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Honliv Healthcare Management Group Company Limited

宏力醫療管理集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9906)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL SUMMARY

	Six months ended 30 June		Change %
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)	
Revenue	374,742	286,404	30.8%
Gross profit	83,571	67,665	23.5%
Profit for the period attributable to owners of the Company	32,173	19,823	62.3%
Basic and diluted earnings per share	0.05	0.03	66.7%

RESULTS

The Board of the Company announces the unaudited consolidated financial results of the Group for the six months ended 30 June 2022, together with the comparative figures for the corresponding period in 2021 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	Six months ended 30 June	
		2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Revenue	4	374,742	286,404
Cost of sales		(291,171)	(218,739)
Gross profit		83,571	67,665
Administrative expenses		(35,205)	(32,619)
Net impairment losses on financial assets		(6,654)	–
Other income		243	535
Other (losses)/gains — net		(9)	26
Other expenses		(98)	(98)
Operating profit		41,848	35,509
Finance income		4,916	543
Finance costs		(4,933)	(8,837)
Finance costs — net		(17)	(8,294)
Profit before income tax		41,831	27,215
Income tax expense	5	(9,376)	(7,179)

		Six months ended 30 June	
		2022	2021
	<i>Notes</i>	RMB'000	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Profit for the period		32,455	20,036
Other comprehensive income		<u>—</u>	<u>—</u>
Total comprehensive income		<u>32,455</u>	<u>20,036</u>
Profit and total comprehensive income attributable to:			
Owners of the Company		32,173	19,823
Non-controlling interests		<u>282</u>	<u>213</u>
		<u>32,455</u>	<u>20,036</u>
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
Basic and diluted earnings per share	6	<u>0.05</u>	<u>0.03</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2022	31 December 2021
<i>Notes</i>		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		523,766	540,347
Right-of-use assets		80,800	81,134
Investment properties		2,776	2,874
Intangible assets		904	566
Deferred income tax assets		3,950	1,174
Prepayments		3,035	8,429
		615,231	634,524
Total non-current assets			
Current assets			
Inventories		17,232	27,137
Trade receivables	7	56,458	34,499
Other receivables and prepayments		1,003	1,944
Amounts due from related parties		220	–
Restricted deposit		2,400	–
Cash and cash equivalents		271,950	263,610
		349,263	327,190
Total current assets		349,263	327,190
Total assets		964,494	961,714

		30 June	31 December
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
EQUITY			
Equity attributable to the owners of the Company			
Share capital		52	52
Reserves		439,389	439,389
Retained earnings		154,558	122,385
		<hr/>	<hr/>
Subtotal		593,999	561,826
		<hr/>	<hr/>
Non-controlling interests		5,091	4,809
		<hr/>	<hr/>
Total equity		599,090	566,635
		<hr/> <hr/>	<hr/> <hr/>
LIABILITIES			
Non-current liabilities			
Lease liabilities		1,848	540
Deferred revenue		1,961	1,994
		<hr/>	<hr/>
Total non-current liabilities		3,809	2,534
		<hr/>	<hr/>
Current liabilities			
Trade and notes payables	8	100,906	106,087
Accruals, other payables and provisions		92,300	92,288
Current income tax liabilities		7,460	6,228
Borrowings		160,000	187,000
Lease liabilities		929	942
		<hr/>	<hr/>
Total current liabilities		361,595	392,545
		<hr/>	<hr/>
Total liabilities		365,404	395,079
		<hr/>	<hr/>
Total equity and liabilities		964,494	961,714
		<hr/> <hr/>	<hr/> <hr/>

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 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 2022 has been prepared in accordance with Hong Kong Accounting Standard 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 2021, 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 2022.

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

(a) Going concern

As at 30 June 2022, the Group's current liabilities exceeded its current assets by RMB12,332,000 and the Group had cash and cash equivalents of RMB271,950,000.

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

- Management has been communicating with the banks which are providing existing banking facilities to the Group with a view to proactively managing the renewal of the Group's banking facilities upon maturity and securing additional credit facilities.
- On 16 March 2022 and 17 March 2022, Henan Honliv Hospital Co., Ltd. ("Honliv Hospital") obtained additional loan facilities of RMB200 million from two of the banks. Application of one-year loan drawdowns can be made under these facilities until 16 March 2023 and 17 March 2023 subject to the approval and conditions imposed by the banks. As at the reporting date, the Group has not utilized these additional loan facilities.

