



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 REPORT

2021





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DEFINITIONS

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

“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of Directors
“Chairman”	the chairman of our Board
“China” or “PRC”	the People’s Republic of China, which, for the purpose of this interim report 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
“Concert Party Agreement”	a concert party agreement between Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock and Rubrical Investment dated 10 December 2019
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Corporate Governance Code” or “CG Code”	the “Corporate Governance Code” as contained in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of the Company or any one of them
“Global Offering”	the offer for subscription of an aggregate of 150,000,000 Shares at offer price of HK\$2.10 under the Hong Kong public offering and the international offering of the Company
“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

DEFINITIONS

“Jutan Hospital”	the Affiliated Jutan Hospital of Neixiang County Vocational School* (內鄉縣職業中等專業學校附屬菊潭醫院), formerly known as Neixiang Jutan Hospital* (內鄉菊潭醫院)
“Management Agreement”	the management agreement entered into among Henan Honliv Hospital, the Jutan Hospital and its organizer dated 14 June 2016
“Listing”	the listing of the Shares on the Main Board of 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
“Prospectus”	the prospectus of the Company dated 24 June 2020
“Reporting Period”	the six months ended 30 June 2021
“RMB”	Renminbi, the lawful currency of the PRC
“Rubrical Investment”	Rubrical Investment Limited, a company incorporated in the BVI on 17 November 2015, wholly owned by Mr. Qin Hongchao, and a Controlling Shareholder and hence a connected person of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“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
“Sunny Rock”	Sunny Rock Capital Limited, a company incorporated in the BVI on 17 November 2015, wholly owned by Mr. Qin Yan, a Controlling Shareholder, and hence a connected person of the Company
%	per cent

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS:

Mr. Qin Yan (秦岩) (*President and Chairman*)

Dr. Teng Qingxiao (滕清曉)

Mr. Wang Zhongtao (王忠濤)

NON-EXECUTIVE DIRECTOR:

Mr. Qin Hongchao (秦紅超)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Zhao Chun (趙淳)

Mr. Sun Jigang (孫冀剛)

Mr. Jiang Tianfan (江天帆)

AUDIT COMMITTEE

Mr. Sun Jigang (孫冀剛) (*Chairman*)

Mr. Zhao Chun (趙淳)

Mr. Jiang Tianfan (江天帆)

REMUNERATION COMMITTEE

Mr. Jiang Tianfan (江天帆) (*Chairman*)

Mr. Zhao Chun (趙淳)

Mr. Sun Jigang (孫冀剛)

NOMINATION COMMITTEE

Mr. Zhao Chun (趙淳) (*Chairman*)

Mr. Sun Jigang (孫冀剛)

Mr. Jiang Tianfan (江天帆)

REGISTERED OFFICE

Campbells Corporate Services Limited
Floor 4, Willow House
Cricket Square
Grand Cayman KY1-9010
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 8, Bo Ai Road (South)
Changyuan County
Henan Province
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Qin Yan (秦岩)

Ms. Hui Yin Shan (許燕珊)

JOINT COMPANY SECRETARY

Ms. Wang Xiaoyang (王曉陽)

Ms. Hui Yin Shan (許燕珊)

AUDITOR

PricewaterhouseCoopers
*Certified Public Accountants and
Registered Public Interest Entity Auditor*
22/F, Prince's Building
Central, Hong Kong

LEGAL ADVISER

As to Hong Kong law:
O'Melveny & Myers
31/F, AIA Central
1 Connaught Road Central
Hong Kong

COMPLIANCE ADVISER

Central China International Capital Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Campbells Corporate Services Limited
Floor 4, Willow House
Cricket Square
Grand Cayman KY1-9010
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

CORPORATE INFORMATION

PRINCIPAL BANKERS

In Hong Kong:

Standard Chartered Bank (Hong Kong) Limited
Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

In the PRC:

Industrial and Commercial Bank of China Limited,
Changyuan County Branch
111 Gui Ling Avenue
Changyuan County
Xinxiang City
Henan Province
PRC

COMPANY WEBSITE

www.honlivhp.com

STOCK CODE

9906

LISTING DATE

13 July 2020

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW AND OUTLOOK

2021 is the first year after the Chinese healthcare industry suffered from the huge challenge brought by the COVID-19 pandemic, which continues to affect the global economic order. Under the new circumstances, the healthcare industry in the PRC faces both challenges and opportunities.

1. **Rise of internet hospitals:** The advance of communication technology makes it possible for people to seek medical care online, and the implementation of COVID-19-related prevention and control measures has set off a boom in online medical care. Internet hospitals have broken through the spatial limitation of traditional medical care, and people have more choices in the way they seek medical treatment. Relevant circulars issued by the National Health Commission of the PRC (中華人民共和國國家衛生健康委員會) on consultation appointments and internet hospital development have specified the path for the upgrading and transformation of hospital services in the PRC. In response to social needs, the Company has accelerated the development of the internet hospitals and obtained the requisite approval.
2. **Medical insurance:** In 2021, the reform of medical insurance payment methods continued to gain momentum. The reform of payment methods affects medical behaviour, and also changes the game between medical institutions and medical insurance management departments into competition among medical institutions, prompting medical institutions to refine their management and improve their service quality in order to win the trust of patients and further the development of hospitals.
3. **Pharmaceuticals:** In 2021, the centralized volume-based procurement of drugs and high-value consumables had become the norm. Centralized procurement has given rise to new requirements for hospital operation, which will change the profitability model of hospitals and further reduce the operating costs of medical institutions while also putting forward higher requirements for medical institutions in terms of improving medical capabilities and enhancing core competitiveness.
4. **Changes to the competitive landscape of the healthcare market by COVID-19 pandemic:** The COVID-19 pandemic continues to impact the healthcare industry: In the first half of 2021, the COVID-19 pandemic in China still consumed a large amount of social resources, despite the intertwined situation of sporadic cases and locally clustered outbreaks. Hospitals always need to remain alert to pandemic prevention and control. Meanwhile, in the first half of 2021, the people's healthcare needs were also stimulated, and medical institutions with strong comprehensive service capacity, wide coverage and excellent capabilities won the trust of patients. After the pandemic was effectively controlled, those institutions ushered in explosive growth.

