

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



Honliv Healthcare Management Group Company Limited

宏力醫療管理集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9906)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023 AND CHANGE IN USE OF PROCEEDS

FINANCIAL SUMMARY

	Six months ended 30 June		
	2023	2022	Change
	<i>RMB'000</i>	<i>RMB'000</i>	%
	(Unaudited)	(Unaudited)	
Revenue	370,467	374,742	-1.1%
Gross profit	69,950	83,571	-16.3%
Profit for the period attributable to owners of the Company	24,263	32,173	-24.6%
Basic and diluted earnings per share	0.04	0.05	-20.0%

RESULTS

The Board of the Company announces the unaudited consolidated financial results of the Group for the six months ended 30 June 2023, together with the comparative figures for the corresponding period in 2022 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2023	2022
	Notes	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	370,467	374,742
Cost of sales		<u>(300,517)</u>	<u>(291,171)</u>
Gross profit		69,950	83,571
Administrative expenses		(36,932)	(35,205)
Net impairment losses on financial assets		676	(6,654)
Other income		231	243
Other expenses		(98)	(98)
Other losses — net		<u>(144)</u>	<u>(9)</u>
Operating profit		33,683	41,848
Finance income		1,657	4,916
Finance costs		<u>(3,237)</u>	<u>(4,933)</u>
Finance costs — net		<u>(1,580)</u>	<u>(17)</u>
Profit before income tax		32,103	41,831
Income tax expense	5	<u>(7,604)</u>	<u>(9,376)</u>
Profit for the period		24,499	32,455
Other comprehensive income		<u>—</u>	<u>—</u>
Total comprehensive income		<u>24,499</u>	<u>32,455</u>

		Six months ended 30 June	
		2023	2022
<i>Notes</i>		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Profit and total comprehensive income attributable to:			
Owners of the Company		24,263	32,173
Non-controlling interests		236	282
		<u>24,499</u>	<u>32,455</u>
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
Basic and diluted earnings per share	6	<u>0.04</u>	<u>0.05</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		30 June	31 December
		2023	2022
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		502,236	507,754
Right-of-use assets		77,388	79,098
Investment properties		1,749	2,678
Intangible assets		671	648
Deferred income tax assets		3,916	6,878
Prepayments		21,407	4,690
		<hr/>	<hr/>
Total non-current assets		607,367	601,746
		<hr/>	<hr/>
Current assets			
Inventories		17,799	29,500
Trade receivables	7	57,160	47,358
Other receivables and prepayments		1,029	1,196
Amounts due from related parties		208	–
Cash and cash equivalents		274,350	255,238
		<hr/>	<hr/>
Total current assets		350,546	333,292
		<hr/>	<hr/>
Total assets		957,913	935,038
		<hr/> <hr/>	<hr/> <hr/>

		30 June	31 December
		2023	2022
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
EQUITY			
Equity attributable to the owners of the Company			
Share capital		52	52
Reserves		366,759	382,004
Retained earnings		191,673	167,410
		<u>558,484</u>	<u>549,466</u>
Subtotal		558,484	549,466
Non-controlling interests		<u>5,441</u>	<u>5,205</u>
Total equity		<u><u>563,925</u></u>	<u><u>554,671</u></u>
LIABILITIES			
Non-current liabilities			
Borrowings		20,322	–
Lease liabilities		667	983
Deferred revenue		1,895	1,928
		<u>22,884</u>	<u>2,911</u>
Total non-current liabilities		<u>22,884</u>	<u>2,911</u>
Current liabilities			
Trade payables	8	108,865	101,907
Accruals, other payables and provisions		103,651	122,335
Current income tax liabilities		8,650	11,074
Borrowings		148,757	141,000
Lease liabilities		1,181	1,140
		<u>371,104</u>	<u>377,456</u>
Total current liabilities		<u>371,104</u>	<u>377,456</u>
Total liabilities		<u>393,988</u>	<u>380,367</u>
Total equity and liabilities		<u><u>957,913</u></u>	<u><u>935,038</u></u>

1 GENERAL INFORMATION

Honliv Healthcare Management Group Company Limited (the “**Company**”) was incorporated in the Cayman Islands on 6 January 2016 as an exempted company with limited liability under the Companies Act, Cap.22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Campbells Corporate Services Limited, Floor 4, Willow House, Cricket Square, Grand Cayman KY1-9010, Cayman Islands.

The Company is an investment holding company and together with its subsidiaries (the “**Group**”), are principally engaged in the ownership, operation and management of hospitals in the People’s Republic of China (the “**PRC**”).

