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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL SUMMARY

	Year ended 31 December		
	2020	2019	Change
	RMB'000	*RMB'000*	*%*
Revenue	**524,043**	531,108	(1.3)
Gross profit	**137,592**	170,156	(19.1)
Profit attributable to owners of the Company	**21,840**	49,362	(55.8)
Basic and diluted earnings per share	**0.04**	0.11	(63.6)

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 audited consolidated financial results of the Group for the year ended 31 December 2020 (the "**Reporting Period**"), together with the comparative figures for the year ended 31 December 2019 as follows:

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Notes	**2020**	2019
		RMB'000	*RMB'000*
Revenue	*3*	**524,043**	531,108
Cost of sales		**(386,451)**	(360,952)
Gross profit		**137,592**	170,156
Other expense		**(196)**	(196)
Other income		**440**	440
Other (losses)/gains — net		**(57)**	207
Administrative expenses		**(71,199)**	(74,101)
Net impairment losses on financial assets		**(4,610)**	(25)
Operating profit		**61,970**	96,481
Finance income		**791**	706
Finance costs		**(31,908)**	(28,708)
Finance costs — net		**(31,117)**	(28,002)
Profit before income tax		**30,853**	68,479
Income tax expense	*4*	**(8,662)**	(18,621)
Profit for the year		**22,191**	49,858
Other comprehensive income		**–**	–
Total comprehensive income		**22,191**	49,858
Profit and total comprehensive income attributable to:			
Owners of the Company		**21,840**	49,362
Non-controlling interests		**351**	496
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*	**0.04**	0.11

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Notes	**2020**	2019
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**489,350**	406,554
Right-of-use assets		**83,174**	87,658
Investment properties		**3,070**	3,266
Intangible assets		**525**	315
Deferred income tax assets		**1,153**	–
Prepayments		**42,982**	61,560
Total non-current assets		**620,254**	559,353
Current assets			
Inventories		**20,707**	23,124
Trade receivables	*6*	**19,055**	16,988
Other receivables and prepayments		**4,420**	6,257
Restricted deposit		**5,550**	15,000
Cash and cash equivalents		**302,478**	104,602
Total current assets		**352,210**	165,971
Total assets		**972,464**	725,324

	Notes	As at 31 December 2020 RMB'000	2019 RMB'000
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**52**	33
Reserves		**435,399**	166,146
Retained earnings		**89,760**	71,394
Subtotal		**525,211**	237,573
Non-controlling interests		**4,406**	4,055
Total equity		**529,617**	241,628
LIABILITIES			
Non-current liabilities			
Borrowings		**–**	33,869
Lease liabilities		**440**	2,700
Deferred revenue		**2,000**	2,000
Total non-current liabilities		**2,440**	38,569
Current liabilities			
Borrowings		**246,769**	237,827
Trade and notes payables	*7*	**95,547**	115,006
Current income tax liabilities		**5,185**	3,315
Accruals, other payables and provisions		**90,066**	79,031
Amounts due to related parties		**–**	7,850
Lease liabilities		**2,840**	2,098
Total current liabilities		**440,407**	445,127
Total liabilities		**442,847**	483,696
Total equity and liabilities		**972,464**	725,324

NOTES TO THE 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 consolidated financial statements are presented in Renminbi ("**RMB**") and rounded to nearest thousand yuan, unless otherwise stated.

2. 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 ("**HKCO**") Cap. 622.

(b) Historical cost convention

The consolidated financial statements have been prepared under the historical cost basis.

(c) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

• Amendments to HKAS 1 and HKAS 8	Definition of Material
• Amendments to HKFRS 3	Definition of a Business
• Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
• Amendments to HKFRS 16	COVID-19-related Rent Concessions
• Conceptual Framework for Financial Reporting	

The amendments listed above did not have any 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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(e) Going concern

As at 31 December 2020, the Group's current liabilities exceeded its current assets by RMB88,197,000. The Group had cash and cash equivalents of RMB302,478,000 as at 31 December 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 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. As at the date of the report, Henan Honliv Hospital Co., Ltd. ("**Honliv Hospital**") had renewed RMB82 million bank borrowings upon maturity since 1 January 2021.