In 2021, the Group has continuously improved itself, expanded its services offered, enhanced service capability, improved service environment, and actively promoted group-based operation. In the future, we will continuously optimize our management system and standardize our operation under the new circumstances. Taking a solid step to consolidate our operations as a group, we will develop all the specialties together with the development of our leading specialties, make full use of the advantages of smart hospitals, and establish our presence in the field of big health in an all-round manner.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2021, the Group's consolidated revenue for the six months ended 30 June 2021 is RMB286.4 million, representing an increase of RMB41.7 million or 17.1% compared to the consolidated revenue of RMB244.7 million for the six months ended 30 June 2020. The increase is mainly due to the increase in revenue generated from treatments and general hospital services and pharmaceutical sales. The COVID-19 pandemic has led to a decrease in consolidated revenue in the first half of 2020, and after the pandemic came under relative effective control in the PRC in 2021, the Group's service volume saw a significant increase, which demonstrated the Company's strong ability to withstand risks.

Hospital Services

Henan Honliv Hospital provides hospital services on behalf of the Group. During the Reporting Period, (i) the total number of inpatient visits was 20,822 (for the six months ended 30 June 2020: 23,515), representing a year-on-year decrease of 11.5%; (ii) the average spending per inpatient visit was RMB6,552.5 (for the six months ended 30 June 2020: RMB5,621.8), representing a year-on-year increase of 16.6%; (iii) the average spending per outpatient visit was RMB255.3 (for the six months ended 30 June 2020: RMB229.4), representing a year-on-year increase of 11.3%; and (iv) the total number of outpatient visits was 587,413 (for the six months ended 30 June 2020: 485,789), representing a year-on-year increase of 20.9%.

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

	Six months ended 30 June		Change %
	2021	2020	
Outpatient visits	587,413	485,789	20.9
Average spending per outpatient visit (RMB)	255.3	229.4	11.3
Inpatient visits	20,822	23,515	(11.5)
Average spending per inpatient visit (RMB)	6,552.5	5,621.8	16.6
Number of beds in operation as of the end of the relevant period	1,500	1,500	0.0
Average length of stay per inpatient visit (days)	10.5	9.2	14.1
Number of surgeries	4,353	4,940	(11.9)

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's operating results in the first half of 2021 were significantly improved compared to the same period of last year. We have also achieved tangible results in hospital development and specialty development, including:

- (i) Our hospital was officially approved as an internet hospital in June 2021;
- (ii) The radiotherapy oncology centre was officially opened in June 2021; and
- (iii) In May 2021, our clinical laboratory was awarded as "Excellent Laboratory in Quality Management" by the Center for Clinical Laboratories of the Henan Provincial Health Commission (河南省衛生健康委臨床檢驗中心).

In the first half of 2021, the Group mainly adopted the following strategies to drive revenue of the hospital services:

- (i) Building a complete therapeutic chain for tumour treatment and improving the standards of tumour diagnosis and treatment;
- (ii) Establishing a radiotherapy department to provide radiation therapy services for patients with tumours;
- (iii) Taking advantage of the policies related to internet hospitals and provide online medical services in strict accordance with such policies;
- (iv) Improving the service environment of each department, expanding the scope of admission for critical patients, and improving the quality of services; and
- (v) Fully adapting to the health insurance payment reform and other policies to increase revenue and reduce expenditure.

Hospital Management Services

In June 2016, the Group entered into the Management Agreement with Jutan Hospital and its organizer, pursuant to which the Group provides hospital operation and management services in return for management fees fixed at 5% of Jutan Hospital's annual revenue pursuant to the Management Agreement.

In early 2021, Jutan Hospital underwent restructuring and became a public hospital. It was renamed as the Affiliated Jutan Hospital of Neixiang County Vocational School (內鄉縣職業中等專業學校附屬菊潭醫院). As a result of the restructuring, the Management Agreement was terminated in early 2021. As of the date of this interim report, the Company is negotiating with Jutan Hospital regarding the payment of the management fees.

The Directors confirm that the termination of the Management Agreement with Jutan Hospital has no material adverse effect on the ongoing business operation of the Company.

Up to the date of this interim report, the Group does not have any other management arrangement with any third-party hospital. The Group will continue to seek opportunities to expand our hospital management services.

MANAGEMENT DISCUSSION AND ANALYSIS

Pharmaceutical Sales

The Group's pharmaceutical sales mainly come from the direct sales of drugs to patients, and the revenue from pharmaceutical sales within the Reporting Period is RMB99.2 million (for the six months ended 30 June 2020: RMB83.8 million), representing a year-on-year increase of 18.4%.

