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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL SUMMARY	Year ended 31 December		Change %
	2022	2021	
	RMB'000	RMB'000	
Revenue	727,789	606,837	19.9
Gross profit	138,395	135,306	2.3
Profit attributable to owners of the Company	48,947	36,615	33.7
Basic and diluted earnings per share (<i>in RMB</i>)	0.08	0.06	33.3

RESULTS

The Board of the Company announces the audited consolidated financial results of the Group for the year ended 31 December 2022, together with the comparative figures for the year ended 31 December 2021 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2022	2021
	Note	RMB'000	RMB'000
Revenue	3	727,789	606,837
Cost of sales		(589,394)	(471,531)
Gross profit		138,395	135,306
Administrative expenses		(73,345)	(68,545)
Net impairment losses on financial assets		(1,963)	(85)
Other income		617	752
Other expense		(196)	(196)
Other losses — net		(1,947)	(671)
Operating profit		61,561	66,561
Finance income		10,812	903
Finance costs		(9,352)	(16,922)
Finance income/(costs) — net		1,460	(16,019)
Profit before income tax		63,021	50,542
Income tax expense	4	(13,678)	(13,524)
Profit for the year		49,343	37,018
Other comprehensive income		—	—
Total comprehensive income		49,343	37,018
Profit and total comprehensive income attributable to:			
Owners of the Company		48,947	36,615
Non-controlling interests		396	403
		49,343	37,018
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
Basic and diluted earnings per share	5	0.08	0.06

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2022	2021
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		507,754	540,347
Right-of-use assets		79,098	81,134
Investment properties		2,678	2,874
Intangible assets		648	566
Deferred income tax assets		6,878	1,174
Prepayments		4,690	8,429
Total non-current assets		601,746	634,524
Current assets			
Inventories		29,500	27,137
Trade receivables	6	47,358	34,499
Other receivables and prepayments		1,196	1,944
Cash and cash equivalents		255,238	263,610
Total current assets		333,292	327,190
Total assets		935,038	961,714

		As at 31 December	
		2022	2021
	<i>Note</i>	RMB'000	RMB'000
EQUITY			
Equity attributable to the owners of the Company			
Share capital		52	52
Reserves		382,004	439,389
Retained earnings		167,410	122,385
		<u>549,466</u>	<u>561,826</u>
Subtotal		549,466	561,826
Non-controlling interests		5,205	4,809
		<u>554,671</u>	<u>566,635</u>
Total equity		554,671	566,635
LIABILITIES			
Non-current liabilities			
Lease liabilities		983	540
Deferred income		1,928	1,994
		<u>2,911</u>	<u>2,534</u>
Total non-current liabilities		2,911	2,534
Current liabilities			
Trade payables	7	101,907	106,087
Accruals, other payables and provisions		122,335	92,288
Current income tax liabilities		11,074	6,228
Borrowings		141,000	187,000
Lease liabilities		1,140	942
		<u>377,456</u>	<u>392,545</u>
Total current liabilities		377,456	392,545
		<u>380,367</u>	<u>395,079</u>
Total liabilities		380,367	395,079
		<u>935,038</u>	<u>961,714</u>
Total equity and liabilities		935,038	961,714

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Law, Cap.22 (Law 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 consolidated financial statements are presented in Renminbi (“**RMB**”) and rounded to nearest thousand yuan, unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

(a) Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) and requirements of the Hong Kong Companies Ordinance Cap. 622.

(b) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis.

(c) *New and amended standards adopted by the Group*

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2022:

- | | |
|--|---|
| • Amendments to HKAS 16 | Property, Plant and Equipment: Proceeds before Intended Use |
| • Amendments to HKAS 37 | Onerous Contracts — Cost of Fulfilling a Contract |
| • Annual Improvements to HKFRS Standards 2018-2020 | Annual Improvements to HKFRS Standards 2018-2020 |
| • Amendments to HKFRS 3 | Reference to the Conceptual Framework |
| • Amendment to HKFRS 16 (March 2021) | Covid-19 Related Rent Concessions beyond 30 June 2021 |
| • Amendments to AG 5 | Merger Accounting for Common Control Combinations |

The amendments listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(d) *New standards and interpretations not yet adopted*

- | | | Effective for
annual periods
beginning
on or after |
|---|--|---|
| • HKFRS 17 | • Insurance Contracts | 1 January 2023 |
| | • Amendments to HKFRS 17 | |
| | • Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information | |
| • 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 |
| • Amendments to HKAS 1 | • Classification of Liabilities as Current or Non-current | 1 January 2024 |
| | • Non-current Liabilities with Covenants | |
| • Amendments to HKFRS 16 | Lease Liability in a Sale and Leaseback | 1 January 2024 |
| • HK Int 5 (Revised) | Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause | 1 January 2024 |
| • Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture | To be determined |

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.

