expenses as a result of the inclusion of options granted on September 19, 2016 into the annual expenses of 2017 and the grant of new options on November 24, 2017.

Other Income

Other income was mainly generated from government grants. Our other income decreased by 17.2% from approximately RMB14.2 million in 2016 to approximately RMB11.8 million in 2017.

Other Losses

Other losses was generated from losses on disposal of equipment and other miscellaneous losses. Our other losses increased from approximately RMB0.9 million in 2016 to approximately RMB2.5 million in 2017.

Finance (Expenses)/Income — net

The Group had net finance expenses of RMB51.4 million in 2017, compared to net finance income of RMB1.6 million in 2016, mainly due to exchange loss of RMB33.6 million in 2017 arising from the bank deposits denominated in Hong Kong dollars and US dollars mainly resulting from the appreciation of Renminbi, while the exchange gain of RMB20.7 million in 2016 arising from the bank deposits denominated in Hong Kong dollars and US dollars.

Share of Results

For the year ended December 31, 2017, the Group recognized a profit of RMB0.2 million (2016: loss of approximately RMB1.0 million) in its consolidated statement of profit or loss, mainly due to the operating profit/loss of Nantong Rich Meidi Nursing Home Co. Ltd., ("**Nantong Meidi**") a joint venture of the Group and a company primarily engaged in providing elderly care services. The business of Nantong Meidi has been stable since the establishment in the second half of 2014, resulting in small earnings in 2017.

Income Tax Credit/(Expense)

For the year ended December 31, 2017, income tax credit amounted to approximately RMB6.2 million (2016: income tax expenses of approximately RMB36.6 million), mainly because the new medical examination centers and specialty hospitals incurred more loss in 2017, which was recognized as the deferred income tax assets, and therefore decreased the income tax expenses.

(Loss)/Profit for the Year

For the foregoing reasons, we recorded net loss of RMB102.7 million in 2017 (2016: net profit of RMB54.4 million), mainly attributable to the pre-opening expenses of the new medical examination centers and specialty hospitals, the increase of staff costs due to the change of remuneration system and the exchange loss due to the fluctuations of foreign exchange.

Adjusted EBITDA

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we use adjusted EBITDA as an additional financial measure. We define adjusted EBITDA as (loss)/profit for the year before certain expenses and depreciation and amortization as set out in the table below. Adjusted EBITDA is not an alternative to (i) (loss)/profit before income tax or (loss)/profit for the year (as determined in accordance with HKFRS) as a measure of our operating performance, (ii) cash flows from operating, investing and financing activities as a measure of our ability to meet our cash needs, or (iii) any other measures of performance or liquidity. The following table reconciles our (loss)/profit for the years under HKFRS to our definition of adjusted EBITDA for the years indicated.

	Year ended December 31,	
	2017	2016
	(RMB'000)	*(RMB'000)*
Adjusted EBITDA calculation		
(Loss)/Profit for the year	**(102,680)**	54,389
Adjusted for:		
Income tax (credit)/expenses	**(6,234)**	36,593
Finance expenses/(income) — net	**51,449**	(1,633)
Depreciation and amortization	**84,795**	81,617
Pre-opening expenses and EBITDA loss of soft-opening[1]	**114,136**	37,846
Listing expenses[2]	**—**	37,966
Share option expenses	**12,255**	3,144
Adjusted EBITDA	**153,721**	249,922
Adjusted EBITDA margin[3]	**14.2%**	26.7%

Notes:

(1) Primarily represents (a) pre-opening expenses, such as staff costs and rental expenses, incurred in the applicable year in connection with new medical examination centers and specialty hospitals to commence operation in the subsequent years, and (b) EBITDA loss of new medical examination centers incurred during the year from which they commence operation.

(2) A total of RMB38.0 million listing expense was incurred in 2016.

(3) The calculation of adjusted EBITDA margin is based on adjusted EBITDA divided by revenue and multiplied by 100%.

We recorded an adjusted EBITDA of RMB153.7 million in 2017, representing a decrease of 38.5% from RMB249.9 million in 2016, which was mainly attributable to the increase in staff costs as a result of changes in remuneration system.

Financial Position

Property and Equipment

Property and equipment primarily consist of buildings, medical equipment, general equipment, leasehold improvement and construction in progress. As of December 31, 2017, the property and equipment of the Group amounted to approximately RMB778.3 million, representing an increase of approximately RMB385.1 million as compared to approximately RMB393.2 million as of December 31, 2016. The increase was primarily due to acquisition of equipment and renovation by the new medical examination centers and specialty hospitals.