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 2022.

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 applied by the Group

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

3 SEGMENT REPORTING

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

The Group has only one operating segment during the six months ended 30 June 2022, so no segment information was presented.

4 REVENUE

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Nature of revenue recognition		
Treatments and general healthcare service	238,292	187,213
Pharmaceutical sales	136,450	99,191
	<u>374,742</u>	<u>286,404</u>
Timing of revenue recognition		
At a point in time	255,309	191,855
Over time	119,433	94,549
	<u>374,742</u>	<u>286,404</u>

5 INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax		
— PRC corporate income tax	12,153	7,179
Deferred income tax	(2,777)	—
	<u>9,376</u>	<u>7,179</u>

6 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended 30 June 2022.

	Six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Profit attributable to owners of the Company (<i>RMB'000</i>)	32,173	19,823
Weighted average number of ordinary shares in issue (<i>in thousands</i>)	<u>600,000</u>	<u>600,000</u>
Basic earnings per share (<i>in RMB</i>)	<u>0.05</u>	<u>0.03</u>

(b) Diluted earnings per share

Diluted earnings per share were the same as basic earnings per share as the Group had no potential dilutive shares during the six months ended 30 June 2022.

7 TRADE RECEIVABLES

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
	Trade receivables	67,886
Less: allowance for impairment of trade receivables (<i>a</i>)	<u>(11,428)</u>	<u>(4,774)</u>
Trade receivables — net	<u>56,458</u>	<u>34,499</u>

- (a) The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for trade receivables. For trade receivables which have significant changes in credit risk, management assessed their expected credit losses on an individual basis. For trade receivables that share same risk characteristics with others, management assessed the expected credit losses on a collective basis. Management identified macroeconomic conditions, industry risks and probabilities of default to which it sells its services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

As at 30 June 2022 and 31 December 2021, the ageing analysis of the trade receivables based on demand note date was as follows:

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Up to 3 months	58,783	30,038
3 to 6 months	2,391	2,141
6 months to 1 year	2,048	2,219
1 to 2 years	53	1,847
2 to 3 years	4,362	2,784
Over 3 years	249	244
	67,886	39,273

8 TRADE AND NOTES PAYABLES

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Trade payables	98,506	106,087
Notes payables	2,400	–
	100,906	106,087

As at 30 June 2022 and 31 December 2021, the aging analysis of the trade payables based on demand note date was as follows:

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Trade payables		
Up to 3 months	69,845	83,439
3 to 6 months	18,275	16,194
6 months to 1 year	6,519	1,351
1 to 2 years	570	1,253
2 to 3 years	69	725
Over 3 years	3,228	3,125
	98,506	106,087

9 DIVIDENDS

The board of directors of the Company does not resolve to declare an interim dividend for the six months ended 30 June 2022 (30 June 2021: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW AND OUTLOOK

With the changing trends of the COVID-19 pandemic, more precise and efficient prevention and control policies and measures were implemented in 2022. The volume of healthcare services offered by medical and healthcare institutions across the country, especially by private hospitals, has grown significantly. Under the prevention and control measures of the pandemic, the medical and health system reform has accelerated. Medical and healthcare institutions shifted their focus from disease management to national health management. Hospital management changed from qualitative to quantitative management and from results management to process management. The centralised procurement of drugs and medical consumables became normalized and will gradually cover more categories of drugs and medical consumables. Healthcare service pricing mechanism will be adjusted, while diversified payment methods for healthcare insurance, including Diagnosis-Related Group (DRG)/Diagnosis-Intervention Packet (DIP), have been gradually adopted. As the aging of society has become inevitable, healthcare services for the aging society have received more and more attention. These reform measures and social development needs have a profound impact on the development direction of our Hospital. Looking ahead, the Group expects to:

1. Focus on its principal businesses to enhance core competitiveness, bolster brand influence, and ensure patient satisfaction throughout the healthcare services process.
2. Step up efforts on talent training, strengthen the mechanism of joint talent training by our Hospital and schools in the region, and build a healthcare team with reasonable talent composition, high professionalism standards and strong service awareness, in order to better serve the growing number of patients and lay a good foundation for the sustainable and healthy development of our Hospital.
3. Develop application software according to the actual clinical needs through our information technology team, and structure and standardise the healthcare service process to increase service efficiency.
4. Encourage clinical academic research, the publication of academic papers and the transformation of research achievements into productivity, strengthen academic exchanges at home and abroad, and introduce cutting edge medical technologies and precision instruments that are advanced, safe, effective and economical, in order to provide patients with high-quality healthcare services.