The ordinary shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited on 13 July 2020.

The interim condensed consolidated financial information is presented in Renminbi (“**RMB**”) and rounded to nearest thousand yuan, unless otherwise stated.

2 BASIS OF PRESENTATION AND ACCOUNTING POLICIES

This interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with Hong Kong Accounting Standard 34 “**Interim Financial Reporting**” issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, this interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), and any public announcements made by the Company during the six months ended 30 June 2023.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards for the current reporting period.

(a) Going concern

As at 30 June 2023, the Group's current liabilities exceeded its current assets by RMB20,558,000 and the Group had cash and cash equivalents of RMB274,350,000.

Management has given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient funds to fulfil its financial obligations and continue as a going concern. A number of measures have been put in place by management to improve the financial position and alleviate the liquidity pressure including:

- Management has been communicating with the banks which are providing existing banking facilities to the Group with a view to proactively managing the renewal of the Group's banking facilities upon maturity and securing additional credit facilities.
- On 27 February 2023, Henan Honliv Hospital Co., Ltd. ("**Honliv Hospital**") obtained additional loan facilities of RMB60 million from one of its existing banks. Application of one-year loan drawdowns can be made under this facility until 27 February 2024 subject to the approval and conditions imposed by the bank. As at the reporting date, the Group has not utilized this additional loan facility.

Taking into account the Group's future operational performance and the expected future operating cash inflows, and the continuous availability of banking and other facilities, management concluded that the Group would have sufficient financial resources to support its operations and to meet its financial obligations and commitments as and when they fall due in the coming twelve months from 30 June 2023.

According to the measures above, the directors are satisfied that it is appropriate to prepare the financial information on a going concern basis.

(b) New and amended standards adopted by the Group

The adoption of the following new and amended standards does not have significant impact on the financial performance and positions of the Group and also the presentation of this interim financial information.

		Effective Date
• HKFRS 17	• Insurance Contracts • Amendments to HKFRS 17 • Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information	1 January 2023
• Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
• Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
• Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

(c) Impact of standards issued but not yet applied by the Group

There are no new standards, amendments to existing standards or interpretations that are not yet effective and would be expected to have a material impact to the Group.

3 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who are responsible for allocating resources and assessing performance of the operating segment and making strategic decisions. The chief operating decision-maker has been identified as the executive directors.

The Group has only one operating segment during the six months ended 30 June 2023, so no segment information was presented.

4 REVENUE

The Group's revenue represents the amount received and receivable from provision of treatments and general healthcare service and pharmaceutical sales. Details are as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Nature of revenue recognition		
Treatments and general healthcare service	228,587	238,292
Pharmaceutical sales	141,880	136,450
	370,467	374,742
Timing of revenue recognition		
At a point in time	246,509	255,309
Over time	123,958	119,433
	370,467	374,742

During the six months ended 30 June 2023, the Group performed a reassessment on the estimation of revenue in relation to variable consideration. Up to 30 June 2023, the Group recognised the net amount of deduction of approximately RMB9,199,000 (six months ended 30 June 2022: Nil) as a reduction of revenue on a cumulative basis.

5 INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax		
— PRC corporate income tax	4,642	12,153
Deferred income tax	2,962	(2,777)
	<u>7,604</u>	<u>9,376</u>

6 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of outstanding ordinary shares in issue during the six months ended 30 June 2023. Treasury shares held for the 2022 restricted share unit scheme and the 2023 restricted share unit scheme (together, the “**Employee Share Schemes**”) are excluded from the weighted average number of outstanding ordinary shares in issue for purposes of calculating basic earnings per share.

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (RMB'000) (i)	24,263	32,173
Weighted average number of ordinary shares in issue (in thousands)	<u>568,620</u>	<u>600,000</u>
Basic earnings per share (in RMB)	<u>0.04</u>	<u>0.05</u>

- (i) During the six months ended 30 June 2023, an independent trustee purchased 6,130,000 shares for the purpose of the Employee Share Schemes (six months ended 30 June 2022: nil). As of 30 June 2023, the accumulated number of shares purchased by the independent trustee for the purpose of the Employee Share Schemes was 36,128,000 (30 June 2022: nil). As at 30 June 2023, no shares were granted under the Employee Share Schemes.

(b) Diluted earnings per share

Diluted earnings per share were the same as basic earnings per share as the Group had no potential dilutive shares during the six months ended 30 June 2023.