Inventories

Inventories increased from approximately RMB19.1 million as of December 31, 2016 to approximately RMB24.0 million as of December 31, 2017.

Trade Receivables

As of December 31, 2017, the trade receivables of the Group were approximately RMB195.5 million, representing an increase of approximately RMB64.5 million as compared to approximately RMB131.0 million as of December 31, 2016, which was mainly attributable to (i) the increase of revenue during 2017; and (ii) the income from examination service of certain large customers completed in the peak season of the industry (the second half of the year) of the Group's medical examination business was still within the payment term and was not available for collection at the end of the year. Such receivables were settled in January 2018.

Net Current Assets Position

As of December 31, 2017, the Group's net current assets were RMB44.7 million, representing a decrease of RMB429.3 million as compared with net current assets of RMB474.0 million as of December 31, 2016. The decrease in net current assets position was mainly due to the increase of current liabilities incurred by the Group for the investment in construction of new medical examination centers and specialty hospitals.

Liquidity and Capital Resources

The Group had cash and bank balance of RMB812.2 million as of December 31, 2017. As of December 31, 2017, the Group had outstanding bank borrowings of RMB594.7 million. The Board is of the opinion that the financial position of the Group is strong and healthy, and the Group has sufficient resources to support its operations and meet its foreseeable capital expenditures. For the currency in which cash and bank balance are denominated, please refer to Note 6 to the consolidated financial statements.

Set forth below is the information extracted from the Group's consolidated cash flow statement during the years indicated:

	Year ended December 31,	
	2017	2016
	(RMB'000)	*(RMB'000)*
Net cash generated from operating activities	**27,280**	173,283
Net cash used in investing activities	**(407,241)**	(127,264)
Net cash generated from financing activities	**129,106**	579,667
Net (decrease)/increase in cash and cash equivalents	**(250,855)**	625,686

Net Cash Generated from Operating Activities

For the year ended December 31, 2017, the net cash generated from operating activities was RMB27.3 million. Cash inflow generated from operating activities was approximately RMB88.8 million for the year ended December 31, 2017, representing a decrease of RMB153.2 million as compared with that of RMB242.0 for the year ended December 31, 2016, mainly due to the increase in pre-opening expenses of the new medical examination centers and specialty hospitals which was offset by the interest paid of approximately RMB24.8 million and the income tax paid of RMB36.7 million.

Net Cash Used in Investing Activities

For the year ended December 31, 2017, the net cash used in investing activities was RMB407.2 million, primarily attributable to (i) the purchases of property and equipment and intangible assets of RMB409.6 million; (ii) the investment in an associate of RMB1.0 million; and (iii) the acquisition of interest in a subsidiary at a consideration of RMB1.1 million, partially offset by the proceeds from disposal of equipment of RMB0.1 million and the interest received from bank deposits of RMB4.3 million.

Net Cash Generated from Financing Activities

For the year ended December 31, 2017, the net cash generated from financing activities was RMB129.1 million, primarily attributable to (i) the capital contribution of RMB59.0 million from owners of the Company or non-controlling interests of subsidiaries; (ii) the net proceeds from bank borrowing of RMB280.1 million; and (iii) the loan from non-controlling interests of a subsidiary of RMB6.0 million, partially offset by payment of listing expenses of RMB0.3 million and increase in restricted cash of RMB215.6 million.