- On 18 March 2021 Honliv Hospital obtained an additional loan facility of RMB150 million from one of its existing banks. Application of one-year loan drawdowns can be made under this facility until 18 March 2022 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 2020. Taking into account the Group's future operational performance and the expected future operating cash inflows; and the continuous availability of banking facility, 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 2020.

The directors have reviewed the Group's cash flow projection 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, pharmaceutical sales and hospital management services. Details are as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Nature of revenue recognition		
Treatments and general healthcare services	**344,630**	354,924
Pharmaceutical sales	**177,830**	173,404
Hospital management services	**1,583**	2,780
	524,043	531,108
Timing of revenue recognition		
At a point in time	**322,944**	313,827
Over time	**201,099**	217,281
	524,043	531,108

4. INCOME TAX EXPENSE

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Current income tax		
— PRC corporate income tax	**9,815**	18,621
Deferred income tax	**(1,153)**	–
	8,662	18,621

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	
	2020	2019
	RMB'000	*RMB'000*
Profit before income tax	**30,853**	68,479
Calculated at a tax rate of 25%	**7,713**	17,120
Income not subject to tax	**–**	(118)
Expenses not tax deductible	**2,733**	1,555
Tax effect of tax losses not recognised as deferred income tax assets	**547**	64
Adjustment for current tax of prior periods	**(2,331)**	–
Income tax expense	**8,662**	18,621

(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 2020 and 2019. 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 2020 and 2019.

(d) Withholding tax

The withholding tax rate of Honliv Hong Kong 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 2020, deferred income tax liabilities of RMB9,437,000 (2019: RMB6,311,000) have not been recognized for the withholding tax that would be payable on the unremitted earnings of the PRC subsidiaries. Management expects such amount to reinvested in these subsidiaries in the foreseeable future. Unremitted earnings of these subsidiaries at 31 December 2020 with accumulative amounted to RMB94,374,000 (2019: RMB63,105,000).

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 ordinary shares in issue during the year.

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.

	Year ended 31 December	
	2020	2019
Profit attributable to owners of the Company *(RMB'000)*	**21,840**	49,362
Weighted average number of ordinary shares deemed to be in issue *(in thousands)*	**520,492**	447,741
Basic earnings per share *(in RMB)*	**0.04**	0.11

(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 year ended 31 December 2019 and 2020.

6. TRADE RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**23,744**	17,067
Less: allowance for impairment of trade receivables	**(4,689)**	(79)
Trade receivables — net	**19,055**	16,988

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 government's insurance schemes.

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

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Up to 3 months	**15,627**	14,179
3 to 6 months	**2,289**	1,445
6 months to 1 year	**2,624**	1,176
1 to 2 years	**2,947**	254
2 to 3 years	**244**	13
Over 3 years	**13**	–
	23,744	17,067

(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 AND NOTES PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade payables	**89,997**	100,006
Notes payables	**5,500**	15,000
	95,547	115,006

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 2020 and 2019, the ageing analysis of trade payables based on demand note date was as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Up to 3 months	**60,765**	66,952
3 to 6 months	**17,387**	14,646
6 months to 1 year	**7,413**	6,509
1 to 2 years	**1,099**	8,429
2 to 3 years	**416**	407
Over 3 years	**2,917**	3,063
	89,997	100,006

8. DIVIDENDS

The board of directors of the Company does not resolve to declare a dividend for the year ended 31 December 2020 (Nil for the year ended 31 December 2019).