7 TRADE RECEIVABLES

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Trade receivables	63,221	54,095
Less: allowance for impairment of trade receivables	(6,061)	(6,737)
	<hr/>	<hr/>
Trade receivables — net	57,160	47,358
	<hr/> <hr/>	<hr/> <hr/>

As at 30 June 2023 and 31 December 2022, the ageing analysis of the trade receivables based on demand note date was as follows:

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Up to 3 months	23,752	33,858
3 to 6 months	1,952	11,014
6 months to 1 year	32,285	3,492
1 to 2 years	611	1,071
2 to 3 years	–	1,632
Over 3 years	4,621	3,028
	<hr/>	<hr/>
	63,221	54,095
	<hr/> <hr/>	<hr/> <hr/>

8 TRADE PAYABLES

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Trade payables	108,865	101,907

As at 30 June 2023 and 31 December 2022, the aging analysis of the trade payables based on demand note date was as follows:

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Trade payables		
Up to 3 months	82,009	72,960
3 to 6 months	18,829	18,399
6 months to 1 year	3,418	2,899
1 to 2 years	1,091	2,875
2 to 3 years	433	954
Over 3 years	3,085	3,820
	108,865	101,907

9 DIVIDENDS

The board of directors of the Company does not resolve to declare an interim dividend for the six months ended 30 June 2023 (30 June 2022: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview and Outlook

2023 is a critical year for the national “14th Five-Year Plan” for “comprehensively promoting the construction of a healthy China”. The reform of the medical and healthcare system continues to make great efforts, and focusing on improving the level of medical and healthcare services is the key task of the year. The reform in medical insurance payment methods has been implemented, which, being based on DRG/DIP payment, has restructured the management model of medical institutions. Hospital management needs to accept new concepts, abandon old thinking, and explore new models. At present, the domestic economy is not strong and demand is still insufficient, but we still firmly believe that, in the context of comprehensively promoting the construction of a healthy China, life sciences and healthcare will usher in major development, because after the pandemic, the public has placed greater importance on health and pandemic prevention, and the expansion of demand will promote the prosperity and development of the health industry. Looking ahead, the Group expects to:

1. focus on improving medical quality and ensuring medical safety, explore the management model after the reform in medical insurance payment methods, place equal emphasis on scale expansion and refined management, and make full use of advanced information technology and other means to reduce consumption and increase efficiency;
2. expand the types and scope of main business services, improve the service chain, mutual support of multiple disciplines, balanced development of multiple centres, strengthen core competitiveness, enhance brand influence, and ensure patient satisfaction throughout the entire process of healthcare services;
3. explore a new model of talent training and incentives under the new situation, and highlight the training mechanism, quality improvement, assessment and evaluation, so as to provide a platform for outstanding talents to show their ambition;
4. fully respond to work needs, independently develop application software that is highly compatible with actual work, reduce management costs and improve medical experience;
5. strengthen academic exchanges and cooperation, fully absorb and utilize advanced management and medical technologies at home and abroad, improve the Group’s ability to solve complex problems, and create a medical highland in the region;

6. focus on clinical application-oriented academic research, enhance innovation capability, and empower hospitals for high-quality development;
7. enhance compliance awareness, attach importance to intellectual property rights, comply with various regulatory systems in the industry, abide by the code of listed companies, optimize corporate governance, and ensure medical quality and safety; and
8. actively search for investment targets, expand the Group's business scale through various means such as new creation and output management, so as to achieve the goal of group development.

Business Review

During the first half of 2023, the Group's consolidated revenue for the six months ended 30 June 2023 amounted to RMB370.5 million, representing a decrease of RMB4.3 million or 1.1% as compared with the consolidated revenue of RMB374.7 million for the six months ended 30 June 2022. It was mainly due to a slight decrease in annual revenue as the DIP (Disease Inpatient Payment) payment method after the reform of the health insurance payment method limited the diagnostic and treatment costs for inpatients.

Hospital Services

Henan Honliv Hospital provides hospital services on behalf of the Group. During the Reporting Period: (i) the total number of inpatient visits amounted to 27,620 (six months ended 30 June 2022: 24,863), representing a year-on-year increase of 11.09%; (ii) the average cost of inpatient visits amounted to RMB6,409.5 (six months ended 30 June 2022: RMB7,289.2), representing a year-on-year decrease of 12.07%; (iii) the total number of outpatient visits amounted to 707,008 (six months ended 30 June 2022: 643,476), representing a year-on-year increase of 9.87%; and (iv) the average cost of outpatient visits amounted to RMB273.6 (six months ended 30 June 2022: RMB300.7), representing a year-on-year decrease of 9.01%.