COVID-19 Impact and Response

Although the COVID-19 pandemic came under effective control in the PRC and economic activities have been restored to the maximum possible extent in 2021, the COVID-19 pandemic still shows sporadic cases and locally clustered outbreaks in the PRC, and the pandemic prevention and control measures still cannot be relaxed. Based on the effective prevention and control measures, we have completed the construction of the first-phase building, the installation and commissioning of equipment, and other works, which has injected new vitality to the business development of our hospital.

The Directors are currently focusing on various possible cost control plans and will continue to pay attention to the impact of natural disaster outbreaks, such as the COVID-19 pandemic and floods in Henan province on our operating and financial performance, as well as closely monitoring our financial and liquidity position. Accordingly, the Directors believe that natural disasters only bring about temporary adverse impacts on operation and finance, and will not cause material adverse effect on our ongoing business operation and sustainable development.

However, our management cannot guarantee that natural disasters, such as the COVID-19 pandemic and floods, will not further deteriorate our operating results or have a material adverse effect on them.

Impact of and Response to Centralized Pharmaceutical Procurement

In 2021, the centralized procurement of drugs and high-value medical consumables was normalized, and its impact gradually appeared in our operating activities. The Company has carefully analysed the impact of the centralized procurement on our operating activities and taken active measures to cope with it. Our management will continue to pay attention to the impact of centralized procurement of drugs and high-value medical consumables on our operating results and financial performance, and closely monitor our financial and liquidity position.

However, our management cannot ensure that the centralized procurement of drugs and high-value medical consumables will not cause or have a material adverse effect on our operating results.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenues and Costs

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

	Six months ended 30 June			
	2021		2020	
	(RMB'000) (Unaudited)	% of revenue	(RMB'000) (Unaudited)	% of revenue
Treatments and general healthcare services	187,213	65.4%	159,869	65.4%
Pharmaceutical sales	99,191	34.6%	83,769	34.2%
Hospital management services	–	–	1,015	0.4%
Total	286,404	100.0%	244,653	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 categorized by source into revenue from the provision of healthcare services to inpatients and outpatients. The following table sets forth a breakdown of revenue of our hospital by source for the period indicated:

	Six months ended 30 June			
	2021		2020	
	(RMB'000) (Unaudited)	% of revenue	(RMB'000) (Unaudited)	% of revenue
Inpatient healthcare services	136,436	47.6%	132,197	54.0%
Outpatient healthcare services	149,968	52.4%	111,441	45.6%
Total	286,404	100.0%	243,638	99.6%

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Outpatient visits	587,413	485,789
Average spending per outpatient visit (RMB)	255.3	229.4
Inpatient visits	20,822	23,515
Average spending per inpatient visit (RMB)	6,552.5	5,621.8
Number of beds in operation as of the end of the relevant period	1,500	1,500

Our revenue rose by 17.1% from RMB244.7 million for the six months ended 30 June 2020 to RMB286.4 million for the six months ended 30 June 2021, primarily due to an increase in revenue generated from treatments and general hospital services and pharmaceutical sales.

MANAGEMENT DISCUSSION AND ANALYSIS

Our revenue from treatments and general healthcare services and pharmaceutical sales in aggregate grew by 17.6% from RMB243.6 million for the six months ended 30 June 2020 to RMB286.4 million for the six months ended 30 June 2021. The growth is largely because of an increase in the number of outpatient visits and the average spending per outpatient visit.

Our revenue from inpatient healthcare services went up by 3.2% from RMB132.2 million for the six months ended 30 June 2020 to RMB136.4 million for the six months ended 30 June 2021, primarily due to an increase in the average spending per inpatient visit, which led to a slight rise in inpatient revenue despite a decrease in inpatient visits.

Our revenue from outpatient healthcare services increased by 34.6% from RMB111.4 million for the six months ended 30 June 2020 to RMB150.0 million for the six months ended 30 June 2021. The rise in the revenue is largely because of an increase in the number of outpatient visits and the average spending per outpatient visit.

Cost of Sales

Our cost of sales 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 19.6% from RMB182.9 million for the six months ended 30 June 2020 to RMB218.7 million for the six months ended 30 June 2021, mainly due to (i) a year-on-year increase of RMB12.7 million in the cost of pharmaceuticals during the six months ended 30 June 2021; (ii) a year-on-year increase of RMB10.2 million in the cost of employee benefits during the six months ended 30 June 2021; and (iii) a year-on-year rise of RMB9.9 million in the cost of medical consumables during the period.

Gross Profit and Gross Profit Margin

Our gross profit rose by 9.6% from RMB61.8 million for the six months ended 30 June 2020 to RMB67.7 million for the six months ended 30 June 2021, and our gross profit margin shrank from 25.2% for the six months ended 30 June 2020 to 23.6% for the six months ended 30 June 2021. It is mainly due to the fact that the increase in the cost of sales is higher than that in revenue from sales as a result of the rise in the employee benefits expenses and medical consumables.

Other Expense

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 Global Offering and other expenses.

Our administrative expenses fell by 10.7% from RMB36.5 million for the six months ended 30 June 2020 to RMB32.6 million for the six months ended 30 June 2021, primarily due to the reduction in expense in relation to the listing from RMB12.7 million to zero.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Costs — net

Our net financial costs dropped by 21.9% from RMB10.6 million for the six months ended 30 June 2020 to RMB8.3 million for the six months ended 30 June 2021, primarily due to (i) a decrease in our interest expense from our decreased principal as a result of our quarterly repayment of interest on other borrowings; and (ii) a decline in our interest expense as a result of the repayment of short-term borrowings from some banks in 2020.