(e) **Going concern**

As at 31 December 2022, the Group's current liabilities exceeded its current assets by RMB44,164,000. The Group had cash and cash equivalents of RMB255,238,000 as at 31 December 2022.

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. Subsequent to 2022 year end date, Henan Honliv Hospital Co., Ltd. ("**Honliv Hospital**"), a subsidiary of the Group, had renewed RMB29 million bank borrowings upon maturity as of the date of this report; and
- On 27 February 2023, Honliv Hospital further obtained an 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.

Management has prepared cash flow projections of the Group covering a period of not less than twelve months from 31 December 2022. Taking into account the Group's future operational performance and the expected future operating cash inflows; and the continuous availability of banking facilities, management concluded that the Group will 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 31 December 2022.

The directors have reviewed the Group's cash flow projections and have made due and careful enquiry and considered the basis and assumptions of management's projections. According to the measures above, the directors are satisfied that it is appropriate to prepare the financial information on a going concern basis.

3 REVENUE

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

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Nature of revenue recognition		
Treatments and general healthcare services	463,225	392,356
Pharmaceutical sales	264,564	214,481
	<u>727,789</u>	<u>606,837</u>
Timing of revenue recognition		
At a point in time	509,102	408,500
Over time	218,687	198,337
	<u>727,789</u>	<u>606,837</u>

During the year ended 31 December 2022, the Group performed a reassessment on the estimation of revenue in relation to variable consideration. The Group recognised the amount of deduction of approximately RMB20,852,000 (2021: Nil) as a reduction of revenue on a cumulative basis.

4 INCOME TAX EXPENSE

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
— PRC corporate income tax	19,382	13,545
Deferred income tax	(5,704)	(21)
	<u>13,678</u>	<u>13,524</u>

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of the PRC, the principal place of the Group's operations, as follows:

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	<u>63,021</u>	<u>50,542</u>
Calculated at a tax rate of 25%	15,755	12,636
Income not subject to tax	(2,511)	–
Expenses not tax deductible	355	816
Tax effect of tax losses not recognised as deferred income tax assets	<u>79</u>	<u>72</u>
Income tax expense	<u>13,678</u>	<u>13,524</u>

(a) Cayman Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(b) PRC Corporate Income Tax

Subsidiaries established and operated in Mainland China are subject to PRC corporate income tax at the rate of 25%.

(c) Hong Kong profits tax

Hong Kong profits tax rate is 16.5% for the years ended 31 December 2022 and 2021. No Hong Kong profit tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the years ended 31 December 2022 and 2021.

(d) Withholding tax

The withholding tax rate of Honliv Health Care Management (HK) Limited was 10% pursuant to PRC corporate income tax based on the remittance of dividends from subsidiaries in the PRC in the foreseeable future.

As at 31 December 2022, deferred income tax liabilities of RMB16,284,000 (2021: RMB12,755,000) have not been recognized for the withholding tax that would be payable on the unremitted earnings of the PRC subsidiaries. Management expects to reinvest such amounts in these subsidiaries in the foreseeable future. Unremitted earnings of these subsidiaries at 31 December 2022 amounted to RMB162,844,000 (2021: RMB127,547,000).

5 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 year. Treasury shares held for the 2022 restricted share unit scheme are excluded from the weighted average number of outstanding ordinary shares in issue for purposes of calculating basic earnings per share.

	Year ended 31 December	
	2022	2021
Profit attributable to owners of the Company (<i>RMB'000</i>)	48,947	36,615
Weighted average number of ordinary shares deemed to be in issue (<i>in thousands</i>)	<u>592,061</u>	<u>600,000</u>
Basic earnings per share (<i>in RMB</i>)	<u><u>0.08</u></u>	<u><u>0.06</u></u>

(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 years ended 31 December 2022 and 2021.

6 TRADE RECEIVABLES

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	54,095	39,273
Less: loss allowance for impairment of trade receivables	<u>(6,737)</u>	<u>(4,774)</u>
Trade receivables — net	<u><u>47,358</u></u>	<u><u>34,499</u></u>

The carrying amounts of the Group's trade receivables were denominated in RMB and approximated their fair values. The balances mainly represent amounts to be claimed from relevant government authorities' insurance schemes.

As at 31 December 2022 and 2021, the ageing analysis of the trade receivables based on demand date was as follows:

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	33,858	30,038
3 to 6 months	11,014	2,141
6 months to 1 year	3,492	2,219
1 to 2 years	1,071	1,847
2 to 3 years	1,632	2,784
Over 3 years	3,028	244
	<u>54,095</u>	<u>39,273</u>

(i) Impairment and risk exposure

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

All of the trade receivables were denominated in RMB. As a result, there is no exposure to foreign currency risk.