The increase in the number of outpatient visits and inpatient visits was mainly due to the continuous improvement of diagnostic and treatment technologies in our hospitals, with greater ability to solve complex problems; the updating and improvement of medical diagnostic and treatment equipment and technologies, which can provide more support for the diagnosis of illnesses; the increasingly wide coverage of medical service items, which can meet the personalized needs of patients; the simultaneous development of nursing care services towards specialization and living, which can greatly alleviate patients' anxiety and enhance spiritual satisfaction; and quicker and more convenient settlements supported by information technology, minimizing time costs.

The following table sets out certain key operating data of the Group's hospital services for the periods indicated:

	Six months ended 30 June		
	2023	2022	Change %
Outpatient visits	707,008	643,476	9.87
Average spending per outpatient visit (<i>RMB</i>)	273.6	300.7	-9.01
Inpatient visits	27,620	24,863	11.09
Average spending per inpatient visit (<i>RMB</i>)	6,409.5	7,289.2	-12.07
Number of beds in operation as of the end of the relevant period	1,500	1,500	0
Average length of stay per inpatient visit (<i>days</i>)	8.9	9.7	-8.25
Number of surgeries	6,118	5,661	8.07

Under the new policy on healthcare insurance, the Group's operating efficiency in the first half of 2023 still recorded a relatively substantial increase in outpatient visits and inpatient visits as compared with the corresponding period last year, with a slight decrease in consolidated revenue for the year on a stable basis. The key revenue-driven strategies for the Group's hospital services are to:

1. carry out various quality control activities with medical safety as the main line of emphasis to improve the quality of medical care;
2. carry out extensive publicity activities on the prevention and treatment of chronic diseases to raise residents' awareness of chronic diseases;
3. actively promote new technologies within the hospital and promote co-operation and exchanges among various professional disciplines;

4. work closely with high-level hospitals to make up for shortcomings in various forms such as remote consultation and building collaborative units;
5. develop nursing services in the directions of specialized and life-like care, so that patients can have their spiritual needs met during the whole process of diagnosis and treatment;
6. actively participate in national medical competitions and achieve remarkable honours, which enhanced the reputation of the Group; for example, the Group's lung cancer MDT team won third place in the national final of the "Example in the County — Lung Cancer MDT Diagnosis and Treatment Standard Practice Sharing Competition" and won second place in the national final of the "Breathing County Peak — China County Respiratory Chronic Disease Case Style Competition";
7. create a strong medical research atmosphere and enhance the development momentum;
8. use various social media platforms to establish professional medical information distribution channels to effectively disseminate professional knowledge and enhance the brand image;
9. give full play to the advantages of information technology, so that patients can conveniently realize all kinds of settlements without leaving their wards, thus saving time costs; and
10. fully adapt to various policies such as the reform of health insurance payment methods to increase revenue and save costs.

Pharmaceutical Sales

The Group's pharmaceutical sales were mainly derived from direct sales of pharmaceutical products to patients. Revenue from pharmaceutical sales for the Reporting Period amounted to RMB141.9 million (six months ended 30 June 2022: RMB136.5 million), representing a year-on-year of increase of 4.0%.

Continuously Improving Academic and Scientific Research Levels and Enhancing Development Strengths

As a medical institution dedicated to ensuring human health, the Group has been exploring the field of medical scientific research and hospital management. In the first half of 2023, the Group's hospital published 17 medical scientific research papers and deeply participated in the research of related medical and nursing care technologies, such as:

1. members of the Group's CCC team participated in the translation of the seventh edition of Essentials of Nursing Informatics (《護理信息學》) published by China Science and Technology Press; and
2. in March 2022, ten information management systems independently developed by the Group, represented by "Intelligent Cloud Pathology System V1.0" and "Settlement Management System Bedside Ward V1.0", were recognized by the Department of Science and Technology of Henan Province as scientific and technological achievements.

In order to improve the overall diagnosis and treatment level and management ability, the Group has formed a good academic atmosphere of comparing, learning, catching up, surpassing and helping, spreading medical knowledge and updating management concepts by organizing academic salons, speeches, promotional seminars, etc., which has prompted a large number of medical newcomers to stand out, and many of them have gained remarkable achievements in national and provincial competitions.