Income Tax Expense

Our income tax expense jumped by 399.6% from RMB1.4 million for the six months ended 30 June 2020 to RMB7.2 million for the six months ended 30 June 2021, primarily due to an increase in our profit before tax.

Profit for the Period and Net Profit Margin

For the foregoing reasons, our profit for the period grew by 49.7% from RMB13.4 million for the six months ended 30 June 2020 to RMB20.0 million for the six months ended 30 June 2021. Our net profit margin stood at 7.0% for the six months ended 30 June 2021, versus 5.5% for the six months ended 30 June 2020.

DISCUSSION OF ITEMS IN THE INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

Net Current Liabilities

Our net current liabilities decreased by 21.2% from RMB88.2 million as at 31 December 2020 to RMB69.5 million as at 30 June 2021. This is largely because of the cash inflows generated from our operating activities.

Inventories

Our inventories plummeted by 42.5% from RMB20.7 million as at 31 December 2020 to RMB11.9 million as at 30 June 2021. This is primarily due to the fact that the inventories reserved for the spring festival at the end of 2020 have been used up.

Trade Receivables

Our trade receivables climbed by 36.1% from RMB19.1 million as at 31 December 2020 to RMB25.9 million as at 30 June 2021, largely because of an increase in the advance payment of medical insurance for urban and rural residents and the slightly slow settlement of payment.

Indebtedness

Our borrowings dropped from RMB246.8 million as at 31 December 2020 to RMB230.0 million as at 30 June 2021. The balance during the Reporting Period fell by RMB16.8 million. This is mainly because we repaid part of the loans during the Reporting Period.

Trade and notes payables

Our trade and notes payables went down from RMB95.5 million as at 31 December 2020 to RMB83.1 million as at 30 June 2021. The balance during the Reporting Period fell by RMB12.4 million. This is mainly due to the fact that we had higher trade payables balance as at 31 December 2020 for the inventories reserved for the spring festival as mentioned above.

MANAGEMENT DISCUSSION AND ANALYSIS

Accruals and Other Payables

Our accruals and other payables decreased from RMB90.1 million as at 31 December 2020 to RMB81.9 million as at 30 June 2021. The balance during the Reporting Period dropped by RMB8.2 million, primarily due to the payment of listing fees and a decline in payroll payables.

Contingent Liabilities

As of 30 June 2021, 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 2021, our lease liabilities in respect of our leased properties amounted to approximately RMB4.0 million.

Liquidity and Capital Resources

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	32,582	31,498
Net cash used in investing activities	(17,582)	(11,737)
Net cash flows from financing activities	(28,995)	(39,741)
Net (decrease)/increase in cash balances	(13,995)	(19,980)

Net Cash Generated from Operating Activities

Our net cash generated from operating activities rose from RMB31.5 million for the six months ended 30 June 2020 to RMB32.6 million for the six months ended 30 June 2021, which was primarily attributed to (i) an increase in cash flows from operating activities due to a growth in our operating profit for the current period; and (ii) the income tax payment of RMB6.7 million in the first half of 2021 partially offsetting the cash flows from operating activities that grew as a result of the increase in operating profit.

Net Cash Flows Used in Investing Activities

Our net cash used in investing activities grew from RMB11.7 million for the six months ended 30 June 2020 to RMB17.6 million for the six months ended 30 June 2021, which was primarily attributed to an increase of RMB5.6 million due to purchases of properties, plants and equipment.

Net Cash Flows from Financing Activities

Our net cash flows from financing activities dropped from RMB39.7 million for the six months ended 30 June 2020 to RMB29.0 million for the six months ended 30 June 2021, mainly due to (i) the repayment of borrowings and related interest of RMB190.0 million in the first half of 2021; and (ii) the payment of listing fees of RMB3.3 million.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2021. 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 2021, our liability-to-asset ratio (total liabilities divided by total assets) was 42.5% (as of 31 December 2020: 45.5%).

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As of 30 June 2021, the interests and short positions of Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (b) to be and were entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, are as follows:

(i) The Company:

Name of Director	Long/Short Positions	Nature/ Capacity of Interest	Number of Shares/ Underlying Shares held	Percentage of Shareholding ⁽¹⁾
Mr. Qin Yan	Long position	Interest in a controlled corporation ⁽²⁾	310,788,450	51.80%
	Long position	Interest held jointly with another person ⁽⁴⁾	133,195,050	22.20%
Mr. Qin Hongchao	Long position	Interest in a controlled corporation ⁽³⁾	133,195,050	22.20%
	Long position	Interest held jointly with another person ⁽⁴⁾	310,788,450	51.80%

(ii) Associated Corporation (within the meaning of the SFO)

Name of Director	Name of Associated Corporation	Nature/Capacity of Interest	Class of Shares held	Number of Shares	Approximate percentage of the relevant company's issued share capital ⁽⁵⁾
Mr. Qin Yan	Sunny Rock	Beneficial Owner ⁽²⁾	Ordinary	1	100%

Notes:

- (1) As at the date of this interim report, the Company issued 600,000,000 Shares.
- (2) Sunny Rock, a company wholly-owned by Mr. Qin Yan, holds 310,788,450 Shares of the Company. Accordingly, Mr. Qin Yan is deemed to be interested in such shares held by Sunny Rock by virtue of Part XV of the SFO.
- (3) Rubrical Investment, a company wholly-owned by Mr. Qin Hongchao, holds 133,195,050 Shares of the Company. Accordingly, Mr. Qin Hongchao is deemed to be interested in such shares held by Rubrical Investment by virtue of Part XV of the SFO.
- (4) Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock, and Rubrical Investment are concert parties under the Concert Party Agreement. Therefore, under the SFO, each of Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock, and Rubrical Investment is deemed to be interested in the aggregate equity interests of all the concert parties.
- (5) As at the date of this interim report, Sunny Rock issued 1 share.