7 TRADE PAYABLES

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	101,907	106,087

The carrying amounts of trade payables are considered to be the same as their fair values, due to their short-term maturities.

The carrying amounts of trade payables are denominated in RMB. As a result, there is no exposure to foreign currency risk.

As at 31 December 2022 and 2021, the ageing analysis of trade payables based on demand note date was as follows:

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	72,960	83,439
3 to 6 months	18,399	16,194
6 months to 1 year	2,899	1,351
1 to 2 years	2,875	1,253
2 to 3 years	954	725
Over 3 years	3,820	3,125
	<u>101,907</u>	<u>106,087</u>

8 DIVIDENDS

The board of directors of the Company does not resolve to declare a dividend for the year ended 31 December 2022 (Nil for the year ended 31 December 2021).

MANAGEMENT DISCUSSION AND ANALYSIS

Market overview and prospects

China's population health data shows that the number of sub-healthy groups is huge, the incidence of various diseases is on the rise, and the trend of an ageing population and younger diseases together place higher demands on medical and healthcare work. At the close of 2022, the end of the three-year COVID-19 pandemic has changed people's perception of health and health concepts, health awareness has taken root in people's hearts, healthcare expenditure in residents' consumption expenditure has increased year by year, and there are new demands on the technical level, service environment, process, capacity and convenience of medical and health service providers. With the support of national policies, tertiary medical institutions in the county will be able to balance prevention and treatment, expand their service capacity and provide more effective, accessible and convenient medical services to the people.

As an important part of the healthcare system, socially-run medical institutions are playing an increasingly important role in safeguarding people's health. The government has successively issued a number of policies to support and encourage the development of socially-run medical institutions. These policies have provided direction for the development and growth of socially-run medical institutions in terms of the setting up of such medical institutions, the training and use of talents, the content of medical services and the payment of medical insurance, such as:

1. In June 2021, the Ministry of Human Resources and Social Security, the National Health Commission and the National Bureau of Traditional Chinese Medicine issued the "Guidance on Deepening the Reform of the Title System for Health Professionals and Technicians", which states that health professionals and technicians in socially-run medical institutions enjoy the same treatment as health professionals and technicians in public medical institutions in terms of title declaration and evaluation, and are not subject to restrictions such as household registration, personnel records and different medical entities.
2. In January 2022, the National Health Commission issued the Guidelines for Planning the Establishment of Medical Institutions (2021-2025), which clearly state that space for socially-run medical institutions will be expanded, and there will be no planning restrictions on the total number of areas and space for socially-run medical institutions. Medical institutions run by social forces are encouraged to take the lead in setting up or joining medical consortia. Social forces are encouraged to set up independent medical institutions such as medical laboratory laboratories, pathology diagnosis centres, medical imaging diagnosis centres, haemodialysis centres and rehabilitation medical centres.

3. In December 2022, the Central Committee of the Communist Party of China and The State Council issued the Outline of the Strategic Plan for Expanding Domestic Demand (2022-2035), which provides multi-level medical and health services. It will comprehensively promote the construction of a healthy China, support social forces to provide multi-level and diversified medical services, and actively develop personalized medical services. It will also actively develop “Internet + medical and health” services, improve the policy on charging for Internet treatment, and incorporate eligible internet medical services into the scope of medical insurance payment in accordance with the procedures.

The Group believes that with the support of various national and government policies, socially-run medical services will continue to grow and develop. The Group will keep pace with the times and seize opportunities to continue to expand its scale of operation and business network to meet the growing demand of the people for medical treatment.

BUSINESS REVIEW

In 2022, the Group’s consolidated revenue for the year ended 31 December 2022 was RMB727.8 million, representing an increase of RMB121.0 million or 19.9% from the consolidated revenue of RMB606.8 million for the year ended 31 December 2021. This was mainly due to the increase in revenue generated from treatment and general medical services and the sale of pharmaceutical products. The main driving factors were (i) our investment in new diagnostic equipment and methods, which improved the comprehensiveness and reliability of the diagnostic aspects of our clinical practice; (ii) our independent development and improvement of our information-based consultation and treatment process, shortening patients’ waiting time; (iii) the expansion of our medical rooms, improving the visual appeal of the medical environment; (iv) the optimization of the Group’s professional structure; (v) the strengthening of our employees’ professional skills and greater importance attached to cooperation between professions, independently cultivating a large number of professional and technical talents with both professionalism and breadth of knowledge; and (vi) the introduction of new talents and the application of many new technologies to ensure medical safety and improve medical quality. We have overall enhanced patients’ experience, leading to a significant increase in service volume despite the ongoing COVID-19 pandemic. This demonstrates the Group’s resilience to risk.