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW AND OUTLOOK

2020 was a crucial year in the history of China's healthcare reform and also a year of witnessing the sudden COVID-19 outbreak that affected the development of all industries and the global economic order. Under the new circumstances, the policies that had a significant impact on the operation of the medical service industry in China were as follows:

I. Medical insurance: Various healthcare reform measures that were implemented in 2020 played a fundamental leading role in the "coordinated reform of medical services, health insurance and pharmaceutical industry", which promoted the coordinated development of the whole health sector in China.

II. Pharmaceuticals: In 2020, the centralised procurement of drugs and high-value consumables further reduced operating costs for medical institutions, and at the same time put forward higher requirements for the improvement of medical technology and the enhancement of core competitiveness of medical institutions.

III. Hospitals: The COVID-19 pandemic accelerated the growth of internet hospitals in China in 2020. A large number of county-level hospitals with strong comprehensive service capacity and standardised management were upgraded to Class-III hospitals. The three-year campaign of "Private Hospital Management Years" will inject new vitality into a group of private hospitals with standardised management and strong core competitiveness.

IV. China pushed forward with the establishment of county-level closely coordinated medical communities: The establishment of closely coordinated medical communities has had a profound effect on the competition pattern of the healthcare industry. Medical services in counties will develop greatly.

V. The impact of the COVID-19 pandemic on the healthcare industry persists: Although the pandemic has caused an impact on China's healthcare industry, it has promoted the optimisation of the industry. In the post-pandemic era, the change in the perception of health by the general public has also created unlimited development opportunities for the healthcare industry.

In 2020, the Group firmly seized the development opportunities under the new circumstances to constantly improve itself, expand its services offered and improve its service capacity. In addition, it actively promoted the group-based operation, scaled up the operation and improved operational efficiency, showing a sense of responsibility in the year of the pandemic. In the future, we will continuously optimise our management system and standardise our operation under the new situation. With the development of our leading specialties, we will develop all specialties together, make full use of the advantages of smart hospitals, and establish our presence in the field of big health in an all-round manner, as efforts to take a solid step towards the group-based operation.

BUSINESS REVIEW

In 2020, the Group's revenue amounted to RMB524.0 million for the year ended 31 December 2020, a decrease of RMB7.1 million or 1.3% as compared to RMB531.1 million for the year ended 31 December 2019. The decrease was primarily due to a decrease in revenue generated from treatments and general hospital services and pharmaceutical sales.

Hospital Services

Henan Honliv Hospital, which provides hospital services on the behalf of the Group, experienced a certain decline in some of its operating results due to the COVID-19 pandemic. In particular, during the Reporting Period, the number of inpatient visits totalled at 51,059, representing a year-on-year decrease of 9.9%. The decrease was mainly because patients with mild symptoms were asked to visit and stay in hospitals less frequently due to stricter prevention and control measures against COVID-19. Meanwhile, some operating results improved to some extent. In particular, during the Reporting Period, (i) the average spending per inpatient visit was RMB5,458.7, representing a year-on-year increase of 4.2%; (ii) the average spending per outpatient visit was RMB234.1, representing a year-on-year increase of 3.4%; and (iii) the number of outpatient visits totalled 1,041,526, representing a year-on-year increase of 1.5%. The increase in the average spending per inpatient visit was mainly attributable to a larger proportion of patients with critical symptoms during COVID-19. The increase in the number of outpatient visits and average spending per outpatient visit were mainly attributable to a significant rebound in medical demand as a result of easing of COVID-19 and social control in the second half of 2020.

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

	Year ended 31 December		
	2020	2019	Change (%)
Outpatient visits	**1,041,526**	1,025,771	1.5
Average spending per outpatient visit *(RMB)*	**234.1**	226.3	3.4
Inpatient visits	**51,059**	56,687	(9.9)
Average spending per inpatient visit *(RMB)*	**5,458.7**	5,240.8	4.2
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**	9.0	
Number of surgeries	**11,089**	11,894	(6.8)

Although our operating results for the first half of 2020 were impacted by COVID-19, the Group proactively sought breakthroughs in operation while guaranteeing that our medical business was carried out under normalised epidemic prevention and control measures, thanks to the effective control of the pandemic in the second half of the year. In this context, we achieved results in specialty development, including:

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

(ii) 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;

(iii) The operating results of our oncology department maintained positive growth during the COVID-19 pandemic, mainly because we guaranteed the provision of oncology medications.