OTHER INFORMATION

Save as disclosed above, as of 30 June 2021, none of the Directors or Chief Executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES AND UNDERLYING SHARES

To the best knowledge of Directors, as of 30 June 2021, the following persons (other than Directors or chief executives of the Company), are directly or indirectly, interested in 5% or more of the shares or short positions in the shares and the underlying shares of the Company, which were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name of Shareholder	Long/Short Positions	Nature/ Capacity of Interest	Number of Shares	Percentage of Shareholding ⁽¹⁾
Cao Jinming	Long Position	Interest of spouse ⁽²⁾	443,983,500	74.00%
Rubrical Investment	Long Position	Beneficial owner	133,195,050	22.20%
	Long Position	Parties acting in concert/ Interest in controlled corporations ⁽⁴⁾	310,788,450	51.80%
Sun Mingyan	Long Position	Interest of spouse ⁽³⁾	443,983,500	74.00%
Sunny Rock	Long Position	Beneficial owner	310,788,450	51.80%
	Long Position	Parties acting in concert/ Interest in controlled corporations ⁽⁴⁾	133,195,050	22.20%
HWABAO TRUST CO., LTD	Long Position	Trustee	50,888,000	8.48%
HWABAO OVERSEAS INVESTMENT SERIES 2 NO 42-16 QDII SINGLE MONEY TRUST	Long Position	Trustee	50,888,000	8.48%
Changyuan City Investment Group Co., Ltd.*	Long Position	Beneficial owner	50,888,000	8.48%

Notes:

- (1) As at the date of this interim report, the Company issued 600,000,000 Shares.
- (2) Ms. Cao Jinming is the spouse of Mr. Qin Hongchao, and is deemed to be interested in the same number of Shares by virtue of the SFO.
- (3) Ms. Sun Mingyan is the spouse of Mr. Qin Yan, and is deemed to be interested in the same number of Shares by virtue of the SFO.
- (4) Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock, and Rubrical Investment are concert parties under the Concert Party Agreement. Therefore, under the SFO, each of Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock, and Rubrical Investment is deemed to be interested in the aggregate equity interests of all the concert parties.

* English translation is for identification purpose only.

Save as disclosed above, as at the date of this interim report, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register which is required to be kept under section 336 of the SFO.

OTHER INFORMATION

SHARE OPTION SCHEME

The Company has conditionally approved and adopted a share option scheme on 17 June 2020 (the “**Share Option Scheme**”). The principal terms of the Share Option Scheme are prepared in accordance with the provisions of Chapter 17 of the Listing Rules and other rules and regulations. A summary of the principal terms of which are set out in the section headed “E. Share Option Scheme” in Appendix V to the Prospectus.

As at the date of this interim report, no options were granted or agreed to be granted, exercised, canceled or lapsed by the Company under the Share Option 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 30 June 2021:

Business objective as stated in the Prospectus	Percentage to total amount %	Net proceeds HK\$ million	Utilised amount as at 30 June 2021 HK\$ million	Unutilised amount as at 30 June 2021 HK\$ million	Expected timeline for unutilized amount
Finance the ramp up of the Company's first-phase building	29.5	78.0	69.3	8.7	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	By the end of 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
Employee recruitment and training	5.0	13.3	13.3	0	Within three years after receiving net proceeds
Total	100.0	264.8	130.4	134.4	

OTHER INFORMATION

Note:

The timeline is based on the Company's estimation of its business needs as of the date of this interim report 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 30 June 2021, 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 interim report as required under the Listing Rules.

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

During the six months ended 30 June 2021, 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 interim report, there were no material events after the Reporting period.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the Reporting Period, 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 as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by Directors.

Having made specific enquiry by the Company, all the Directors confirmed that they had complied with the requirements as set out in the Model Code during the Reporting Period.

OTHER INFORMATION

CHANGES IN THE BOARD AND THE DIRECTORS' INFORMATION

There was no change in the Board and the information of Directors since 31 December 2020 which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CONTINUING DISCLOSURE OBLIGATION PURSUANT TO THE LISTING RULES

The Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

REVIEW BY 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 2021 have been reviewed by all members of the Audit Committee. Based on such review, the Audit Committee was of the opinion that the Group's unaudited interim 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 2021.

EMPLOYEES AND REMUNERATION POLICIES

The total number of employees were approximately 1,606 as at 30 June 2021 (31 December 2020: 1,586). For the six months ended 30 June 2021, the staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately RMB84.0 million (for the six months ended 30 June 2020: 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.