Hospital Service

Henan Honliv Hospital, which provides hospital services on behalf of the Group, reported that during the Reporting Period: (i) the total number of inpatient visits was 50,920 (for the year ended 31 December 2021: 43,973), representing a year-on-year increase of 15.8%; (ii) the average spending per inpatient visit was RMB6,385.2 (for the year ended 31 December 2021: RMB6,645.4), representing a year-on-year decrease of 3.9%; (iii) the average spending per outpatient visit was RMB312.7 (for the year ended 31 December 2021: RMB265.7), representing a year-on-year increase of 17.7%; (iv) the total number of outpatient visits was 1,286,815 (for the year ended 31 December 2021: 1,183,408), representing a year-on-year increase of 8.7%.

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

	For the year ended		
	31 December		
	2022	2021	Changes %
Outpatient visits	1,286,815	1,183,408	8.7
Average spending per outpatient visit (<i>RMB</i>)	312.7	265.7	17.7
Inpatient visits	50,920	43,973	15.8
Average spending per inpatient visit (<i>RMB</i>)	6,385.2	6,645.4	3.9
Number of beds in operation at the end of the relevant period	1,500	1,500	0.0
Average length of stay per inpatient visit (<i>days</i>)	9.6	10.6	9.4
Number of surgeries	12,588	11,240	12.0

Pharmaceutical Sales

Our pharmaceutical sales mainly come from the direct sales of drugs to patients, and the revenue from pharmaceutical sales during the Reporting Period is RMB264.6 million (for the year ended 31 December 2021: RMB214.5 million), representing a year-on-year increase of 23.4%. The increase is largely because of (i) the increase of the number of patients, which led to an overall increase of pharmaceutical sales; and (ii) the increase in the sale of high value treatment options (such as targeted therapy for treating cancer).

Business Development

The Group's operating efficiency improved significantly in 2022 as compared with the corresponding period of last year. The key revenue-driving strategies for the Group's hospital services were:

- (i) Building a smart hospital by making full use of information systems to improve efficiency and medical quality, and implementing various functions such as self-service checklist issuance to continuously improve patients' medical treatment experiences.
- (ii) Utilizing an online hospital platform to improve our service network and expand our service radius, such as enabling online consultations, e-prescription, online medical insurance billing, as well as the ability to mail medicines directly to patients' homes, providing them with convenient and fast access to medical services.
- (iii) Implementing a new mode of outpatient treatment to provide intimate services to patients. Apart from the traditional outpatient clinic, we have gradually improved the multidisciplinary treatment model (MDT), and have carried out MDT for lung nodules, MDT for pain, MDT for obesity, MDT for snoring and many other diseases, relieving patients' confusion and the difficulty in seeking medical treatment. Furthermore, a Special Needs Outpatient Clinic has been set up to provide one-stop and one-to-one medical services, home care services have been developed to extend care services from the hospital to all households, and continuous reviews have been made to improve the professionalism of nursing staff and ensure the homogeneity of care services.
- (iv) Strengthening our cohesion through training in the hospital's corporate culture and medical and nursing expertise, and enhancing the professional skills of our technicians through professional training in large domestic hospitals; making full use of the policies on the introduction of talents and talent support, and working closely with renowned experts in various specialties to enhance our ability to treat serious and difficult cases; and exploring the model of joint training of medical talents by hospital and university to reserve a force for the development of the hospital.
- (v) Actively implementing new technologies, such as ultrasound-guided pericardial effusion puncture and tracheal metal-clad stent implantation, to fill the local gap and enhance the competitiveness of our hospital. We are committed to providing a minimally invasive and painless chain of care through lumpectomy and screening. We have been accredited as a "National PCCM Level 3 Unit" and a "Level 3 Hospital Stroke Centre".

- (vi) Fully demonstrating the positive spirit of the hospital: a number of our personnel held positions in the standing committee of national and provincial professional associations, one individual won the individual grand prize in the nutrition skills competition sponsored by the municipal health commission, and one individual was named the most beautiful nurse at the municipal level. The achievement of these honours has enhanced the reputation and credibility of our hospital.
- (vii) Actively participating in the regular prevention and control of the COVID-19 pandemic, carrying out socialised nucleic acid testing and vaccination, etc. After the full liberalization of the prevention and control of the COVID-19 pandemic, we quickly adjusted our response strategy and formulated practical and effective prevention and control measures to minimize the risk of infection and the rate of serious illness, protect the safety of healthcare workers and patients, and ensure the normal development of all medical work.
- (viii) Fully adapting to various policies such as the health insurance payment reform to increase revenue and reduce expenditure.

