HONLIVHP
宏力医院

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 2020

FINANCIAL SUMMARY

	Six months ended 30 June		
	2020	2019	Change
	(RMB'000)	*(RMB'000)*	%
	(Unaudited)	(Unaudited)	
Revenue	**244,653**	271,133	(9.8)
Gross profit	**61,764**	90,132	(31.5)
Profit for the period attributable to owners of the Company	**13,243**	33,835	(60.9)
Basic and diluted earnings per share	**0.03**	0.08	(62.5)

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Honliv Healthcare Management Group Company Limited (the **Company**" and, together with its subsidiaries, collectively the "**Group**") announces the unaudited consolidated financial results of the Group for the six months ended 30 June 2020 (the "**Reporting Period**"), together with the comparative figures for the corresponding period in 2019 as follows:

In this announcement, "we", "us" and "our" refer to the Company or where the context otherwise requires, the Group.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**244,653**	271,133
Cost of sales		**(182,889)**	(181,001)
Gross profit		**61,764**	90,132
Other expense		**(98)**	(98)
Other income		**220**	220
Other gains — net		**77**	64
Administrative expenses		**(36,521)**	(33,337)
Operating profit		**25,442**	56,981
Finance income		**236**	129
Finance costs		**(10,861)**	(11,430)
Finance costs — net		**(10,625)**	(11,301)
Profit before income tax		**14,817**	45,680
Income tax expense	*5*	**(1,437)**	(11,502)
Profit for the period		**13,380**	34,178
Other comprehensive income		**—**	—
Total comprehensive income		**13,380**	34,178
Profit and total comprehensive income attributable to:			
Owners of the Company		**13,243**	33,835
Non-controlling interests		**137**	343
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*	**0.03**	0.08

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**30 June 2020** ***RMB'000*** **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**409,706**	406,554
Right-of-use assets		**85,416**	87,658
Investment properties		**3,168**	3,266
Intangible assets		**385**	315
Prepayments		**58,483**	61,560
Total non-current assets		**557,158**	559,353
Current assets			
Inventories		**13,813**	23,124
Trade receivables	*7*	**33,207**	16,988
Other receivables and prepayments		**8,698**	6,257
Amounts due from related parties		**220**	–
Restricted deposit		**15,037**	15,000
Cash and cash equivalents		**84,622**	104,602
Total current assets		**155,597**	165,971
Total assets		**712,755**	725,324

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**33**	33
Reserves		**167,494**	166,146
Retained earnings		**83,289**	71,394
Subtotal		**250,816**	237,573
Non-controlling interests		**4,192**	4,055
Total equity		**255,008**	241,628
LIABILITIES			
Non-current liabilities			
Borrowings		**55,258**	33,869
Lease liabilities		**1,155**	2,700
Deferred revenue		**2,000**	2,000
Total non-current liabilities		**58,413**	38,569
Current liabilities			
Borrowings		**197,063**	237,827
Trade and notes payables	*8*	**104,334**	115,006
Current income tax liabilities		**3,178**	3,315
Accruals, other payables and provisions		**91,648**	79,031
Amounts due to related parties		**213**	7,850
Lease liabilities		**2,898**	2,098
Total current liabilities		**399,334**	445,127
Total liabilities		**457,747**	483,696
Total equity and liabilities		**712,755**	725,324

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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 "**Listing Business**").

The ordinary shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**the Listing**") 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 2020 has been prepared in accordance with Hong Kong Accounting Standard 34 ("**HKAS 34**"), 'Interim financial reporting'.

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 2019, 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 2020.

(a) Going concern

As at 30 June 2020, the Group's current liabilities exceeded its current assets by RMB243,737,000. In addition, as at 30 June 2020, the Group had non-current borrowings of RMB55,258,000, the principals of which were all repayable more than twelve months from the period end date in accordance with the respective borrowing agreements. The Group had cash and cash equivalents of RMB84,622,000 as at 30 June 2020.

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.

- The Company completed the Listing on 13 July 2020 and received net proceeds of HK$271 million (equivalent to RMB244 million).
- Management has been communicating with the banks which are providing existing banking facilities to the Group with a view to proactively manage the renewal of banking facilities upon maturity and securing additional credit facility.