5. Adapt to the latest development of healthcare management, and study relevant healthcare policies, popularize knowledge of health economics, take active measures to deal with the changes in medical practices brought about by the reform of healthcare insurance payment methods, study the characteristics of healthcare service needs in the aging society, expand the business scope, and optimise the service chain.
6. Enhance compliance awareness, comply with various regulatory systems in the industry, comply with the Code for Listed Companies, optimise corporate governance, and ensure healthcare quality and safety.
7. Actively seek investment targets and expand the business size of the Group through new projects, export of management and know-how, etc., with a view to achieving its development goals.

BUSINESS REVIEW

During the first half of 2022, the Group's consolidated revenue for the six months ended 30 June 2022 is RMB374.7 million, representing an increase of RMB88.3 million or 30.8% compared to the consolidated revenue of RMB286.4 million for the six months ended 30 June 2021. The increase is primarily due to the rise in revenue generated from treatments and general hospital services and pharmaceutical sales. This is largely because (i) new diagnostic devices were added after the first-phase building was put into use, which provided a more comprehensive and reliable diagnostic basis for clinical practices; (ii) the Group optimised the information-based diagnosis and treatment process, shortening the waiting time; (iii) the Group expanded the area of healthcare rooms and beautified the medical environment; (iv) the introduction of talents and the application of new technologies have improved the quality of medical care. Patient experience has been improved and service volume has increased significantly. It demonstrates the Group's strong ability to resist 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 24,863 (for the six months ended 30 June 2021: 20,822), representing a year-on-year increase of 19.4%; (ii) the average spending per inpatient visit was RMB7,289.2 (for the six months ended 30 June 2021: RMB6,552.5), representing a year-on-year increase of 11.2%; (iii) the average spending per outpatient visit was RMB300.7 (for the six months ended 30 June 2021: RMB255.3), representing a year-on-year increase of 17.8%; and (iv) the total number of outpatient visits was 643,476 (for the six months ended 30 June 2021: 587,413), representing a year-on-year increase of 9.5%.

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 %
	2022	2021	
Outpatient visits	643,476	587,413	9.5
Average spending per outpatient visit (<i>RMB</i>)	300.7	255.3	17.8
Inpatient visits	24,863	20,822	19.4
Average spending per inpatient visit (<i>RMB</i>)	7,289.2	6,552.5	11.2
Number of beds in operation as of the end of the relevant period	1,500	1,500	
Average length of stay per inpatient visit (<i>days</i>)	9.7	10.5	(7.6)
Number of surgeries	5,661	4,353	30.0

The Group's operating results in the first half of 2022 grew significantly compared to the same period of last year. The Group mainly adopted the following strategies to drive up revenue for hospital services:

- (i) Building an intelligent hospital based on the information system to improve work efficiency and healthcare quality, and introducing multiple services such as self-service checklist issuance to constantly improve patient experience;
- (ii) Setting a multidisciplinary team (MDT) outpatient department and a special need outpatient department to provide one-stop, one-to-one healthcare services; launching home care services to extend the nursing care service chain;
- (iii) Improving the professional skills of technicians through training inside and outside the Hospital and other ways; making full use of policies on talent introduction and talent assistance to strengthen the ability to diagnose and treat severe and difficult cases; exploring the model of joint talent training by the Hospital and schools to reserve new forces for the development of the Hospital;
- (iv) Carrying out scopic surgeries and examinations to create a minimally invasive and painless diagnosis and treatment service chain;
- (v) Actively participating in the normal prevention and control of COVID-19 by carrying out socialised nucleic acid tests and vaccination, etc; and
- (vi) Fully adapting to various policies such as the reform of healthcare insurance payment methods to increase revenue and reduce expenditure.

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 RMB136.5 million (for the six months ended 30 June 2021: RMB99.2 million), representing a year-on-year increase of 37.6%.