Continuous improvement of academic research

As a medical institution whose mission is to serve human health, the Group continues to explore the field of medical research and hospital management. In 2022, the Group's hospitals published 55 medical research papers, including 5 at the national level and 32 at the provincial level. Furthermore:

- (i) In February 2022, the Henan Provincial Department of Science and Technology recognized Henan Honliv Hospital as the "Henan Province Gastrointestinal Tumour Early Diagnosis and Treatment Engineering Technology Research Centre", which provides a good platform for research and translation of results in the prevention and early diagnosis and treatment of gastrointestinal tumours.
- (ii) In March 2022, Henan Honliv Hospital independently developed 11 information management systems, including the "Integrated Operation and Maintenance Platform" and "Integrated Payment Platform", which were recognized by the Henan Provincial Department of Science and Technology as scientific and technological achievements, involving the intelligent management of various stages and aspects of medical services, such as prescription audit, single disease, vaccination, meal service, pre-hospital emergency, integrated payment and integrated operation and maintenance, to create a smart hospital, improve work efficiency, and ensure medical quality.

- (iii) In April 2022, the Henan Medical Association awarded Henan Medical Science and Technology the Third Prize for the study on “Clinical Characteristics and Prognosis Analysis of Patients with Triple Negative Breast Cancer with First Visceral Metastasis After Surgery”.
- (iv) In September 2022, the Group organized a national continuing education programme, the Nursing Leadership Enhancement Course for a New Era.

In order to improve our overall quality of treatment and management capabilities, the Group’s hospital invites renowned experts in the medical field to conduct case discussions and special lectures. This not only allows patients to enjoy quality medical resources, but also gives our technical staff a good opportunity to learn and further enhance the hospital’s precise treatment capabilities. The Group will provide better services to patients by improving its research capabilities.

Continued social welfare activities to warm the hearts of the medical community

The Group attaches great importance to social welfare activities, and adheres to the motto of “With great love as the foundation and goodness as the goal, fearing justice and having a bright heart (以大愛為根基，以善良為目標，敬畏正義，我心光明)”, and actively carries out public welfare activities. During the Reporting Period, the Group conducted over 2,000 free screenings for lung nodules in villages and households, carried out nearly a hundred charity clinics, introduced emergency rescue knowledge to schools and factories, and popularized first aid knowledge for emergencies such as cardiopulmonary resuscitation, airway obstruction, drowning and epilepsy. The Group was also awarded the title of “Caring Enterprise for School Donation” for its generous donations to local poor students.

FUTURE OUTLOOK

The Group will continue to make efforts in the following areas in the future:

1. We will continue to focus on our main business, enhance our core competitiveness, improve our brand influence and keep patient satisfaction throughout the entire process of medical services. Through endogenous growth, we will expand our service scale and service capacity, always ensuring medical quality with cutting-edge technology and equipment.
2. We will continue to increase the training of talents, strengthen the mechanism of joint training of talents by hospital and university, create a medical team with a reasonable composition of talents, high professionalism and strong service awareness, to better serve the growing patient population and lay a good foundation for the sustainable and healthy development of the hospital.

3. Relying on the information technology team, we will develop application software close to the actual clinical needs to structure and standardize the medical service process and improve service efficiency. In response to the national call for a new model of “Internet+Healthcare” services, we will use big data to expand our service channels, extend and enrich our service content, and better meet people’s health care needs.
4. We will strengthen clinical academic research and the transformation of scientific research results, enhance academic exchanges at home and abroad, introduce cutting-edge medical technology and precise equipment in accordance with the principles of advanced, safe, effective and economical, and provide high-quality medical services to patients.
5. In line with the requirements of the times, we will study relevant medical policies, popularize general knowledge of health economics, take active measures to cope with changes in medical behaviour brought about by the reform of medical insurance payment methods, turn pressure into motivation, actively explore the refined management of hospitals under the new medical insurance payment situation, and enhance social and economic benefits. Study the characteristics of the demand for medical services in an ageing society, expand the scope of business and improve the service chain.
6. We will enhance compliance awareness, comply with various regulatory systems in the industry, abide by the code for listed companies, optimize corporate governance and ensure medical quality and safety.
7. We will actively seek investment targets and expand the scale of the Group’s business through various means such as exogenous growth and export of management to achieve our goal of group development.