- Henan Honliv Hospital Co., Ltd. ("**Honliv Hospital**") had obtained an additional loan facility of RMB200 million from one of these banks on 9 December 2019. Application of one year loan drawdown can be made under this facility until 9 December 2020 subject to the approval and conditions imposed by the bank. As at 30 June 2020, the Group has not utilised this additional loan facility.

Management has prepared cash flow projections of the Group covering a period of not less than twelve months from 30 June 2020. 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 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 30 June 2020.

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

A number of new or amended standards became applicable for the current reporting period. The Group did not change its accounting policies or make retrospective adjustments as a result of adopting these standards.

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 2020, 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, pharmaceutical sales and hospital management services. Details are as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Treatments and general healthcare service – at a point in time	**159,869**	183,236
Pharmaceutical sales – at a point in time	**83,769**	86,507
Hospital management services – over time	**1,015**	1,390
	244,653	271,133

5. INCOME TAX EXPENSE

The income tax expense of the Group for the six months ended 30 June 2020 and 2019 is analysed as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax – PRC corporate income tax	**1,437**	11,502

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 ordinary shares in issue during the six months ended 30 June 2020.

On 13 July 2020, the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited, pursuant to which 54,715,040 shares were issued by the Company to existing shareholders by way of capitalisation from the share premium account (the "**Capitalisation Issue**"). The weighted average number of shares has been retrospectively adjusted for the effect of the Capitalisation Issue on the assumption that the Capitalisation Issue had been completed on 1 January 2019.

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company *(RMB'000)*	**13,243**	33,835
Weighted average number of ordinary shares deemed to be in issue *(in thousands)*	**450,000**	445,445
Basic earnings per share *(in RMB)*	**0.03**	0.08

(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 30 June 2020.

7. TRADE RECEIVABLES

	As at 30 June 2020	As at 31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**33,286**	17,067
Less: allowance for impairment of trade receivables	**(79)**	(79)
Trade receivables – net	**33,207**	16,988

As at 30 June 2020 and 31 December 2019, the ageing analysis of the trade receivables based on demand note date was as follows:

	As at 30 June 2020 *RMB'000* (Unaudited)	As at 31 December 2019 *RMB'000* (Audited)
Up to 3 months	**23,515**	14,179
3 to 6 months	**5,668**	1,445
6 months to 1 year	**2,501**	1,176
1 to 2 years	**1,589**	254
2 to 3 years	**–**	13
Over 3 years	**13**	–
	33,286	17,067

8. TRADE AND NOTES PAYABLES

As at 30 June 2020 and 31 December 2019, the ageing analysis of the trade and notes payables based on demand note date was as follows:

	As at 30 June 2020 *RMB'000* (Unaudited)	As at 31 December 2019 *RMB'000* (Audited)
Trade payables		
Up to 3 months	**48,843**	66,952
3 to 6 months	**20,821**	14,646
6 months to 1 year	**12,570**	6,509
1 to 2 years	**3,577**	8,429
2 to 3 years	**432**	407
Over 3 years	**3,054**	3,063
	89,297	100,006
Notes payables	**15,037**	15,000
	104,334	115,006

9. DIVIDENDS

The board of directors of the Company does not resolve to declare an interim dividend for the six months ended 30 June 2020 (30 June 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW AND OUTLOOK

2020 is a crucial year in the history of China's healthcare reform whereby many policies on supply-side healthcare reform have been gradually put in place and the healthcare system has been improved and some individual hospitals have been eliminated amid the COVID-19 pandemic. The following policies introduced under such complex situation have a major impact on the direction of the medical service industry:

1. **Medical insurance:** Comprehensive measures (such as the implementation of diagnosis-related groups payment) for the reform of medical insurance payment methods in 2020 will facilitate the guiding role of medical insurance in the allocation of medical resources, the establishment of a hierarchical diagnosis and treatment system, the treatment of critical diseases within counties (大病不出縣), and the healthy development of county-level hospitals.