FINANCIAL REVIEW

Revenues and Costs

During the Reporting Period, we generated our revenue from: (i) the provision of treatments and general healthcare services, including the sales of medical consumables and the provision of ancillary hospital services; and (ii) the sales of pharmaceuticals to our patients, including both inpatients and outpatients. The following table sets forth the breakdown of our revenue for the period indicated:

	Six months ended 30 June			
	2023		2022	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
	(Unaudited)		(Unaudited)	
Treatments and general healthcare services	228,587	61.7%	238,292	63.6%
Pharmaceutical sales	141,880	38.3%	136,450	36.4%
Total	<u>370,467</u>	<u>100.0%</u>	<u>374,742</u>	<u>100.0%</u>

Revenue generated from the operation of Henan Honliv Hospital accounts for a large majority of our revenue. Revenue from our hospital can also be further categorised by source into revenue from the provision of healthcare services to inpatients and outpatients. The following table sets forth a breakdown of revenue of our hospital by source for the period indicated:

	Six months ended 30 June			
	2023		2022	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
	(Unaudited)		(Unaudited)	
Outpatient healthcare services	193,437	52.2%	193,511	51.6%
Inpatient healthcare services	177,030	47.8%	181,231	48.4%
Total	<u>370,467</u>	<u>100.0%</u>	<u>374,742</u>	<u>100.0%</u>

The following table sets forth a breakdown of the number of patient visits and the average spending per patient visit by segment for the periods indicated:

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Outpatient visits	707,008	643,476
Average spending per outpatient visit (<i>RMB</i>)	273.6	300.7
Inpatient visits	27,620	24,863
Average spending per inpatient visit (<i>RMB</i>)	6,409.5	7,289.2
Number of beds in operation as of the end of the relevant period	1,500	1,500

Our revenue from treatments and general healthcare services and pharmaceutical sales in aggregate decreased by 1.1% from RMB374.7 million for the six months ended 30 June 2022 to RMB370.5 million for the six months ended 30 June 2023. This was largely because of a decrease in revenue as a result of the decrease in the average spending per inpatient visit.

Our revenue from inpatient healthcare services decreased by 2.3% from RMB181.2 million for the six months ended 30 June 2022 to RMB177.0 million for the six months ended 30 June 2023. This was mainly due to the decrease in inpatient healthcare services revenue as a result of the decrease in the average spending per inpatient visit.

Our revenue from outpatient healthcare services decreased by 0.04% from RMB193.5 million for the six months ended 30 June 2022 to RMB193.4 million for the six months ended 30 June 2023. This was mainly due to the decrease in outpatient medical services revenue as a result of the decrease in the average spending per outpatient visit.

Cost of sales

Our cost of sales consists primarily of employee benefit expenses for doctors and other medical professionals, the cost of pharmaceuticals, the cost of medical consumables, the expenses on depreciation and amortization, utility expenses, maintenance costs, office expenses and other costs.

Our cost of sales rose by 3.2% from RMB291.2 million for the six months ended 30 June 2022 to RMB300.5 million for the six months ended 30 June 2023, mainly due to (i) a year-on-year growth of RMB12.6 million in the cost of employee benefits during the six months ended 30 June 2023; (ii) a year-on-year increase of RMB3.1 million in the cost of pharmaceuticals during the six months ended 30 June 2023; (iii) a year-on-year rise of RMB2.7 million in the expenses on depreciation and amortisation during the six months ended 30 June 2023; and (iv) a year-on-year decrease of RMB6.6 million in the cost of medical consumables during the six months ended 30 June 2023.

Gross Profit and Gross Profit Margin

Our gross profit decreased by 16.3% from RMB83.6 million for the six months ended 30 June 2022 to RMB70.0 million for the six months ended 30 June 2023, and our gross profit margin shrank from 22.3% for the six months ended 30 June 2022 to 18.9% for the six months ended 30 June 2023, largely because of an increase in the sales cost including the labour cost as well as the fixed cost such as the depreciation and amortization, while the revenue growth remaining stable during the Reporting Period.

Other Expenses

Our other expenses consisted of depreciation of our investment properties. Our other expenses remained stable during the Reporting Period.

Administrative Expenses

Our administrative expenses primarily consisted of employee benefits expenses for administrative personnel, expenses on depreciation and amortisation, utilities, maintenance and office expenses and other expenses.

Our administrative expenses rose by 4.9% from RMB35.2 million for the six months ended 30 June 2022 to RMB36.9 million for the six months ended 30 June 2023, primarily due to a rise in the cost of employee benefits.

Financial Costs — Net

Our net financial costs increased from RMB0.02 million for the six months ended 30 June 2022 to RMB1.6 million for the six months ended 30 June 2023, primarily due to a decrease in the amount of foreign currencies held and an decrease in exchange gains arising from exchange rate fluctuation during the Reporting Period.

Income Tax Expense

Our income tax expense dropped by 18.9% from RMB9.4 million for the six months ended 30 June 2022 to RMB7.6 million for the six months ended 30 June 2023, primarily due to a decrease in our profit before tax.