Significant Investments, Acquisitions and Disposals

For the year ended December 31, 2017, the Group did not have any significant investments, acquisitions or disposals, except (i) the proposed investment of RMB65.0 million for the establishment of a company which will become an indirectly wholly-owned subsidiary of the Company for operating a healthcare industry park in Nanjing, the PRC, principally engaged in specialty hospital business according to the cooperation agreement dated March 28, 2017 entered into between Shanghai Rich Medical and Nanjing South New City Health Industry Development Co., Ltd. (南京南部新城健康產業發展有限公司); (ii) Shanghai Rich Medical's investment in Sichuan Rich Medical Technology Co., Ltd. (四川瑞慈醫療科技有限公司) (**"Sichuan Rich",** a company which became an indirectly non-wholly-owned subsidiary of the Company and is principally engaged in development of medical technologies, healthcare consultation and marketing planning) by acquiring 55% equity of Sichuan Rich from Ms. Zhou He according to the equity transfer agreement dated June 16, 2017; (iii) the proposed investment of RMB143.0 million for establishing a company which will become an indirectly non-wholly-owned subsidiary of the Company for establishment of an obstetrics and gynecology and pediatrics specialty hospital according to the cooperation agreement dated September 1, 2017 entered into between Shanghai Rich Medical and Shanghai Jiangyang Industry Company (上海江楊實業有限公司); and (iv) the investment agreement dated November 8, 2017 entered into between the Company, Shanghai Rich Medical, Chelsea Grace Holding Limited, Dr. Fang Yixin, Dr. Mei Hong and Ping An Health Technology Fund in relation to the establishment of a subsidiary for establishing or acquiring medical examination centers, pursuant to which Shanghai Rich Medical agreed to make a cash contribution of RMB400 million to the entity, and Ping An Health Technology Fund agreed to make a cash contribution of RMB150 million to the entity and subscribe for the convertible bonds with a total principal amount of RMB150 million to be issued by the entity. For details, please refer to the announcements of the Company dated March 28, 2017, June 16, 2017, September 4, 2017 and November 8, 2017, respectively.

Use of Proceeds from IPO

After the partial exercise of the Over-allotment Option (as defined in the prospectus of the Company dated September 26, 2016 (the "**Prospectus**")) and after deducting underwriting commissions and all related expenses, the net proceeds from issuance of ordinary shares of the Company in connection with the IPO amounted to RMB682.7 million. As of the date of this announcement, the Company does not anticipate any change to its plan on the use of proceeds as stated in the Prospectus.

The Board closely monitored the use of proceeds from the IPO with reference to the use of proceeds disclosed in the Prospectus and confirmed that there was no change in the proposed use of proceeds as previously disclosed in the Prospectus.

From the Listing Date to December 31, 2017, the Group used the net proceeds for the following purpose:

- RMB109.3 million used for the establishment of medical examination centers and RMB174.8 million used for the establishment of specialty hospitals.

- RMB76.0 million used for the partial repayment of our bank and other borrowings.

- RMB13.5 million used for payment of listing-related expenses and other general business use.

Capital Expenditure and Commitments

For the year ended December 31, 2017, the Group incurred capital expenditure of RMB479.8 million, primarily due to purchases of medical equipment for our new medical examination centers and specialty hospitals.

As of December 31, 2017, the Group had a total capital commitment of approximately RMB702.8 million (2016: RMB26.4 million), mainly comprising the related contracts of capital expenditure in newly built medical examination centers and specialty hospitals.

Borrowings

As of December 31, 2017, the Group had total bank and other borrowings of RMB594.7 million (2016: RMB314.6 million). Further details are set out in Note 9 to the consolidated financial statements contained in this announcement.

Contingent Liabilities

The Group had no material contingent liability as of December 31, 2017 (2016: nil).

Financial Instruments

The Group did not have any financial instruments as of December 31, 2017 (2016: nil).

Gearing Ratio

As of December 31, 2017, on the basis of net debt divided by total share capital, the Group's gearing ratio was (0.2%) (2016: (147.4%)). The increase in gearing ratio mainly resulted from the Group's use of cash on hand and increase in bank borrowings for the establishment of new medical examination centers and specialty hospitals.

Cash Flow and Fair Value Interest Rate Risk

Our exposure to changes in interest rates is mainly attributable to our bank borrowings.

Borrowings obtained at variable rates expose us to cash flow interest rate risk. Borrowings obtained at fixed rates expose us to fair value interest rate risk. We did not hedge our cash flow and fair value interest rate risk during the year.

Foreign Exchange Risk

For year ended December 31, 2017, the Group was not exposed to significant foreign currency risk, except for the bank deposits from the IPO, which were denominated in Hong Kong dollar, and the bank deposits denominated in US dollar. The Group currently does not have a foreign currency hedging policy. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need raise.

Credit Risk

We have no significant concentration of credit risk. The carrying amounts of cash and cash equivalents, trade and other receivables and deposits from long-term leases represent our maximum exposure to credit risk in relation to our financial assets. The objective of our measures to manage credit risk is to control potential exposure to recoverability problem.

Cash and cash equivalents were deposited in major financial institutions, which the Directors believe are of high credit quality.