2. **Pharmaceuticals:** 2019 saw the expansion of centralised pharmaceutical procurement, while 2020 will be a key year for the implementation of this procurement process. This will further reduce operating costs of hospitals and highlight the leading role of medical technology and management in hospital development.

3. **Hospitals:** In 2020, China has put forward new requirements for strengthening the building of smart hospitals on the basis of "internet + hospitals". This shall accelerate the development of "internet + healthcare big data" with growth in internet-based treatment and diagnostics services and hospitals, overturning the traditional medical model.

4. **Acceleration of the close alliance of county-level hospitals:** Regional medical resources will be further integrated and shared. A hierarchical healthcare model will be set up and improved, in which grass-roots hospitals are responsible for providing first-time treatments, patients can be transferred between lower-level and higher-level hospitals, and chronic and acute diseases are treated in different hospitals. With the development of a complete first-, second- and third-tier healthcare system led by Class-III hospitals in counties, county-level healthcare services will be greatly developed.

5. **Possible change to the competitive landscape of the healthcare market by COVID-19 pandemic**: As a public health event, the COVID-19 pandemic has tested the entire healthcare system and every hospital within it. The development of the pandemic will affect the survival and development of each and every hospital for a long time.

Guided by healthcare reform policies, the Group proactively promoted group-based operations in the first half of 2020 while continuously enhancing the quality of our healthcare services and improving patients' experience. In the future, we will further build and optimise our healthcare management system, develop our key specialities, and expand our presence across the comprehensive health sector with big data, so as to reinforce the foundation for our fast and sound development and improve our influence in the industry.

BUSINESS REVIEW

In the first half of 2020, the Group's consolidated revenue slightly decreased by 9.8% from RMB271.1 million for the six months ended 30 June 2019 to RMB244.7 million for the six months ended 30 June 2020, due to a decrease in revenue generated from treatments and general hospital services and pharmaceutical sales. The year-on-year decrease in consolidated revenue was mainly due to the unexpected outbreak of COVID-19 that affects the global economy.

Hospital Services

Henan Honliv Hospital, which provides hospital services on the behalf of the Group, experienced a certain decline in its operating results due to the COVID-19 pandemic. In particular, during the Reporting Period, (i) the number of inpatient visits totalled 23,515 (six months ended 30 June 2019: 28,760), a year-on-year decrease of 18.2%; (ii) the number of outpatient visits totalled 485,789 (six months ended 30 June 2019: 517,449), a year-on-year decrease of 6.1%. The decrease in the number of inpatient and outpatient visits was mainly because patents with mild symptoms were asked to visit hospitals less frequently due to stricter prevention and control measures against COVID-19, leading to a decrease in the total number of patients; and during the Reporting Period, (iii) the total number of surgeries also decreased to 4,940, a year-on year decrease of 18.4% (six months ended 30 June 2019: 6,055). The above effects to the decline in revenue from hospital services were partially offset by, during the Reporting Period, (i) the increase in the average spending per inpatient visit to RMB5,621.8 (six months ended 30 June 2019: RMB5,367.0), a year-on-year increase of 4.7%; (ii) the increase in the average spending per outpatient visit to RMB229.4 (six months ended 30 June 2019: RMB223.0), a year-on-year increase of 2.9%; and (iii) the increase in the average length of stay per inpatient visit to 9.2 days (six months ended 30 June 2019: 8.8 days), a year-on-year increase of 4.5%. The increase in the average spending per inpatient and outpatient visit and in the average length of stay per inpatient visit were mainly attributable to fewer patients with mild symptoms and more patients with acute and critical symptoms using our hospital services as a result of stricter prevention and control measures against COVID-19.