Profit for the Period and Net Profit Margin

For the foregoing reasons, our profit for the period declined by 24.5% from RMB32.5 million for the six months ended 30 June 2022 to RMB24.5 million for the six months ended 30 June 2023. Our net profit margin stood at 8.7% and 6.6% for the six months ended 30 June 2022 and the six months ended 30 June 2023, respectively.

DISCUSSION OF ITEMS IN THE INTERM CONDENSED CONSOLIDATED BALANCE SHEET

Net Current Liabilities

Our net current liabilities slumped by 53.5% from RMB44.2 million as at 31 December 2022 to RMB20.6 million as at 30 June 2023. This was largely because of the cash inflows generated from our operating activities.

Inventories

Our inventories plummeted by 39.7% from RMB29.5 million as at 31 December 2022 to RMB17.8 million as at 30 June 2023. This was primarily due to the fact that the inventories reserved for the spring festival at the end of 2022 had been used up.

Trade Receivables

Our trade receivables grew by 20.7% from RMB47.4 million as at 31 December 2022 to RMB57.2 million as at 30 June 2023, largely because of the slightly slow settlement of receivables from social insurance administration.

Other Receivables and Prepayments

Our other receivables and prepayments dropped from RMB1.2 million as at 31 December 2022 to RMB1.0 million as at 30 June 2023. The balance during the Reporting Period fell by RMB0.2 million, primarily due to a decline in the prepayments for utilities expenses.

Indebtedness

Our borrowings climbed from RMB141.0 million as at 31 December 2022 to RMB169.1 million as at 30 June 2023. The balance during the Reporting Period increased by RMB28.1 million, which was mainly because we raised part of new loans during the Reporting Period.

Trade Payables

Our trade payables increased from RMB101.9 million as at 31 December 2022 to RMB108.9 million as at 30 June 2023. The balance during the Reporting Period grew by RMB7.0 million, which was mainly due to the decrease in the trade payables paid during the Reporting Period.

Accruals, Other Payables and Provisions

Our accruals, other payables and provisions decreased from RMB122.3 million as at 31 December 2022 to RMB103.7 million as at 30 June 2023. The balance during the Reporting Period decreased by RMB18.7 million, which was mainly due to the decrease in advance receipts from the Social Insurance Bureau for medical insurance.

Contingent Liabilities

As at 30 June 2023, we had no contingent liabilities or guarantees that would have a material impact on the financial condition or operation of the Group.

Lease Liabilities

As at 30 June 2023, our lease liabilities in respect of our leased properties amounted to approximately RMB1.8 million.

Liquidity and Capital Resources

The following table sets forth information relating to the consolidated statements of cash flows for the period indicated:

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	46,409	40,796
Net cash used in investing activities	(37,794)	(4,642)
Net cash generated from/(used in) financing activities	9,479	(32,468)
Net increase in cash and cash equivalents	18,094	3,686

Net Cash Generated from Operating Activities

Our net cash generated from operating activities rose from RMB40.8 million for the six months ended 30 June 2022 to RMB46.4 million for the six months ended 30 June 2023, which was primarily attributed to (i) an increase in cash flows from operating activities due to a growth in our operating profit and a decrease in the payment of trade payables for the current period; and (ii) the income tax payment of RMB7.1 million in the first half of 2023 partially offsetting the cash flows from operating activities that grew as a result of the increase in operating profit.

Net Cash Flow in Investing Activities

Our net cash used in investing activities surged from RMB4.6 million for the six months ended 30 June 2022 to RMB37.8 million for the six months ended 30 June 2023, which was primarily attributed to a year-on-year increase of RMB33.2 million in payments for purchases of properties, plants and equipment for the six months ended 30 June 2023.

Net Cash Flow in Financing Activities

Our cash generated from financing activities amounted to RMB9.5 million for the six months ended 30 June 2023, as compared to RMB32.5 million of cash flow used in financing activities for the six months ended 30 June 2022. Such cash generated from financing activities in the first half of 2023 was mainly due to the new borrowings of RMB28.1 million, whereas cash used in financing activities for the six months ended 30 June 2022 was mainly due to the repayment of borrowings of RMB27.0 million and payment of interest of RMB4.9 million.

Financial Instruments

Our financial instruments consist of trade receivables, other receivables, cash and cash equivalents, bank borrowings, trade payables and other payables. The management of the Company manages and monitors these exposures to ensure that effective measures are implemented in a timely manner.