FINANCIAL REVIEW

Revenue and Cost

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

	Year ended 31 December			
	2022		2021	
	(RMB'000)	% of revenue	(RMB'000)	% of revenue
Treatment and general healthcare services	463,225	63.6%	392,356	64.7%
Pharmaceutical sales	264,564	36.4%	214,481	35.3%
Total	<u>727,789</u>	<u>100.00%</u>	<u>606,837</u>	<u>100.00%</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 classified by source into revenue from the provision of medical services to inpatients and outpatients. The following table sets forth a breakdown of revenue of our hospital by source for the periods indicated:

	Year ended 31 December			
	2022		2021	
	(RMB'000)	% of revenue	(RMB'000)	% of revenue
Outpatient healthcare services	402,418	55.3%	314,439	51.8%
Inpatient healthcare services	325,371	44.7%	292,398	48.2%
Total	<u>727,789</u>	<u>100%</u>	<u>606,837</u>	<u>100%</u>

The following table sets forth a breakdown of the number of patient visits and the average spending per patient visit by segment in the Group's own hospitals for the periods indicated:

	Year ended 31 December	
	2022	2021
Outpatient visits	1,286,815	1,183,408
Average spending per outpatient visit (<i>RMB</i>)	312.7	265.7
Inpatient visits	50,920	43,973
Average spending per inpatient visit (<i>RMB</i>)	6,385.2	6,645.4
Number of beds in operation at the end of the relevant period	1,500	1,500

Our combined revenue from treatment and general hospital services and pharmaceutical sales increased by 19.9% from RMB606.8 million for the year ended 31 December 2021 to RMB727.8 million for the year ended 31 December 2022. This was mainly due to the increase in revenue as a result of the increase in the number of outpatient and inpatient visits and the average spending per patient visit.

Our revenue from outpatient medical services increased by 28.0% from RMB314.4 million for the year ended 31 December 2021 to RMB402.4 million for the year ended 31 December 2022. This was mainly due to the increase in outpatient medical services revenue as a result of the increase in the number of outpatient visits and the average spending per patient visit.

Our revenue from inpatient medical services increased by 11.3% from RMB292.4 million for the year ended 31 December 2021 to RMB325.4 million for the year ended 31 December 2022. This was mainly due to the increase in the number of inpatient visits.

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 increased by 25.0% to RMB589.4 million for the year ended 31 December 2022 from RMB471.5 million for the year ended 31 December 2021, primarily due to (i) an increase in pharmaceutical costs of RMB48.7 million for the year ended 31 December 2022 as compared with the year ended 31 December 2021; (ii) an increase in consumables costs of RMB17.3 million for the year ended 31 December 2022 as compared with the year ended 31 December 2021; (iii) an increase in employee benefit expenses of RMB17.9 million for the

year ended 31 December 2022 as compared with the year ended 31 December 2021; (iv) utility expenses, maintenance and office expenses increased by RMB6.5 million for the year ended 31 December 2022 as compared with the year ended 31 December 2021; (v) depreciation and amortisation increased by RMB21.0 million for the year ended 31 December 2022 as compared with the year ended 31 December 2021; (vi) impairment of property, plant and equipment increased by RMB4.5 million for the year ended 31 December 2022 as compared with the year ended 31 December 2021, primarily due to the initial design cost of a building under construction, for which the construction plan of the building was ceased in the first half of 2022 and for which a provision for impairment was made against the carrying value.

Gross profit and gross profit margin

Our gross profit increased by 2.3% from RMB135.3 million for the year ended 31 December 2021 to RMB138.4 million for the year ended 31 December 2022 and our gross profit margin decreased from 22.3% for the year ended 31 December 2021 to 19.0% for the year ended 31 December 2022. This was mainly due to the increase in revenue generated from treatment and general hospital services and pharmaceutical sales as a result of the commissioning of the Phase I building. The increase in revenue was accompanied by an increase in the cost of sales of pharmaceuticals and medical consumables, an increase in labour costs, an increase in operating costs such as utilities and depreciation costs, and the provision for impairment of construction in progress, resulting in an increase in cost of sales greater than the increase in sales revenue and a decrease in gross profit margin.

Other expenses

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

Administrative expenses

Our administrative expenses consist primarily of employee benefit expenses for administrative personnel, depreciation and amortization, utility expenses, maintenance and office expenses and other costs.

Our administrative expenses increased by 7.0% from RMB68.5 million for the year ended 31 December 2021 to RMB73.3 million for the year ended 31 December 2022, primarily due to the increase of employee benefit expenses and taxes related to the phase I building.

Net finance costs

Our net finance costs decreased from an expense of RMB16.0 million for the year ended 31 December 2021 to a gain of RMB1.5 million for the year ended 31 December 2022, mainly due to a decrease in interest expenses on borrowings as a result of partial repayment of borrowings during the year and an increase in foreign exchange gain during the Reporting Period.

Income tax expense

Our income tax expense increased by 1.1% to RMB13.7 million for the year ended 31 December 2022 from RMB13.5 million for the year ended 31 December 2021, mainly due to an increase in our profit before tax.

Profit for the year and net profit margin

For the foregoing reasons, our profit for the period increased by 33.3% from RMB37.0 million for the year ended 31 December 2021 to RMB49.3 million for the year ended 31 December 2022. Our net profit margin stood at 6.1% and 6.8% for the year ended 31 December 2021 and the year ended 31 December 2022, respectively.