The following table sets forth certain key operational information relating to the Group's hospital services for the periods indicated:

	Six months ended 30 June		
	2020	2019	Change %
Outpatient visits	**485,789**	517,449	(6.1)
Average spending per outpatient visit *(RMB)*	**229.4**	223.0	2.9
Inpatient visits	**23,515**	28,760	(18.2)
Average spending per inpatient visit *(RMB)*	**5,621.8**	5,367.0	4.7
Number of beds in operation as of the end of the relevant period	**1,500**	1,500	–
Average length of stay per inpatient visit *(days)*	**9.2**	8.8	4.5
Number of surgeries	**4,940**	6,055	(18.4)

Although our operating results for the first half of 2020 were impacted by COVID-19, we achieved tangible results in hospital development and specialty development, including:

(i) Our hospital was upgraded to a Class-III hospital in January 2020;

(ii) Our hospital passed review for baby-friendly hospital designation in January 2020;

(iii) Though various specialties were affected by COVID-19, our nephrology department still recorded improved operating results, largely due to our attentive services to our patients with kidney diseases during the COVID-19 pandemic;

(iv) The operating results of our oncology department maintained positive growth during the COVID-19 pandemic, mainly because we guaranteed the provision of oncology medications. In April 2020, our oncology department's "Research on Clinical Characteristics and Prognostic Factors of Patients with Triple Negative Breast Cancer Toward Visceral Metastasis upon First Recurrence" (術後首發內臟轉移三陰性乳腺癌患者的臨床特點及預後因素研究) was designated as a scientific and technological achievement by the Science and Technology Department of Henan Province (河南省科技廳); and

(v) COVID-19 infection needs to be confirmed by the nucleic acid test. In June 2020, our hospital was included by Henan Provincial Health Commission (河南省衛生健康委) in the second batch of medical institutions with the COVID-19 nucleic acid testing capability and became the only hospital with this capability in Changyuan City.

During the COVID-19 pandemic, all the staff of our hospital stuck to their posts. As a designated COVID-19 hospital, we did our best to prevent and control the COVID-19 pandemic and made outstanding contributions to the fight. Therefore, we were awarded the Medal in Recognition of Efforts to Fight COVID-19 as a Private Hospital in China (中國社會辦醫新冠肺炎戰役紀念章) and certificate of appreciation by Chinese Non-government Medical Institutions Association (中國非公醫療機構協會) in March 2020. Our industry influence continues to grow.

For the six months ended 30 June 2020, our top ten departments contributed to 63.2% of our revenue (six months ended 30 June 2019: 62.6%) despite the impact of the COVID-19 pandemic on our revenue. The composition of revenue from the departments remained basically unchanged.

In 2020, the Group mainly adopt the following strategies to drive revenue of its hospital services:

(i) Expanding wards, adding radiotherapy services, and setting up relevant wards to further improve the diagnosis and treatment capacity through tumor radiotherapy upon the operation of the first-phase building which has started construction by the end of June 2020 and is expected to be put into use by the end of 2020.

(ii) Improving interventional therapy for complex heart diseases in the cardiovascular department to further enhance diagnostic capabilities of our hospital as a chest pain center.

(iii) Expanding relevant services and enhance service capabilities by the obstetrics and gynecology department with its regional advantages in existing prenatal and postnatal diversified services.

(iv) Establishing pharmacy intravenous admixture services (PIVAS) for efficiency, safety and cost effectiveness.

Hospital Management Services

In June 2016, the Group entered into a management agreement with Neixiang Jutan Hospital ("**Jutan Hospital**"), the first hospital managed by the Group, marking an important step towards its group-based development. Afterwards, Jutan Hospital has grown rapidly under our management, proving the replicability of our business. As at the date of this announcement, the Group does not have any other management arrangement with any third-party hospital. The Group will continue to explore opportunities to expand our hospital management services.

Pharmaceutical Sales

The Group's pharmaceutical sales are mainly the sales of pharmaceuticals directly to patients of its hospitals. During the Reporting Period, revenue from pharmaceutical sales amounted to RMB83.8 million (as of 30 June 2019: RMB86.5 million), a year-on-year decrease of 3.2%. The decrease was mainly because we lowered selling prices of some pharmaceuticals based on standard pharmaceutical prices set by Henan Province in 2020.

COVID-19 Impact and Response

There has been an outbreak of COVID-19 around the world.