Continuously improving the level of academic research

As a medical institution dedicated to ensuring human health, the Group constantly explores in the fields of medical research and hospital management. In the first half of 2022, the Group's hospital published 16 medical research papers, including 2 at the national level and 9 at the provincial level. During the Reporting Period, the Group has had the following research achievements:

- (i) in February 2022, the Henan Provincial Department of Science and Technology recognised Henan Honliv Hospital as the Henan Provincial Engineering Technology Research Centre for Early Diagnosis and Early Treatment of Gastrointestinal Tumours, which provides a good platform for the research and achievement transformation in the prevention, early diagnosis and treatment of digestive tract tumours.
- (ii) 11 information management systems independently developed by Henan Honliv Hospital, such as the Comprehensive Operation and Maintenance Platform and the Comprehensive Payment Platform, were certified as scientific and technological achievements by the Henan Provincial Department of Science and Technology in March 2022, involving intelligent management at all stages and aspects of healthcare services, including prescription review, single disease, vaccination, meals, pre-hospital care, aggregate payment, as well as comprehensive operation and maintenance. The aim is to build an intelligent hospital, increase work efficiency and ensure healthcare quality.
- (iii) In April 2022, the Henan Medical Association granted the third prize of Henan Medical Science and Technology Award for the Hospital's programme concerning the clinical characteristics and prognosis of triple-negative breast cancer patients with postoperative initial visceral metastasis.

In order to improve the overall diagnosis and treatment level and management capability, the Group invited well-known experts in the medical field to attend case discussions, special lectures and other activities, which not only allow patients to enjoy high-quality healthcare resources, but also provide a good learning opportunity for its technicians. This further improves the precision diagnosis and treatment ability of the Hospital. The Group will provide patients with better services by improving its scientific research capabilities.

Impact of COVID-19 Pandemic

During the Reporting Period, the COVID-19 pandemic still shows clustered outbreaks, and the pandemic prevention and control measures still have not been relaxed.

The Directors are currently focusing on various possible cost control plans and will continue to pay attention to the impact of the COVID-19 pandemic on our operating and financial performance, as well as closely monitoring our financial and liquidity position. The Directors believe that the COVID-19 pandemic only brings 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 COVID-19 pandemic will not have material adverse effect on our operating results.

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			
	2022		2021	
	(RMB'000)	% of revenue	(RMB'000)	% of revenue
	(Unaudited)		(Unaudited)	
Treatments and general healthcare services	238,292	63.6%	187,213	65.4%
Pharmaceutical sales	136,450	36.4%	99,191	34.6%
Total	<u>374,742</u>	<u>100.0%</u>	<u>286,404</u>	<u>100.0%</u>

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

	Six months ended 30 June			
	2022		2021	
	(RMB'000)	% of revenue	(RMB'000)	% of revenue
	(Unaudited)		(Unaudited)	
Inpatient healthcare services	181,231	48.4%	136,436	47.6%
Outpatient healthcare services	193,511	51.6%	149,968	52.4%
Total	<u>374,742</u>	<u>100.0%</u>	<u>286,404</u>	<u>100.0%</u>

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

	Six months ended 30 June	
	2022	2021
Outpatient visits	643,476	587,413
Average spending per outpatient visit (RMB)	300.7	255.3
Inpatient visits	24,863	20,822
Average spending per inpatient visit (RMB)	7,289.2	6,552.5
Number of beds in operation as of the end of the relevant period	1,500	1,500

Our revenue from treatments and general healthcare services and pharmaceutical sales in aggregate grew by 30.8% from RMB286.4 million for the six months ended 30 June 2021 to RMB374.7 million for the six months ended 30 June 2022. The growth is largely because of an increase in the number of outpatient and inpatient visits and the average spending per patient visit.

Our revenue from inpatient healthcare services increased by 32.8% from RMB136.4 million for the six months ended 30 June 2021 to RMB181.2 million for the six months ended 30 June 2022. The growth is largely because of an increase in the number of inpatient visits and the average spending per inpatient visit.

Our revenue from outpatient healthcare services increased by 29.0% from RMB150.0 million for the six months ended 30 June 2021 to RMB193.5 million for the six months ended 30 June 2022. The growth 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 amortisation, utilities, maintenance and offices, and other costs.