(iv) Our hospital is the only hospital with the COVID-19 nucleic acid testing capability in Changyuan City. As a designated COVID-19 hospital, we are responsible for taking nucleic acid samples and performing nucleic acid testing within the city. In 2020, we conducted more than 48,000 nucleic acid tests, which not only provided strong guarantee for the city-wide pandemic prevention and control but also helped increase our operating revenue.

(v) Despite major impact from COVID-19 in the first half of 2020, thanks to the Group's effective prevention and control measures, pro-active response strategy, and improved medical technology and service levels, the number of surgeries remained stable when compared with the same period in 2019 after the containment of COVID-19.

As of 31 December 2020, our top ten departments contributed to 62.6% of our revenue in spite of the impact of the COVID-19 pandemic on our revenue. The composition of revenue from the departments of the Group remained basically unchanged.

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

(i) Taking our comprehensive medical services to a higher level with a constant aim to improve patients' experience, satisfaction, medical safety, and medical quality.

(ii) Bringing in highly skilled talent and continuously developing new businesses and technologies to enhance service capabilities and technology levels.

(iii) Relying on our cardiovascular department to build a certified chest pain centre, improving interventional therapy for complex heart diseases and further enhancing diagnostic capabilities of the chest pain centre.

(iv) Expanding relevant services and enhancing service capabilities provided by the obstetrics and gynecology department with our advantages in the region in existing prenatal and postnatal diversified services.

(v) Leveraging policies pertinent to "internet + healthcare" to build smart hospitals and provide convenient online medical services for patients.

Hospital Management Services

Neixiang Jutan Hospital ("**Jutan Hospital**") has grown rapidly under the Group's 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 Services

The Group directly sells medicines to patients. Our pharmaceutical sales increased by 2.6% year on year to RMB177.8 million (for the year ended 31 December 2019: RMB173.4 million) during the Reporting Period. This growth was mainly attributable to an increase in outpatient visits and a rise in medicines prescribed for outpatients with critical illnesses.

Impact of COVID-19 Pandemic and Volume-based Drug Procurement and Responses

Despite a deterioration in operating results as China adopted strict control measures against COVID-19 in the first half of 2020, the Group's full year operating results recovered rapidly with the pandemic under control. Owing to normalised COVID-19 prevention and control measures and the Group's outstanding performance during the pandemic prevention and control period, the Directors believe that the Group has gained more trust from patients in terms of its hospitals' comprehensive service capabilities, thereby enhancing its reputation, which will attract more patients to its hospitals.

In the second half of the year, our work, in particular the installation and commissioning of supporting facilities for the construction of the first-phase building, was affected to some extent by the spread of COVID-19 in some regions of China and the failure to combat the pandemic overseas. As a result, the first-phase building was not put into operation at the end of 2020 as indicated in our interim results announcement and the establishment of pharmacy intravenous admixture services (PIVAS) in the building was also delayed.

China's second and third rounds of volume-based procurement for 87 drugs in 2020 affected our revenue from pharmaceutical sales. The Directors, however, are of view that the drugs procured centrally had only a limited effect on the Group's operating revenue in this financial year as they only accounted for a small portion of pharmaceuticals offered by its hospitals.

The Directors now focus on all possible operational cost containment options and will continue to assess the impact of the outbreak of COVID-19 and volume-based drug procurement on our operation and financial performance. The Directors believe that the adverse operational and financial impact caused by the outbreak is temporary and would not result in a material adverse effect on our continuing business operation and sustainability. The Directors are also looking at the long-term impact of volume-based drug procurement on our revenue and costs and will develop feasible revenue increase and cost control options.