Our Directors currently expect that the outbreak of COVID-19 will have an adverse impact on our revenue, financial condition and results of operations. The number of inpatient and outpatient visits decreased, due to traveling restrictions and suspension of certain treatment services during February and March 2020. Since then, the number of inpatient and outpatient visits have gradually resumed to normal. Further, our Directors believe that the Designation of Henan Honliv Hospital to provide treatment and caring services to patients who are or may be infected with COVID-19 is a validation of our treatment capabilities, and will boost our brand recognition and reputation and attract more patients to Henan Honliv Hospital in the long run.

Our Directors are now focused on all possible operational cost containment options and will continue to assess the impact of the outbreak of COVID-19 on our operation and financial performance and closely monitor our financial and liquidity position.

Our Directors therefore believe that the adverse operational and financial impact caused by the outbreak is temporary. The outbreak of COVID-19 would adversely affect our financial results for the full year of 2020 but would not result in a material adverse effect on our continuing business operation and sustainability.

It is uncertain when and whether COVID-19 could be contained. The above analyses are made by our management based on currently available information concerning COVID-19. Management of the Company cannot guarantee that the outbreak of COVID-19 will not further escalate or have a material adverse effect on our results of operations.

FINANCIAL REVIEW

Revenue and Costs

We generate 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; (ii) the sales of pharmaceuticals to our patients, including both inpatients and outpatients; and (iii) the provision of hospital management services to Jutan Hospital. The following table sets forth the breakdown of our revenue for the periods indicated:

	Six months ended 30 June			
	2020		2019	
	***(RMB'000)* (Unaudited)**	***% of Revenue***	*(RMB'000)* (Unaudited)	*% of Revenue*
Treatments and general healthcare services	**159,869**	**65.4%**	183,236	67.6%
Pharmaceutical sales	**83,769**	**34.2%**	86,507	31.9%
Hospital management services	**1,015**	**0.4%**	1,390	0.5%
Total	**244,653**	**100.0%**	271,133	100.0%

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 periods indicated:

	Six months ended 30 June			
	2020		2019	
	***(RMB'000)* (Unaudited)**	***% of Revenue***	*(RMB'000)* (Unaudited)	*% of Revenue*
Inpatient healthcare services	**132,197**	**54.0%**	154,355	56.9%
Outpatient healthcare services	**111,441**	**45.6%**	115,388	42.6%
Total	**243,638**	**99.6%**	269,743	99.5%

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Outpatient visits	**485,789**	517,449
Average spending per outpatient visit *(RMB)*	**229.4**	223.0
Inpatient visits	**23,515**	28,760
Average spending per inpatient visit *(RMB)*	**5,621.8**	5,367.0
Number of beds in operation as of the end of the relevant period	**1,500**	1,500

Our revenue decreased by 9.8% from RMB271.1 million for the six months ended 30 June 2019 to RMB244.7 million for the six months ended 30 June 2020, primarily due to a decrease in revenue generated from treatments and general hospital services and pharmaceutical sales.

Our revenue from treatments and general healthcare services and pharmaceutical sales in aggregate decreased by 9.7% from RMB269.7 million for the six months ended 30 June 2019 to RMB243.6 million for the six months ended 30 June 2020, primarily due to a decrease in the number of both outpatient and inpatient visits because of COVID-19.

Our revenue from hospital management services decreased by 27% from RMB1.4 million for the six months ended 30 June 2019 to RMB1.0 million for the six months ended 30 June 2020 mainly because of decreased revenue of Jutan Hospital due to COVID-19.

Our revenue from inpatient healthcare services decreased by 14.4% from RMB154.4 million for the six months ended 30 June 2019 to RMB132.2 million for the six months ended 30 June 2020, mainly because of a decrease in the number of inpatient visits due to COVID-19.

Our revenue from outpatient healthcare services decreased by 3.4% from RMB115.4 million for the six months ended 30 June 2019 to RMB111.4 million for the six months ended 30 June 2020, mainly because of a decrease in the number of outpatient visits due to COVID-19.

Cost of sales

Our cost of sales mainly consists of employee benefits expenses of doctors and other medical professionals, cost of pharmaceuticals, cost of medical consumables, depreciation and amortization, utilities, maintenance fee and office expenses and other costs.