Our cost of sales rose by 33.1% from RMB218.7 million for the six months ended 30 June 2021 to RMB291.2 million for the six months ended 30 June 2022, mainly due to (i) a year-on-year increase of RMB34.2 million in the cost of pharmaceuticals during the six months ended 30 June 2022; (ii) a year-on-year increase of RMB13.1 million in the cost of medical consumables during the six months ended 30 June 2022; and (iii) a year-on-year rise of RMB9.8 million in the expenses on depreciation and amortisation during the six months ended 30 June 2022; (iv) a year-on-year growth of RMB5.6 million in the expenses on utilities, maintenance and offices during the period; and (v) a year-on-year growth of RMB5.0 million in the cost of employee benefits during the period.

Gross Profit and Gross Profit Margin

Our gross profit rose by 23.5% from RMB67.7 million for the six months ended 30 June 2021 to RMB83.6 million for the six months ended 30 June 2022, and our gross profit margin shrank from 23.6% for the six months ended 30 June 2021 to 22.3% for the six months ended 30 June 2022, largely because of an increase in the cost of pharmaceuticals and the labour cost, a rise in the cost of medical consumables, operating cost like utilities expenses, and the expenses on depreciation during the Reporting Period, which resulted in a higher growth in the cost of sales than in sales revenue.

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 amortisation, utilities, maintenance and office expenses and other expenses.

Our administrative expenses rose by 7.9% from RMB32.6 million for the six months ended 30 June 2021 to RMB35.2 million for the six months ended 30 June 2022, primarily due to a rise in the cost of employee benefits.

Financial Costs — Net

Our net financial costs dropped by 99.8% from RMB8.3 million for the six months ended 30 June 2021 to RMB0.02 million for the six months ended 30 June 2022, primarily due to a decrease in interest expense as a result of the repayment of some borrowings and an increase in exchange gains during the Reporting Period.

Income Tax Expense

Our income tax expense grew by 30.6% from RMB7.2 million for the six months ended 30 June 2021 to RMB9.4 million for the six months ended 30 June 2022, 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 surged by 62.0% from RMB20.0 million for the six months ended 30 June 2021 to RMB32.5 million for the six months ended 30 June 2022. Our net profit margin stood at 8.7% for the six months ended 30 June 2022, versus 7.0% for the six months ended 30 June 2021.

DISCUSSION OF ITEMS IN THE INTERM CONDENSED CONSOLIDATED BALANCE SHEET

Net Current Liabilities

Our net current liabilities slumped by 81.1% from RMB65.4 million as at 31 December 2021 to RMB12.3 million as at 30 June 2022. This is largely because of the cash inflows generated from our operating activities.

Inventories

Our inventories plummeted by 36.5% from RMB27.1 million as at 31 December 2021 to RMB17.2 million as at 30 June 2022. This is primarily due to the fact that the inventories reserved for the spring festival at the end of 2021 have been used up.

Trade Receivables

Our trade receivables climbed by 63.7% from RMB34.5 million as at 31 December 2021 to RMB56.5 million as at 30 June 2022, largely because of an increase in revenue and the slightly slow settlement of receivables from social insurance administration.

Other Receivables and Prepayments

Our other receivables and prepayments dropped from RMB1.9 million as at 31 December 2021 to RMB1.0 million as at 30 June 2022. The balance during the Reporting Period fell by RMB0.9 million, primarily due to a decline in the prepayments for utilities expenses.

Indebtedness

Our borrowings dropped from RMB187.0 million as at 31 December 2021 to RMB160.0 million as at 30 June 2022. The balance during the Reporting Period fell by RMB27.0 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 RMB106.1 million as at 31 December 2021 to RMB100.9 million as at 30 June 2022. The balance during the Reporting Period fell by RMB5.2 million. This is mainly due to the payment of a portion of trade payables.

Accruals, Other Payables and Provisions

There were no material changes in our accruals, other payables and provisions during the Reporting Period.

Contingent Liabilities

As at 30 June 2022, we had no contingent liabilities or guarantees that would have a material impact on the financial condition or operation of the Group.

Lease Liabilities

As at 30 June 2022, our lease liabilities in respect of our leased properties amounted to approximately RMB2.8 million.