The above analyses are made by our management based on currently available information concerning COVID-19 pandemic and centralised procurement of drugs. The management of the Company cannot guarantee that the outbreak of COVID-19 pandemic and centralised procurement of drugs will not further escalate or have a material adverse effect on our results of operations.

FINANCIAL REVIEW

Revenues 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 revenues for the periods indicated:

	Year ended 31 December			
	2020		2019	
	(RMB'000)	***% of revenue***	*(RMB'000)*	*% of revenue*
Treatments and general healthcare services	**344,630**	**65.8%**	354,924	66.8%
Pharmaceutical sales	**177,830**	**33.9%**	173,404	32.7%
Hospital management services	**1,583**	**0.3%**	2,780	0.5%
Total	**524,043**	**100.00%**	531,108	100.00%

Revenue generated from the operation of Henan Honliv Hospital accounts for a large majority of our revenue. Revenue from our hospitals can also be further classified 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 hospitals by source for the periods indicated:

	Year ended 31 December			
	2020		2019	
	(RMB'000)	***% of revenue***	*(RMB'000)*	*% of revenue*
Outpatient healthcare services	**243,860**	**46.5%**	232,256	43.7%
Inpatient healthcare services	**278,600**	**53.2%**	296,072	55.8%
Total	**522,460**	**99.7%**	528,328	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:

	Year ended 31 December	
	2020	2019
Outpatient visits	**1,041,526**	1,025,771
Average cost per outpatient visit *(RMB)*	**234.1**	226.3
Inpatient visits	**51,059**	56,687
Average cost per inpatient visit *(RMB)*	**5,458.7**	5,240.8
Number of beds in operation as of the end of the relevant period	**1,500**	1,500

Our revenue decreased by 1.3% from RMB531.1 million for the year ended 31 December 2019 to RMB524.0 million for the year ended 31 December 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 1.1% from RMB528.3 million for the year ended 31 December 2019 to RMB522.5 million for the year ended 31 December 2020, primarily due to a decrease in the number of inpatient visits because of COVID-19.

Our revenue from hospital management services fell by 43.1% from RMB2.8 million for the year ended 31 December 2019 to RMB1.6 million for the year ended 31 December 2020, mainly because of decreased revenue of Jutan Hospital due to COVID-19.

Our revenue from outpatient healthcare services increased by 5.0% from RMB232.3 million for the year ended 31 December 2019 to RMB243.9 million for the year ended 31 December 2020. This is mainly because most of the patients with mild symptoms were treated on an outpatient basis due to COVID-19.

Our revenue from inpatient healthcare services dropped by 5.9% from RMB296.1 million for the year ended 31 December 2019 to RMB278.6 million for the year ended 31 December 2020, mainly because of a decrease in the number of inpatient visits due to COVID-19.

Cost of Sales

Our cost of sales mainly consists of the cost of employee benefits for doctors and other medical professionals, the cost of pharmaceuticals, the cost of medical consumables, the expenses on depreciation and amortization, utilities, maintenance and offices, and other costs.

Our cost of sales rose by 7.1% from RMB361.0 million for the year ended 31 December 2019 to RMB386.5 million for the year ended 31 December 2020, mainly due to (i) a year-on-year increase of RMB13.5 million in the cost of pharmaceuticals for the year ended 31 December 2020 as compared to the year ended 31 December 2019; (ii) a year-on-year increase of RMB6.2 million in the cost of medical consumables for the year ended 31 December 2020 as compared to the year ended 31 December 2019; and (iii) a rise of RMB6.2 million in the labour cost.

Gross Profit and Gross Profit Margin

Our gross profit fell by 19.1% from RMB170.2 million for the year ended 31 December 2019 to RMB137.6 million for the year ended 31 December 2020, and our gross profit margin shrank from 32.0% for the year ended 31 December 2019 to 26.3% for the year ended 31 December 2020, largely because of a decrease in revenue due to the outbreak of COVID-19. Both the cost of pharmaceuticals and the cost of consumables for pandemic prevention and control went up, while the labour cost, the expenses on depreciation and amortization and other costs remained relatively stable, which resulted in a growth in the cost of sales but a decline in our gross profit and gross profit margin.