DISCUSSION OF ITEMS IN THE CONSOLIDATED BALANCE SHEET

Net current liabilities

Our net current liabilities decreased from RMB65.4 million as at 31 December 2021 to RMB44.2 million as at 31 December 2022. This was mainly due to the cash inflows generated from operating activities.

Inventories

Our inventories increased by 8.7% from RMB27.1 million as at 31 December 2021 to RMB29.5 million as at 31 December 2022. This was mainly due to the changes in the amount of Chinese New Year reserve inventories.

Trade receivables

Our trade receivables increased by 37.3% from RMB34.5 million as at 31 December 2021 to RMB47.4 million as at 31 December 2022. This was mainly due to an increase in revenue and the slightly slower settlement of receivables from the Social Insurance Board.

Other receivables and prepayments

Our other receivables and prepayments decreased from RMB1.9 million as at 31 December 2021 to RMB1.2 million as at 31 December 2022, representing a decrease of RMB0.7 million in the balance for the Reporting Period. This was mainly due to a decrease in prepaid utility expenses.

Indebtedness

Our borrowings decreased from RMB187.0 million as at 31 December 2021 to RMB141.0 million as at 31 December 2022, representing a decrease of RMB46.0 million in the balance for the Reporting Period. This was mainly due to our partial repayment of loans during the Reporting Period.

Trade and notes payable

Our trade payables decreased from RMB106.1 million as at 31 December 2021 to RMB101.9 million as at 31 December 2022, representing a decrease of RMB4.2 million in the balance for the Reporting Period. This was mainly due to our payment of certain trade payables during the Reporting Period.

Accrued expenses, other payables and provisions

Our accrued expenses and other payables increased from RMB92.3 million as at 31 December 2021 to RMB122.3 million as at 31 December 2022. This was mainly due to the increase in advance receipts from the Social Insurance Bureau for medical insurance in the following year.

Contingent liabilities

As at 31 December 2022, we had no significant contingent liabilities that would have a material impact on the financial position or operations of the Group.

Lease liabilities

As of 31 December 2022, we had lease liabilities of approximately RMB2.1 million in respect of our leased properties.

Liquidity and capital resources

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

	For the year ended	
	31 December	
	2022	2021
	(RMB'000)	(RMB'000)
Net cash generated from operating activities	118,472	91,444
Net cash used in investing activities	(19,161)	(50,461)
Net cash used in financing activities	<u>(117,848)</u>	<u>(76,872)</u>
Net decrease in the balance of cash and cash equivalents	<u><u>(18,537)</u></u>	<u><u>(35,889)</u></u>

Net cash generated from operating activities

Our net cash generated from operating activities increased from RMB91.4 million for the year ended 31 December 2021 to RMB118.5 million for the year ended 31 December 2022, mainly due to (i) the increase in cash flow from operating activities as a result of the increase in operating profit for the period, and (ii) the increase in cash flow from operating activities due to the increase in operating profit was partially offset by the income tax payment of RMB14.5 million in 2022.

Net cash used in investing activities

Our net cash used in investing activities decreased to RMB19.2 million for the year ended 31 December 2022 from RMB50.5 million for the year ended 31 December 2021, mainly due to a decrease of RMB32.1 million in payments for the purchase of property, plant and equipment.

Net cash used in financing activities

Our net cash used in financing activities increased to RMB117.8 million for the year ended 31 December 2022 from RMB76.9 million for the year ended 31 December 2021. This was mainly due to the repayment of borrowings and related interest of RMB56.5 million and the purchase of existing shares for the 2022 RSU Scheme of RMB61.3 million during the Reporting Period.

Financial instruments

Our financial instruments include trade receivables, other receivables, cash and cash equivalents, bank borrowings, trade payables and other payables. The Company's management manages and monitors these risks to ensure that effective measures are taken in a timely manner.

Exchange rate fluctuation risk and other risks

We hold certain financial assets in foreign currencies, which primarily involve exposure to exchange rate fluctuations between the HKD and the USD against the RMB, and the Group is therefore exposed to foreign exchange risk.

During the year ended 31 December 2022, we did not use any derivative financial instruments to hedge our exchange rate risk. Our management manages exchange rate risk by closely monitoring movements in foreign exchange rates and considers hedging significant foreign exchange exposure should the need arise.

Gearing ratio

As of 31 December 2022, our gearing ratio (total liabilities divided by total assets) was 40.7% (as of 31 December 2021: 41.1%).

Adoption of 2022 RSU Scheme

The Company has adopted the 2022 RSU 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). During the Reporting Period, no restricted share units had been awarded under the 2022 RSU Scheme.