On behalf of the Board

Honliv Healthcare Management Group Company Limited

Mr. Qin Yan

Chairman

23 August 2021

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF HONLIV HEALTHCARE MANAGEMENT GROUP COMPANY LIMITED

(incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 21 to 40, which comprises the interim condensed consolidated balance sheet of Honliv Healthcare Management Group Company Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2021 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 23 August 2021

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue	5	286,404	244,653
Cost of sales	6	(218,739)	(182,889)
Gross profit		67,665	61,764
Administrative expenses	6	(32,619)	(36,521)
Other income		535	220
Other gains — net		26	77
Other expense		(98)	(98)
Operating profit		35,509	25,442
Finance income		543	236
Finance costs		(8,837)	(10,861)
Finance costs — net	7	(8,294)	(10,625)
Profit before income tax		27,215	14,817
Income tax expense	8	(7,179)	(1,437)
Profit for the period		20,036	13,380
Other comprehensive income		—	—
Total comprehensive income		20,036	13,380
Profit and total comprehensive income attributable to:			
Owners of the Company		19,823	13,243
Non-controlling interests		213	137
		20,036	13,380
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
Basic and diluted earnings per share	9	0.03	0.03

The above interim condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2021	31 December 2020
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	11	529,672	489,350
Right-of-use assets	12(a)	83,377	83,174
Investment properties		2,971	3,070
Intangible assets		566	525
Deferred income tax assets		1,153	1,153
Prepayments		4,426	42,982
Total non-current assets		622,165	620,254
Current assets			
Inventories		11,899	20,707
Trade receivables	13	25,938	19,055
Other receivables and prepayments		8,754	4,420
Amounts due from related parties	14	220	–
Restricted deposit		–	5,550
Cash and cash equivalents	15	287,304	302,478
Total current assets		334,115	352,210
Total assets		956,280	972,464
EQUITY			
Equity attributable to the owners of the Company			
Share capital		52	52
Reserves		437,515	435,399
Retained earnings		107,467	89,760
Subtotal		545,034	525,211
Non-controlling interests		4,619	4,406
Total equity		549,653	529,617

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities	12(b)	1,041	440
Deferred revenue		2,000	2,000
Total non-current liabilities		3,041	2,440
Current liabilities			
Borrowings	16	229,958	246,769
Trade and notes payables	17	83,104	95,547
Current income tax liabilities		5,684	5,185
Accruals, other payables and provisions	18	81,861	90,066
Lease liabilities	12(b)	2,979	2,840
Total current liabilities		403,586	440,407
Total liabilities		406,627	442,847
Total equity and liabilities		956,280	972,464

The above interim condensed consolidated balance sheet should be read in conjunction with the accompanying note.

The financial information on pages 21 to 40 were approved by the Board of Directors on 23 August 2021 and were signed on its behalf

Qin Yan

Wang Zhongtao

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the owners of the Company				Non-controlling interests RMB'000	Total equity RMB'000
	Share Capital RMB'000	Reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000		
(Unaudited)						
Balance at 1 January 2021	52	435,399	89,760	525,211	4,406	529,617
Comprehensive income						
— Profit for the period	—	—	19,823	19,823	213	20,036
Transactions with owners						
— Appropriation to statutory surplus reserves	—	2,116	(2,116)	—	—	—
Balance at 30 June 2021	52	437,515	107,467	545,034	4,619	549,653
(Unaudited)						
Balance at 1 January 2020	33	166,146	71,394	237,573	4,055	241,628
Comprehensive income						
— Profit for the period	—	—	13,243	13,243	137	13,380
Transactions with owners						
— Appropriation to statutory surplus reserves	—	1,348	(1,348)	—	—	—
Balance at 30 June 2020	33	167,494	83,289	250,816	4,192	255,008

The above interim condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Cash flows from operating activities			
Cash generated from operations		39,262	33,072
Income taxes paid		(6,680)	(1,574)
Net cash generated from operating activities		32,582	31,498
Cash flows from investing activities			
Payments for purchase of property, plant and equipment		(17,399)	(11,817)
Payments for purchase of intangible assets		(183)	(156)
Interests received		-	236
Net cash used in investing activities		(17,582)	(11,737)
Cash flows from financing activities			
Borrowings from banks and financial institutions		165,000	203,000
Repayments of borrowings from banks and financial institutions		(181,811)	(222,375)
Principal elements of lease payments		(765)	(765)
Dividends paid to shareholders		-	(7,227)
Payments of listing expenses		(3,262)	(1,099)
Interest paid		(8,157)	(11,275)
Net cash used in financing activities		(28,995)	(39,741)
Net decrease in cash and cash equivalents		(13,995)	(19,980)
Cash and cash equivalents at beginning of period	15	302,478	104,602
Exchange losses on cash and cash equivalents		(1,179)	-
Cash and cash equivalents at end of period	15	287,304	84,622

The above interim condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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 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 2021 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 2020, 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 2021.

(a) Going concern

As at 30 June 2021, the Group’s current liabilities exceeded its current assets by RMB69,471,000, which was mainly resulted by current borrowing of RMB229,958,000. The Group had operating cash inflow of RMB32,582,000 for the six months ended 30 June 2021 and cash and cash equivalents of RMB287,304,000 as at 30 June 2021.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

2 BASIS OF PRESENTATION AND ACCOUNTING POLICIES *(Continued)*

(a) Going concern *(Continued)*

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.
- Henan Honliv Hospital Co., Ltd. ("Honliv Hospital") had obtained an additional loan facility of RMB150 million from one of its existing banks on 18 March 2021. Application of one-year loan drawdown 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.

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 2021.

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.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2021 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.

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 2021, so no segment information was presented.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

4 FINANCIAL RISK MANAGEMENT**4.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial statements as at 31 December 2020.

There have been no changes in the risk management policies since year end.