Other Expenses

Our other expenses consist of the expense on depreciation of our investment properties. Our other expenses remained stable during the Reporting Period.

Administrative Expenses

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

Our administrative expenses fell by 3.9% from RMB74.1 million for the year ended 31 December 2019 to RMB71.2 million for the year ended 31 December 2020, primarily due to a reduction in heating fee thanks to a revamp to our heating system in November 2019.

Net Finance Cost

Our net finance cost climbed by 11.1% from RMB28.0 million for the year ended 31 December 2019 to RMB31.1 million for the year ended 31 December 2020. The main reason is that the funds we raised in Hong Kong were denominated in HKD, and the exchange rate between HKD and RMB fluctuated greatly during the year, resulting in foreign exchange losses.

Income Tax Expense

Our income tax expense slumped by 53.5% from RMB18.6 million for the year ended 31 December 2019 to RMB8.7 million for the year ended 31 December 2020, primarily due to a decrease in our profit before tax.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our profit for the year dropped by 55.5% from RMB49.9 million for the year ended 31 December 2019 to RMB22.2 million for the year ended 31 December 2020. The net profit margin stood at 9.4% and 4.2% during the year ended 31 December 2019 and during the year ended 31 December 2020, respectively.

DISCUSSION OF ITEMS IN THE CONDENSED CONSOLIDATED BALANCE SHEET

Net Current Liabilities

Our net current liabilities fell from RMB279.2 million as at 31 December 2019 to RMB88.2 million as at 31 December 2020, primarily because our funds raised from our HKEx Main Board Listing in July 2020, as a result of which our cash and cash equivalents increased from RMB104.6 million as at 31 December 2019 to RMB302.5 million as at 31 December 2020.

Inventories

Our inventories went down by 10.5% from RMB23.1 million as at 31 December 2019 to RMB20.7 million as at 31 December 2020, primarily due to changes in the inventories in preparation for the Spring Festival.

Trade Receivables

Our trade receivables jumped by 12.2% from RMB17.0 million as at 31 December 2019 to RMB19.1 million as at 31 December 2020, largely because of an increase in the advance payment of medical insurance for urban and rural residents and the slightly slow settlement of payment in 2020.

Other Receivables and Prepayments

Our other receivables and prepayments dropped from RMB6.3 million as at 31 December 2019 to RMB4.4 million as at 31 December 2020. The balance during the Reporting Period decreased by RMB1.9 million. The reason is that the prepayment for capitalised listing fee recorded as at the end of 2019 was used to offset the premium on stock due to the successful listing of the Group on the HKEx Main Board in 2020.

Indebtedness

Our borrowings dropped from RMB271.7 million as at 31 December 2019 to RMB246.8 million as at 31 December 2020. The balance during the Reporting Period fell by RMB24.9 million. This is mainly because we repaid part of our borrowings during the Reporting Period. Our bank and other borrowings were primarily used to replenish our working capital and build our first-phase building.

Trade and Notes Payables

Our trade payables went down from RMB115.0 million as at 31 December 2019 to RMB95.5 million as at 31 December 2020. The balance during the Reporting Period fell by RMB19.5 million. This is mainly due to the fact that we paid part of the trade payables during the Reporting Period.

Accruals, Other Payables and Provisions

Our accruals and other payables increased from RMB79.0 million as at 31 December 2019 to RMB90.1 million as at 31 December 2020, primarily due to a rise in refundable deposits made by patients and payroll payables.

Contingent Liabilities

As of 31 December 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 31 December 2020, our lease liabilities in respect of our leased properties amounted to approximately RMB3.3 million.