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. The Group will apply such proceeds in a manner consistent with the intended use of proceeds as set out in the Prospectus.

The table below sets forth the utilisation of the net proceeds from the Global Offering and the unused amount as at 31 December 2022:

Business objective as stated in the Prospectus	Percentage to total amount	Net proceeds (HK\$ million)	Utilised proceeds as at 31 December 2022 (HK\$ million)	Unutilised proceeds as at 31 December 2022 (HK\$ million)	Expected timeline for unutilized amount ^(Note)
Finance the ramp up of the Company's first-phase building	29.5%	78.0	78.0	0.0	By the end of 2021
Expand the Company's business by acquiring hospitals	26.1%	69.2	0.0	69.2	By the end of 2023
Repay the Company's general borrowings, particularly the outstanding loans from two banks with an aggregate principal amount of RMB63.0 million	15.0%	39.8	39.8	0.0	By the end of 2023
Working capital and other general corporate purposes	10.0%	26.5	26.5	0.0	By June 2021
Purchase medical equipment and improve and upgrade the Company's information technology systems	8.0%	21.3	21.3	0.0	By June 2023

Business objective as stated in the Prospectus	Percentage to total amount	Net proceeds (HK\$ million)	Utilised proceeds as at 31 December 2022 (HK\$ million)	Unutilised proceeds as at 31 December 2022 (HK\$ million)	Expected timeline for unutilized amount ^(Note)
Develop the Company's pharmaceutical supply chain business	6.3%	16.7	0.0	16.7	By the end of 2023
Employee recruitment and training	5.0%	13.3	13.3	0.0	By June 2023
	100%	264.8	178.9	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.

As at 31 December 2022, the net proceeds from the Global Offering not yet utilized were deposited into 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 year ended 31 December 2022, 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.

CORPORATE GOVERNANCE PRACTICE

The Company has adopted the CG Code contained in Appendix 14 to the Listing Rules as its own code of corporate governance. During the year ended 31 December 2022, save as provisions addressed below, the Company has complied with all the applicable code provisions as set out in the CG Code.

Code provision C.2.1 of Part 2 of the CG 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.

Under the code provision F.2.2 of Part 2 of the CG Code, the chairman of the board, apart from attending the annual general meeting, should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In addition, under the code provision C.1.6 of Part 2 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

During the Reporting Period, non-executive Director Mr. Qin Hongchao, and independent non-executive Directors Mr. Sun Jigang (chairman of the audit committee), Mr. Jiang Tianfan (chairman of the remuneration committee) and Mr. Zhao Chun (chairman of the nomination committee) could not attend the annual general meeting of the Company held on 17 June 2022 due to other work commitments, but they had appointed the other attended Directors as their representatives at the meeting.

COMPLIANCE WITH THE MODEL CODE OF FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Upon specific enquiry, all Directors confirmed that they had complied with the requirements as set out in the Model Code during Reporting Period.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors, Mr. Sun Jigang (Chairman), Mr. Zhao Chun and Mr. Jiang Tianfan. The Group’s consolidated financial statements for the year ended 31 December 2022 have been reviewed by all members of the Audit Committee. The Audit Committee has also discussed the Group’s auditing, internal control and financial reporting matters. Based on such a review, the Audit Committee was of the opinion that the Group’s consolidated financial statements were prepared in accordance with applicable accounting standards.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group’s consolidated balance sheet, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s audited 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.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2022.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the website of the Company at www.honlivhp.com and the Hong Kong Exchanges and Clearing Limited at <http://www.hkexnews.hk>. The 2022 annual report of the Company will be despatched to the Company's shareholders in due course and will also be available at the websites above.

ANNUAL GENERAL MEETING

The Annual General Meeting (the "AGM") of the Company will be held on Friday, 16 June 2023. Shareholders of the Company should refer to the details regarding the AGM in the circular to be despatched by the Company and the notice of meeting and form of proxy accompanying therewith.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 13 June 2023 to Friday, 16 June 2023, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 12 June 2023 (Hong Kong time), being the last registration date.

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 annual results announcement, unless the context otherwise requires, the following expressions shall have the following meanings.

“AGM”	the 2022 annual general meeting of the Company to be held on 16 June 2023
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of Directors
“CG 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 annual results announcement and for geographical reference only, excludes Hong Kong, Macau 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 “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 “HK dollars” 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” set out in Appendix 10 to the Listing Rules
“Reporting Period”	the year ended 31 December 2022
“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

“2022 RSU Scheme”

the restricted share unit scheme adopted by the Board on 22 August 2022

%

per cent

By order of the Board

Honliv Healthcare Management Group Company Limited

Qin Yan

Chairman

Hong Kong, 27 March 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.