Exposure to Fluctuation in Exchange Rates

We deposit certain of our financial assets in foreign currencies, which mainly involve risks of fluctuations in the exchange rate of HKD and USD against RMB. We are exposed to foreign exchange risks accordingly.

We did not use any derivative financial instruments to hedge against our exposure to currency risks during the six months ended 30 June 2023. The management of the Company manages the currency risks by closely monitoring the movement of the foreign currency rates, and will consider hedging against significant foreign currency exposures should such need arise.

Liability-to-Asset Ratio

As at 30 June 2023, our liability-to-asset ratio (total liabilities divided by total assets) was 41.1% (as at 31 December 2022: 40.7%).

CHANGE IN USE OF PROCEEDS

In connection with the Global Offering, 150,000,000 Shares with a nominal value of HK\$0.0001 each were issued at a price of HK\$2.10 per Share, raising net proceeds of approximately HK\$264.8 million, after deduction of the underwriting fees and related expenses by the Company in connection with the Global Offering.

For reasons set out in the paragraph below headed “Reasons for the Proposed Change”, the Board resolved to change the use of the unutilised net proceeds by reallocating HK\$16.7 million originally allocated for the development of the Company’s pharmaceutical supply chain business for the construction of a postnatal care centre.

The table below sets forth the utilisation of the net proceeds from the Global Offering and the unused amount as at 30 June 2023 and as at the date of this announcement, as well as the proposed revised allocation of the net proceeds:

Business objective	Percentage to			Utilised Net	Unutilised Net	Proposed	Expected timeline for Unutilised Net Proceeds
	total amount as disclosed in the Prospectus (%)	Planned use of Net Proceeds in the Prospectus (HK\$ million)	Utilised proceeds as at 30 June 2023 (HK\$ million)	Proceeds as at the date of this announcement (HK\$ million)	Proceeds as at the date of this announcement (HK\$ million)	application of the Unutilised Net Proceeds (HK\$ million)	
(i) Finance the ramp up of the Company's first-phase building	29.5	78.0	78.0	78.0	0.0	–	By the end of 2021
(ii) Expand the Company's business by acquiring hospitals	26.1	69.2	0.0	0.0	69.2	69.2	By the end of 2023
(iii) Repay the Company's general borrowings, particularly the outstanding loans from two banks with an aggregate principal amount of RMB63.0 million	15	39.8	39.8	39.8	0.0	–	By the end of 2023
(iv) Working capital and other general corporate purposes	10	26.5	26.5	26.5	0.0	–	By June 2021
(v) Purchase medical equipment and improve and upgrade the Company's information technology systems	8	21.3	21.3	21.3	0.0	–	By June 2023
(vi) Develop the Company's pharmaceutical supply chain business	6.3	16.7	0.0	0.0	16.7	–	–
(vii) Employee recruitment and training	5	13.3	13.3	13.3	0.0	–	By June 2023
(viii) Construct a postnatal care centre	–	–	–	–	–	16.7	By the end of 2023
Total	100	264.8	178.9	178.9	85.9	85.9	

Note:

- The timeline is based on the Company's estimation of its business needs as of the date of this announcement and is subject to change so long as it is deemed to be in the best interests of the Company and to the extent permitted by applicable laws and regulations.

Except for the change above, there is no other change in use of the net proceeds.

Reasons for the Proposed Change

The postnatal care service industry is an emerging health service industry that provides healthcare services for postnatal mothers and babies. The industry is currently at a high-growth stage with tremendous market potential in future. As the market for postnatal care service is thriving in the PRC, the Board considered that it is profitable for the Company to construct a postnatal care centre and provide relevant services. The Board also confirms that such changes are in line with the overall business strategy of providing high-quality healthcare service and capturing growth opportunities. Through the provision of postnatal care services, we extend our service and support to patients from our gynecology department throughout the post-birth period. Therefore, the Board resolved to utilize the unutilised net proceeds on constructing a postnatal care centre.

The Directors confirm that there are no material changes in the nature of the business of the Group. The Directors consider that the change of use of the unutilised net proceeds will allow the Company to deploy its financial resources more effectively and is in the interests of the Company and its shareholders as a whole and will not have any material adverse effect on the existing business and operations of the Group. To strive for better business performance of the Group, the Directors will continuously assess the changing market conditions and may revise or amend the use of the unutilised net proceeds where necessary.

As at 30 June 2023, the net proceeds from the Global Offering not yet utilised were deposited into short-term demand deposits in the Company's account at one of the receiving banks as disclosed in the Prospectus.

PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public at the date of this announcement as required under the Listing Rules.