We established policies in place to ensure that we assess the credit worthiness and financial strength of our customers as well as considering prior dealing history with the customers and volume of sales. Our management team makes periodic collective assessment as well as individual assessment on the recoverability of trade receivables and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any trade disputes with the debtors.

The credit risk of hospital business is related to the recoverability of trade receivables and other receivables. The credit risk of medical examination business is related to the length of the overdue period of trade receivables and other receivables by corporate customers.

Liquidity Risk

Our finance department monitors rolling forecasts of our liquidity requirements to ensure we have sufficient cash to meet operational needs while maintaining sufficient headroom on our undrawn committed borrowing facilities at all times so that we do not breach borrowing limits or covenants (where applicable) on any of our borrowing facilities. We expect to fund the future cash flow needs through cash flows generated from operations, borrowings from financial institutions and if necessary, issuing debt instruments or capital injection from shareholders of the Company. Based on contractual undiscounted payments, our financial liabilities were RMB928.0 million as of December 31, 2017 (2016: RMB495.2 million).

Pledge of Assets

As of December 31, 2017, the Group had property assets with a total carrying amount of RMB80,944,000 (2016: property assets of RMB43,103,000 and land use rights of RMB3,498,000) and restricted deposits with an amount of USD33,000,000 (2016: nil) pledged for bank borrowings.

HUMAN RESOURCES

The Group had 4,734 employees as of December 31, 2017, as compared to 3,579 employees as of December 31, 2016. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination.

Remuneration of the Group's employees includes basic salaries, allowances, bonus, share option scheme and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence. We provide regular training to our employees in order to improve their skills and knowledge. The training courses range from further educational studies to skill training to professional development courses for management personnel, including a management trainee program.

EVENT AFTER REPORTING PERIOD

Pursuant to the investment agreement dated November 8, 2017 entered into, among others, by the Company and Ping An Health Technology Fund, the parties agreed to establish a subsidiary for the purpose of newly establishing or acquiring medical examination center. The entity was incorporated on 8 February 2018. By the date of this announcement, the parties have not yet made the capital contribution.

The Group has signed an agreement with Shanghai Rii Web Technology Co., Ltd. on 19 March, 2018 to acquire 51% equity interests in Shanghai Ruiyi Xiaoyingtao Clinic Co., Ltd. at an aggregate consideration of RMB 4.9 million.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company or the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2017.

FINAL DIVIDEND

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2017.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from June 5, 2018 to June 8, 2018, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting to be held on June 8, 2018 (the "**2018 AGM**"). In order to be eligible to attend and vote at the 2018 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration 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, not later than 4:30 p.m. on June 4, 2018.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as of the date of this announcement, the Company has maintained the public float as required under the Listing Rules.

CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Company has adopted the code provisions as set out in the Code of Corporate Governance Practices (the "**Code**") as contained in Appendix 14 to the Listing Rules as its own code to govern its corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the Code during the year under review.

The Board will continue to review and monitor the practices of the Company with an aim to maintaining a high standard of corporate governance.

MODEL CODE FOR SECURITIES TRANACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuer" (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company by the Directors and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the year under review. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the year under review.

REVIEW OF FINANCIAL STATEMENTS

Audit Committee

The Audit Committee of the Board (comprising Ms. Wong Sze Wing (being the independent non-executive Director), Ms. Jiao Yan (being the non-executive Director) and Dr. Wang Yong (being the independent non-executive Director)) has reviewed with the management of the Company the consolidated financial information of the Company for the year ended December 31, 2017, including accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters.

Scope of Work of PricewaterhouseCoopers

The figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto for the year ended December 31, 2017 as set out in this announcement have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year.

The work performed by PricewaterhouseCoopers 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 PricewaterhouseCoopers on this announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.rich-healthcare.com). The annual report of the Company for the year ended December 31, 2017 will be despatched to the shareholders of the Company and published on the aforesaid websites in due course.

APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

By Order of the Board
Rici Healthcare Holdings Limited
Fang Yixin
Chairman

Shanghai, the PRC, March 29, 2018

As of the date of this announcement, the Board comprises four executive Directors, namely, Dr. Fang Yixin, Dr. Mei Hong, Mr. Lu Zhenyu and Dr. Wang Weiping; two non-executive Directors, namely Ms. Jiao Yan and Mr. Yao Qiyong; and three independent non-executive Directors, namely, Dr. Wang Yong, Mr. Jiang Peixing and Ms. Wong Sze Wing.

**For identification purpose only*