4.2 Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents to meet operating capital requirements.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Total contractual cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
At 30 June 2021					
Borrowings	238,972	–	–	238,972	229,958
Trade and notes payables	83,104	–	–	83,104	83,104
Accruals, other payables and provision (excluding accrued employee benefits and duty and other tax payable)	47,565	–	–	47,565	47,565
Lease liabilities	3,076	580	580	4,236	4,020
	372,717	580	580	373,877	364,647
At 31 December 2020					
Borrowings	254,699	–	–	254,699	246,769
Trade and notes payables	95,547	–	–	95,547	95,547
Accruals, other payables and provision (excluding accrued employee benefits and duty and other tax payable)	48,737	–	–	48,737	48,737
Lease liabilities	3,545	451	–	3,996	3,280
	402,528	451	–	402,979	394,333

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

5 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	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Nature of revenue recognition		
Treatments and general healthcare service	187,213	159,869
Pharmaceutical sales	99,191	83,769
Hospital management services	–	1,015
	286,404	244,653
Timing of revenue recognition		
At a point in time	191,855	148,513
Over time	94,549	96,140
	286,404	244,653

6 EXPENSES BY NATURE

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Employee benefits expenses	84,030	73,384
Cost of pharmaceuticals	80,654	67,957
Cost of medical consumables	39,593	29,686
Utilities, maintenance fee and office expenses	22,779	15,040
Depreciation and amortization	16,577	13,903
Auditors' remuneration	1,115	800
Expenses in relation to the Listing	–	12,676
Other expenses	6,610	5,964
	251,358	219,410

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

7 FINANCE COSTS — NET

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Finance cost:		
Interest expense on bank borrowings	5,840	6,719
Interest expense on other borrowings	1,695	3,996
Interest expense on lease liabilities	123	146
Net foreign exchange losses	1,179	—
Total finance cost	8,837	10,861
Finance income:		
Interest income	(543)	(236)
Finance costs — net	8,294	10,625

8 INCOME TAX EXPENSE

The income tax expense of the Group for the six months ended 30 June 2021 and 2020 is analysed as follows:

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Current income tax		
— PRC corporate income tax	7,179	1,437
— Deferred income tax	—	—
	7,179	1,437

9 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 2021.

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Profit attributable to owners of the Company (RMB'000)	19,823	13,243
Weighted average number of ordinary shares deemed to be in issue (in thousands)	600,000	450,000
Basic earnings per share (in RMB)	0.03	0.03

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

9 EARNINGS PER SHARE (Continued)**(b) Diluted earnings per share**

Diluted earnings per share were the same as basic earnings per share as the Group had no potential dilutive shares during the six months ended 30 June 2021.

10 DIVIDENDS

The board of directors of the Company does not resolve to declare an interim dividend for the six months ended 30 June 2021 (30 June 2020: Nil).

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Office equipment and furniture fixtures <i>RMB'000</i>	Vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2020						
Cost	243,381	215,592	35,737	22,570	297,239	814,519
Accumulated depreciation	(115,718)	(157,972)	(30,660)	(20,819)	–	(325,169)
Net book amount	127,663	57,620	5,077	1,751	297,239	489,350
(Unaudited)						
Six months ended 30 June 2021						
Opening net book amount	127,663	57,620	5,077	1,751	297,239	489,350
Additions	45	10,950	946	–	42,617	54,558
Disposals	–	(29)	(14)	–	–	(43)
Depreciation charge	(4,810)	(8,240)	(952)	(191)	–	(14,193)
Closing net book amount	122,898	60,301	5,057	1,560	339,856	529,672
As at 30 June 2021						
Cost	243,426	217,538	36,530	22,570	339,856	859,920
Accumulated depreciation	(120,528)	(157,237)	(31,473)	(21,010)	–	(330,248)
Net book amount	122,898	60,301	5,057	1,560	339,856	529,672

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

12 LEASES

(a) Right-of-use assets

	Office RMB'000	Land use rights RMB'000	Total RMB'000
Year ended 31 December 2020 (Audited)			
Opening net book amount	4,257	83,401	87,658
Depreciation and amortisation	(2,122)	(2,362)	(4,484)
Closing net book amount	2,135	81,039	83,174
Year ended 31 December 2020 (Audited)			
Cost	5,845	118,092	123,937
Accumulated depreciation and amortisation	(3,710)	(37,053)	(40,763)
Net book amount	2,135	81,039	83,174
At 30 June 2021 (Unaudited)			
Opening net book amount	2,135	81,039	83,174
Additions	1,508	1,054	2,562
Depreciation and amortisation	(1,052)	(1,307)	(2,359)
Closing net book amount	2,591	80,786	83,377
At 30 June 2021 (Unaudited)			
Cost	6,312	119,146	125,458
Accumulated depreciation and amortisation	(3,721)	(38,360)	(42,081)
Net book amount	2,591	80,786	83,377

(b) Lease liabilities

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Lease liabilities		
Current	2,979	2,840
Non-current	1,041	440
Total	4,020	3,280

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

13 TRADE RECEIVABLES

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Trade receivables	30,627	23,744
Less: allowance for impairment of trade receivables	(4,689)	(4,689)
Trade receivables — net	25,938	19,055

As at 30 June 2021 and 31 December 2020, the ageing analysis of the trade receivables based on demand note date was as follows:

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Up to 3 months	19,186	15,627
3 to 6 months	3,043	2,289
6 months to 1 year	3,401	2,624
1 to 2 years	4,977	2,947
2 to 3 years	20	244
Over 3 years	—	13
	30,627	23,744