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

During the six months ended 30 June 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

As at the date of this announcement, there were no material events after the Reporting Period.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the Reporting Period, save as provision addressed below, the Company has complied with all the applicable code provisions as set out in part 2 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

Code provision C.2.1 of part 2 of the Corporate Governance Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

The Chairman and chief executive officer of the Company are held by Mr. Qin Yan who has extensive experience in the industry. The Board believes that Mr. Qin Yan can provide the Company with strong and consistent leadership that allows for effective and efficient planning and implementation of business decisions and strategies.

The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangement when the Board considers appropriate.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by Directors. Having made specific enquiry by the Company, all the Directors confirmed that they had complied with the requirements as set out in the Model Code during the Reporting Period.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee consists of 3 independent non-executive Directors, namely Mr. Sun Jigang (chairman), Mr. Zhao Chun and Mr. Jiang Tianfan.

The Group's interim results for the six months ended 30 June 2023 have been reviewed by all members of the Audit Committee. Based on such review, the Audit Committee was of the opinion that the Group's unaudited interim report were prepared in accordance with applicable accounting standards.

In addition, the Company's independent auditor, PricewaterhouseCoopers, has performed an independent review of the Group's interim financial information for the Reporting Period in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2023.

EMPLOYEES AND REMUNERATION POLICIES

The total number of employees were approximately 1,886 as at 30 June 2023 (30 June 2022: 1,877). For the six months ended 30 June 2023, the staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately RMB107.4 million (six months ended 30 June 2022: approximately RMB90.7 million).

Remuneration is determined with reference to the qualification, experience and work performance, whereas the payment of discretionary bonus is generally subject to work performance, the financial performance of the Group in that particular year and general market conditions.

The Company has adopted the 2022 Restricted Share Unit Scheme on 22 August 2022 (further details of which are set forth in the Company's announcements dated 22 August 2022 and 23 August 2022), and the 2023 Restricted Share Unit Scheme on 9 May 2023 (further details of which are set forth in the Company's announcement dated 9 May 2023) (collectively, the "**RSU Schemes**"). During the Reporting Period, no restricted share units had been awarded under the RSU Schemes.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.honlivhp.com), and the interim report of the Group for the six months ended 30 June 2023 containing all information required by the Listing Rules will be dispatched to shareholders and published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

The Board would like to present its great appreciation to the management team and employees of the Group who have contributed to the success of the Group and are working towards achieving the Group’s visions. Heartfelt gratitude is also expressed to all of partners, customers, suppliers of the Group and the Shareholders. With their kind support and trust, the Board is confident that it will lead the Group to another milestone.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings.

“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of Directors
“Corporate Governance Code”	the “Corporate Governance Code” as contained in Appendix 14 to the Listing Rules
“Chairman”	the chairman of our Board
“China” or “PRC”	the People’s Republic of China, which, for the purpose of this interim results announcement and for geographical reference only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Company” or “our Company”	Honliv Healthcare Management Group Company Limited (宏力醫療管理集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 6 January 2016
“Director(s)”	the director(s) of the Company or any one of them
“Global Offering”	the global offering of the Shares, details of which are set forth in the Prospectus

“Group”, “our Group”, “our”, “we”, or “us”	our Company and its subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“Henan Honliv Hospital” or “the Hospital” or “our Hospital”	Henan Honliv Hospital Co., Ltd.* (河南宏力醫院有限公司), a limited liability company established in the PRC on 24 May 2004
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HKD” or “HK\$”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Independent Third Party” or “Independent Third Parties”	a person or entity who is not a connected person of the Company under the Listing Rules
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	13 July 2020, on which the Shares were listed and from which dealings therein were permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Model Code”	the “Model Code for Securities Transactions by Directors of Listed Issuers” as set out in Appendix 10 to the Listing Rules
“Reporting Period”	the six months ended 30 June 2023

“Prospectus”	the prospectus of the Company dated 24 June 2020
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) with par value of HK\$0.0001 each in the capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US dollars” or “USD” or “US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

* *Denotes English translation of the Chinese names of companies, entities, laws or regulation and is provided for identification purposes only*

By order of the Board
Honliv Healthcare Management Group Company Limited
Qin Yan
Chairman

Hong Kong, 25 August 2023

As at the date of this announcement, the Board comprises Mr. Qin Yan, Dr. Teng Qingxiao and Mr. Wang Zhongtao as the executive Directors, Mr. Qin Hongchao as the non-executive Director and Mr. Zhao Chun, Mr. Sun Jigang and Mr. Jiang Tianfan as the independent non-executive Directors.