Liquidity and Capital Resources

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

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	40,796	32,582
Net cash used in investing activities	(4,642)	(17,582)
Net cash used in financing activities	(32,468)	(28,995)
Net increase/(decrease) in cash balances	3,686	(13,995)

Net Cash Generated from Operating Activities

Our net cash generated from operating activities rose from RMB32.6 million for the six months ended 30 June 2021 to RMB40.8 million for the six months ended 30 June 2022, 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 RMB10.9 million in the first half of 2022 partially offsetting the cash flows from operating activities that grew as a result of the increase in operating profit.

Net Cash Used in Investing Activities

Our net cash used in investing activities fell from RMB17.6million for the six months ended 30 June 2021 to RMB4.6 million for the six months ended 30 June 2022, which was primarily attributed to a year-on-year decrease of RMB13.1 million in payments for purchases of properties, plants and equipment for the six months ended 30 June 2022.

Net Cash Used in Financing Activities

Our net cash used in financing activities grew from RMB29.0 million for the six months ended 30 June 2021 to RMB32.5 million for the six months ended 30 June 2022, mainly due to the repayment of borrowings of RMB27.0 million during the Reporting Period.

Financial Instruments

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

Exposure to Fluctuation in Exchange Rates

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

We did not use any derivative financial instruments to hedge against our exposure to currency risks during the six months ended 30 June 2022. The management of the Company manages the currency risks by closely monitoring the movement of the foreign currency rates, and will consider hedging against significant foreign currency exposures should such need arise.

Liability-to-Asset Ratio

As at 30 June 2022, our liability-to-asset ratio (total liabilities divided by total assets) was 37.9% (as at 31 December 2021: 41.1%).

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 2022:

Business objective as stated in the Prospectus	Percentage to total amount %	Net proceeds HK\$ million	Utilised proceeds as at 30 June 2022 HK\$ million	Unutilised proceeds as at 30 June 2022 HK\$ million	Expected timeline for unutilized amount
Finance the ramp up of the Company's first-phase building	29.5	78.0	78.0	0.0	By the end of 2021
Expand the Company's business by acquiring hospitals	26.1	69.2	0.0	69.2	By the end of 2023
Repay the Company's general borrowings, particularly the outstanding loans from two banks of RMB63.0 million	15.0	39.8	12.2	27.6	By the end of 2023
Working capital and other general corporate purposes	10.0	26.5	26.5	0.0	By June 2021
Purchase medical equipment and improve and upgrade the Company's information technology systems	8.0	21.3	21.3	0.0	By June 2023
Develop the Company's pharmaceutical supply chain business	6.3	16.7	0.0	16.7	By the end of 2023
Employee recruitment and training	5.0	13.3	13.3	0.0	By June 2023
	100	264.8	151.3	113.5	

Note:

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

As at 30 June 2022, 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 Listing Rules of the Stock Exchange.

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

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

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

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 C.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 OF FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW BY THE AUDIT COMMITTEE

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

The Group's interim results for the six months ended 30 June 2022 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 2022.

EMPLOYEES AND REMUNERATION POLICIES

The total number of employees were approximately 1,782 as at 30 June 2022 (31 December 2021: 1,719). For the six months ended 30 June 2022, the staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately RMB90.7 million (6 months ended 30 June 2021: approximately RMB84.0 million).

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

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (<http://www.honlivhp.com>), and the interim report of the Group for the six months ended 30 June 2022 containing all information required by the Listing Rules will be dispatched to shareholders and published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

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

DEFINITIONS

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

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

“Global Offering”	the Hong Kong Public Offering and the International Offering
“Group”, “our Group”, “our”, “we”, or “us”	our Company and its subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“Henan Honliv Hospital” or “the Hospital” or “our Hospital”	Henan Honliv Hospital Co., Ltd.* (河南宏力醫院有限公司), a limited liability company established in the PRC on 24 May, 2004
“Hong Kong”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Independent Third Party” or “Independent Third Parties”	a person or entity who is not a connected person of the Company under the Listing Rules
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	13 July 2020, on which the Shares were listed and from which dealings therein were permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Model Code”	the “Model Code for Securities Transactions by Directors of Listed Issuers” set out in Appendix 10 to the Listing Rules
“Reporting Period”	the six months ended 30 June 2022
“Prospectus”	the prospectus of the Company dated 24 June 2020

“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) with par value of HK\$0.0001 each in the capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
%	per cent

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

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

Hong Kong, 22 August 2022

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.