Our cost of sales increased by 1.0% from RMB181.0 million for the six months ended 30 June 2019 to RMB182.9 million for the six months ended 30 June 2020, primarily because (i) pharmaceutical cost increased by RMB3.0 million for the six months ended 30 June 2020 as compared to the six months ended 30 June 2019; (ii) our labor costs increased by RMB1.5 million and such effect was partially offset by the decrease in the cost of consumables due to COVID-19.

Gross Profit and Gross Profit Margin

Our gross profit decreased by 31.5% from RMB90.1 million for the six months ended 30 June 2019 to RMB61.8 million for the six months ended 30 June 2020 and our gross profit margin decreased from 33.2% for the six months ended 30 June 2019 to 25.2% for the six months ended 30 June 2020, mainly because our revenue decreased due to COVID-19 but the cost of sales remained basically flat as labor costs, depreciation and amortization expenses, and other costs components in the cost of sales were relatively fixed.

Other Expenses

Our other expense consists of depreciation of our investment properties. Our other expense remained stable during the Reporting Period.

Administrative expenses

Our administrative expenses primarily consist of employee benefits expenses for administrative personnel, depreciation and amortization, utilities, maintenance and office expenses, expense in relation to the listing and other expenses.

Our administrative expenses increased by 9.6% from RMB33.3 million for the six months ended 30 June 2019 to RMB36.5 million for the six months ended 30 June 2020, primarily due to an increase of the expense in relation to the listing from RMB3.1 million to RMB12.7 million.

Finance costs – net

Our net finance costs decreased by 6.0% from RMB11.3 million for the six months ended 30 June 2019 to RMB10.6 million for the six months ended 30 June 2020, primarily due to a decrease in our interest expense from our decreased principal as a result of our quarterly repayment of interest on other borrowings.

Income tax expense

Our income tax expense decreased by 87.5% from RMB11.5 million for the six months ended 30 June 2019 to RMB1.4 million for the six months ended 30 June 2020, primarily due to a decrease in our profit before taxation.

Profit for the period and net profit margin

As a result of the foregoing, our profit for the period decreased by 60.9% from RMB34.2 million for the six months ended 30 June 2019 to RMB13.4 million for the six months ended 30 June 2020. Our net profit margin was 12.6% and 5.5% for the six months ended 30 June 2019 and for the six months ended 30 June 2020, respectively.

DISCUSSION OF ITEMS IN THE INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

Net Current Liabilities

Our net current liabilities decreased from RMB279.2 million as at 31 December 2019 to RMB243.7 million as at 30 June 2020, primarily due to a decrease in short-term bank borrowings.

Inventories

Our inventories decreased by 40.3% from RMB23.1 million as of 31 December 2019 to RMB13.8 million as of 30 June 2020, primarily due to high inventories in preparation for the spring festival at the year end.

Trade Receivables

As of 30 June 2020, the balance of our trade receivables was RMB33.2 million (as of 31 December 2019: RMB17.0 million), an increase of 95.5% as compared to the balance as of 31 December 2019, mainly because of the settlement policy to settle the trade receivables in accordance with the budget under the Urban and Rural Resident Basic Medical Insurance Program for the first half of 2020.

Other Receivables and Prepayments

Our other receivables and prepayments amounted to RMB6.3 million and RMB8.7 million as at 31 December 2019 and 30 June 2020, respectively. The increased by RMB2.4 million because the capitalised portion of listing expenses increased due to the near completion of our listing in the first half of 2020.

Indebtedness

As of 30 June 2020, our borrowing balance amounted to RMB252.3 million (as of 31 December 2019: RMB271.7 million), and our borrowing balance decreased by RMB19.4 million during the Reporting Period. This was primarily attributed to the repayment of borrowings of RMB222.4 million and an increase in borrowings of RMB203.0 million during the Reporting Period. Our bank and other borrowings were primarily used to replenish our working capital and prepare for the construction of our first-phase building.

Trade Payables

Our trade payables amounted to RMB100.0 million and RMB89.3 million as at 31 December 2019 and 30 June 2020, respectively. The decrease in our trade payables as at 30 June 2020 as compared to that as at 31 December 2019 was primarily due to our fewer procurement activities as a result of our reduced business activities and payment of some trade payables during the period.