14 BALANCES WITH RELATED PARTIES

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Amounts due from related parties		
Trade in nature		
— Henan Guxiang No.9 Catering Co., Ltd.	55	—
— Henan Honliv Yishenghuo Co., Ltd.	165	—
	220	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

15 CASH AND CASH EQUIVALENTS

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Cash at bank	284,199	299,217
Cash on hand	3,105	3,261
	287,304	302,478

16 BORROWINGS

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Current		
Short-term bank borrowings (a)		
— Secured borrowings (b)	70,700	70,900
— Guaranteed borrowings (c)	112,000	112,000
— Other bank borrowings	30,000	30,000
	212,700	212,900
Other borrowings (d)	17,258	33,869
	229,958	246,769

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16 BORROWINGS (Continued)**(a) Bank borrowings**

Secured borrowings for the six months ended 30 June 2021 and 31 December 2020 beared weighted average annual interest rate at 5.27% and 5.48%, respectively.

Guaranteed borrowings for the six months ended 30 June 2021 and 31 December 2020 beared weighted average annual interest rate at 6.22% and 6.80%, respectively.

Other bank borrowings for the six months ended 30 June 2021 and 31 December 2020 beared weighted average annual interest rate at 5.00% and 5.00%, respectively.

The maturity of bank borrowings is as follows:

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Maturity of bank borrowings		
No later than 1 year	212,700	212,900

(b) Bank borrowings of the Group which are secured by the following:

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Property, plant and equipment and investment properties of the Group	70,700	70,900

(c) Certain bank borrowings of the Group are unsecured but guaranteed as follows:

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
The Group	112,000	112,000

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

16 BORROWINGS (Continued)

(d) Other borrowings

(i) Other borrowings are secured by:

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Machinery and equipment	17,258	33,869

(ii) The maturity of other borrowings is as follows:

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Maturity of other borrowings No later than 1 year	17,258	33,869

17 TRADE AND NOTES PAYABLES

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Trade payables	83,104	89,997
Notes payables	-	5,550
	83,104	95,547

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

17 TRADE AND NOTES PAYABLES (Continued)

As at 30 June 2021 and 31 December 2020, the aging analysis of the trade payables based on demand note date was as follows:

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Trade payables		
Up to 3 months	54,750	60,765
3 to 6 months	18,284	17,387
6 months to 1 year	5,469	7,413
1 to 2 years	1,107	1,099
2 to 3 years	223	416
Over 3 years	3,271	2,917
	83,104	89,997

18 ACCRUALS, OTHER PAYABLES AND PROVISIONS

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Accrued employee benefits	31,972	39,031
Deposit from patients (a)	35,682	32,740
Payables for plant and equipment	6,513	6,442
Duty and other tax payable	2,324	2,298
Interest payable	515	1,014
Listing expense payable	–	3,262
Others	4,855	5,279
	81,861	90,066

- (a) Deposit from patients includes refundable deposits in the prepaid smart card issued by Honliv Hospital and other refundable deposits made by the patients of Honliv Hospital.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

19 COMMITMENTS

Capital commitments

The following is the details of capital expenditure contracted for but not provided in the consolidated financial statements:

	As at 30 June 2021 RMB'000	As at 31 December 2020 RMB'000
Contracted but not provided for — Property, plant and equipment	20,946	8,873

20 RELATED PARTY TRANSACTIONS

In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

The following companies are significant related parties of the Group that had transactions and/or balances with the Group.

Name	Relationship with the Group
Henan Honliv Group Co., Ltd. (河南省宏力集團有限公司)	Entity controlled by a close family member of the controlling shareholders
Henan Hongda Constructions Engineering Co., Ltd. (河南省宏大建設工程有限公司) (“Hongda”)	Entity controlled by a close family member of the controlling shareholders
Henan Honliv Yishenghuo Co., Ltd. (河南省宏力一生活有限公司)	Entity controlled by the controlling shareholders
Henan Guxiang No.9 Catering Co., Ltd. (河南省谷香九號餐飲有限公司)	Common director of the Company
Henan Honliv School (河南省宏力學校有限公司)	Entity controlled by a close family member of the controlling shareholders

The following significant transactions were carried out between the Group and its related parties.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

20 RELATED PARTY TRANSACTIONS (Continued)**(a) Transactions with related parties****Continuing transactions**

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Medical examination service provided to related parties		
— Henan Honliv Group Co., Ltd.	12	—
— Henan Honliv School Co., Ltd.	—	1
	12	1
Premise rental provided to		
— Henan Honliv Yishenghuo Co., Ltd.	101	165
— Henan Guxiang No.9 Catering Co. Ltd.	34	55
	135	220
	147	221
Purchase of rental services from		
— Henan Honliv Group Co., Ltd.	290	290
Purchase of goods from		
— Henan Honliv Yishenghuo Co., Ltd.	109	141
	399	431

Other transactions

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Purchase of construction services from		
— Hongda	21,188	4,739

The transaction with Hongda represented the construction expenditure which were prepaid to Hongda as of 31 December 2020 and were transferred into construction in progress in the six months ended 2021 according to the construction progress.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

20 RELATED PARTY TRANSACTIONS *(Continued)***(b) Period/Year-end balances arising from sales of services**

Balances with related parties as at 30 June 2021 and 31 December 2020 were disclosed in note 14.

(c) Key management compensation

Key management includes directors (executive and non-executive) and senior managements. The compensation paid or payable to key management for employee services is shown below:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Wages and salaries	1,201	1,630
Contributions to pension plans	19	18
Welfare and other expenses	12	27
	1,232	1,675