Liquidity and Capital Resources

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

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Net cash generated from operating activities	**74,614**	86,045
Net cash used in investing activities	**(80,062)**	(65,015)
Net cash flows from financing activities	**215,156**	73,642
Net increase in balance of cash and cash equivalents	**209,708**	94,672

Net Cash Generated from Operating Activities

Our net cash generated from operating activities declined from RMB86.0 million for the year ended 31 December 2019 to RMB74.6 million for the year ended 31 December 2020, which was primarily attributable to fewer cash flows from operating activities due to a decrease in our operating profit for the current period.

Net Cash Flows Used in Investing Activities

Our net cash used in investing activities grew from RMB65.0 million for the year ended 31 December 2019 to RMB80.1 million for the year ended 31 December 2020, which was primarily attributable to purchases of properties, plant and equipment of RMB15.0 million.

Net Cash Flows from Financing Activities

Our cash flows from financing activities jumped from RMB73.6 million for the year ended 31 December 2019 to RMB215.2 million for the year ended 31 December 2020, mainly due to the issuance of shares in relation to our HKEx Main Board Listing with gross proceeds of RMB283.9 million which was net off by the payments of capitalised listing expenses amounting to RMB14.1 million.

Financial Instruments

Our financial instruments consist of trade receivable, other receivables, cash and cash equivalents, bank borrowings, trade 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 year ended 31 December 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 31 December 2020, our liability-to-asset ratio (total liabilities divided by total assets) was 45.5% (as of 31 December 2019: 66.7%).

USE OF PROCEEDS

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 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. 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**"). The Group will apply such proceeds in a manner consistent with the intended use of proceeds as set out in the prospectus (the "**Prospectus**") of the Company dated 24 June 2020.

The table below sets forth the utilisation of the net proceeds from the Global Offering and the unused amount as at 31 December 2020:

Business objective as stated in the Prospectus	Percentage to total amount	Net proceeds	Utilised amount as at 31 December 2020	Unutilised amount as at 31 December 2020	Expected timeline for unutilized amount
	%	*HK$ million*	*HK$ million*	*HK$ million*	
Finance the ramp up of the Company's first-phase building	29.5	78.0	57.8	20.2	By the end of 2021
Expand the Company's business by acquiring hospitals	26.1	69.2	0	69.2	Within one and a half year after receiving net proceeds
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	0	39.8	April 2021
Working capital and other general corporate purposes	10.0	26.5	26.5	0	Within one year after receiving net proceeds
Purchase medical equipment and improve and upgrade the Company's information technology systems	8.0	21.3	21.3	0	Within three years after receiving net proceeds
Develop the Company's pharmaceutical supply chain business	6.3	16.7	0	16.7	By the end of 2021

Business objective as stated in the Prospectus	Percentage to total amount	Net proceeds	Utilised amount as at 31 December 2020	Unutilised amount as at 31 December 2020	Expected timeline for unutilized amount
	%	*HK$ million*	*HK$ million*	*HK$ million*	
Employee recruitment and training	5.0	13.3	13.3	0	Within three years after receiving net proceeds
Total	**100.0**	**264.8**	**119**	**145.8**	

Notes:

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 2020, the net proceeds from the Global Offering not yet utilized were deposited into short-term demand deposits in the Company's account at one of the receiving banks as disclosed in the Prospectus.

PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public at the date of this announcement as required under the 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 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Since the Listing Date and up to 31 December 2020, 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 officer should be separate and should not be performed by the same individual.

The positions of 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 31 December 2020.

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 2020 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 2020 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 2020.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the website of the Company at http://www.honlivhp.com and the Hong Kong Exchanges and Clearing Limited at http://www.hkexnews.hk. The annual report of the Company for the year ended 31 December 2020 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, 18 June 2021. 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, 15 June 2021 to Friday, 18 June 2021, 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, at 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 Friday, 11 June 2021 (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.

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

Hong Kong, 25 March 2021

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.