Accruals and Other Payables

Our accruals and other payables increased from RMB79.0 million as at 31 December 2019 to RMB91.6 million as at 30 June 2020, primarily due to the increase of our listing expense payable to RMB11.7 million.

Contingent Liabilities

As of 30 June 2020, we had no contingent liabilities or guarantees that would have a material impact on the financial position or operation of the Group.

Lease Liabilities

As of 30 June 2020, our lease liabilities in respect of our leased properties amounted to approximately RMB4.1 million.

Liquidity and Capital Resources

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	**31,498**	99,239
Net cash used in investing activities	**(11,737)**	(100,056)
Net cash flows from financing activities	**(39,741)**	34,345
Net (decrease)/increase in cash balances	**(19,980)**	33,528

Net Cash Generated from Operating Activities

Our net cash generated from operating activities decreased from RMB99.2 million for the six months ended 30 June 2019 to RMB31.5 million for the six months ended 30 June 2020, which was primarily attributable to (i) fewer cash flows from operating activities due to a decrease in our operating profit for the current period and (ii) the delay settlement from the Urban and Rural Resident Basic Medical Insurance Program for the trade receivables by the end of 2018 which result of the cash inflow of RMB40.5 million in the first half year 2019.

Net Cash Used in Investing Activities

The net cash used in investing activities decreased from RMB100.1 million during the six months ended 30 June 2019 to RMB11.7 million during the six months ended 30 June 2020, which was primarily attributable to (i) payments for purchase of property, plant and equipment decreased by RMB38.7 million and (ii) net cash out flow of loans to a related party decreased by RMB49.4 million.

Net Cash Flow in Financing Activities

The cash flow used in financing activities during the six months ended 30 June 2020 was RMB39.7 million compared with the cash generated from financing activities during the six months ended 30 June 2019 of RMB34.3 million. The cash used in financing activities in the first half of 2020 were primarily attributable to (i) the repayment of borrowings and the related interests amounting to RMB30.7 million and (ii) the dividend paid to shareholders amounting to RMB7.2 million. While the cash generated from financing activities during the six months ended 30 June 2019 were primarily attributable to the cash generated from borrowings amounting to RMB83.9 million which was partially offset by repayment of borrowing from a related party amounting to RMB38.6 million.

Financial Instruments

Our financial instruments consist of accounts receivable, other receivables, cash and cash equivalents, bank borrowings, accounts payable 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 2020. 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 of 30 June 2020, our liability-to-asset ratio (total liabilities divided by total assets) was 64.2% (as of 31 December 2019: 66.7%).

GLOBAL OFFERING

In connection with the Company's global offering (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 for net proceeds of approximately HK$271.4 million after deduction of the underwriting fees and related cost and expenses by the Company in connection with the Global Offering.

Dealings in the shares of the Company on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") commenced on 13 July 2020 (the "**Listing Date**").

As at the date of this announcement, the Company has not used any of the proceeds. The Company intends to apply such net proceeds in accordance with the purposes as set out in the prospectus of the Company dated 24 June 2020.

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 Rules Governing the Listing of the Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

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

Since the Listing Date and up to the date of this announcement, 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

Except for the Global offering mentioned above, as at the date of this announcement, there were no material events after the Reporting Period.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Since the Listing Date and up to the date of this announcement, save as provisions addressed below, the Company has complied with all the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

Code provision A.2.1 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 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 since the Listing Date and up to the date of this announcement.

REVIEW BY THE AUDIT COMMITTEE

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

The Group's interim results for the six months ended 30 June 2020 have been reviewed by all members of the Audit Committee. Based on such a review, the Audit Committee was of the opinion that the Group's unaudited interim results 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 2020.

EMPLOYEES AND REMUNERATION POLICIES

The total number of employees were 1,623 as at 30 June 2020. For the six months ended 30 June 2020, the staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately RMB73.4 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.

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 2020 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.

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

Hong Kong, 31 August 2020

As at the date of this announcement, the Board of Directors of the Company 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.