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Guanze Medical Information Industry (Holding) Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2427)

ANNOUNCEMENT OF INTERIM RESULTS FOR SIX MONTHS ENDED 30 JUNE 2023

The Board is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2023 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	<i>Notes</i>	Six months ended 30 June	
		2023	2022
		RMB'000	RMB'000
		(Unaudited)	(Audited)
REVENUE	5	74,413	98,621
Cost of sales		(31,184)	(58,995)
Gross profit		43,229	39,626
Other income and gains	5	2,024	1,640
Selling and distribution expenses		(13,300)	(12,253)
Administrative expenses		(6,544)	(6,552)
Research and development costs		(734)	(185)
Impairment losses on trade receivables		(1,374)	(124)
Finance costs		(403)	(658)
Other expenses		(89)	–
PROFIT BEFORE TAX	6	22,809	21,494
Income tax expense	7	(6,683)	(6,092)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		16,126	15,402

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR
LOSS AND OTHER COMPREHENSIVE INCOME (Continued)**

For the six months ended 30 June 2023

		Six months ended 30 June	
		2023	2022
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Attributable to:			
Owners of the parent		15,948	15,316
Non-controlling interests		178	86
		<u>16,126</u>	<u>15,402</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	9		
Basic and diluted		<u>RMB0.02</u>	<u>RMB0.02</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF
FINANCIAL POSITION**

30 June 2023

		30 June 2023	31 December 2022
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		38,883	29,979
Right-of-use assets		4,959	4,385
Intangible assets		154	169
Deferred tax assets		457	113
		<hr/>	<hr/>
Total non-current assets		44,453	34,646
CURRENT ASSETS			
Inventories		12,481	15,405
Trade and bills receivables	<i>10</i>	147,561	154,951
Prepayments, other receivables and other assets		33,146	93,353
Cash and cash equivalents		71,214	29,368
		<hr/>	<hr/>
Total current assets		264,402	293,077
CURRENT LIABILITIES			
Trade payables	<i>11</i>	1,217	2,291
Contract liabilities	<i>5</i>	3,565	1,585
Other payables and accruals		4,332	29,219
Interest-bearing bank borrowings		30,805	25,535
Due to the controlling shareholder		–	1,376
Lease liabilities		288	50
Dividends payable		139	–
Tax payables		9,466	6,930
		<hr/>	<hr/>
Total current liabilities		49,812	66,986
NET CURRENT ASSETS		214,590	226,091
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		259,043	260,737
		<hr/>	<hr/>

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF
FINANCIAL POSITION (Continued)**

30 June 2023

	<i>Notes</i>	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Contract liabilities	5	96	–
Lease liabilities		<u>485</u>	<u>96</u>
Total non-current liabilities		<u>581</u>	<u>96</u>
Net assets		<u><u>258,462</u></u>	<u><u>260,641</u></u>
EQUITY			
Equity attributable to owners of the parent			
Share capital		8,576	8,576
Reserves		<u>249,203</u>	<u>251,560</u>
		257,779	260,136
Non-controlling interests		<u>683</u>	<u>505</u>
Total equity		<u><u>258,462</u></u>	<u><u>260,641</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

1. CORPORATE AND GROUP INFORMATION

Guanze Medical Information Industry (Holding) Co., Ltd. is a limited liability company incorporated in the Cayman Islands on 11 December 2020. The registered address of the Company is the offices of Vistra (Cayman) Limited, P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands.

The Company is an investment holding company. During the period, the Company's subsidiaries were involved in the following principal activities in the People's Republic of China (hereafter, the "PRC"):

- Sales of medical imaging film products
- Provision of medical imaging cloud services

The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 December 2022.

2. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with HKAS 34 Interim Financial Reporting. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2022. The Interim Financial Information is presented in Renminbi ("RMB"), and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2022, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information</i>
Amendments to HKAS 1 and <i>HKFRS Practice Statement 2</i>	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information.
- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The Group has applied the amendments on temporary differences related to leases as at 1 January 2023, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the Group has applied the amendments prospectively to transactions other than leases that occurred on or after 1 January 2023. The amendment did not have any impact on the financial position or performance of the Group.

4. OPERATING SEGMENT INFORMATION

For management purpose, the Group has only one reportable operating segment and the measurement of segment results is based on the profit before tax as presented in the interim condensed consolidated statements of profit or loss and other comprehensive income.

As the Group generated all of its revenues in the PRC and its non-current assets were located in the PRC during the period, no geographical segments are presented.

Information about major customers

Revenue from operations of approximately RMB74.4 million and RMB98.6 million for the six months ended 30 June 2023 and 2022, respectively, was derived from sales of medical imaging film products and the provision of medical imaging cloud services. Revenue from the sales of medical imaging film products and the provision of medical imaging cloud services accounted for approximately 91% and 9% of the total revenue of the six months ended 30 June 2023, respectively. (six months ended 30 June 2022: 94% and 6%).

Revenue derived from sale to individual customers which accounted for over 10% of the total revenue of the Group during the period is as follows:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Audited)
Customer A	10,673	12,508
Customer B	7,850	N/A
Customer C	7,515	N/A
Customer D	N/A	9,774
	<u>26,038</u>	<u>22,282</u>

5. REVENUE, OTHER INCOME AND GAINS

(a) An analysis of revenue is as follows:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Audited)
Revenue from contracts with customers by types of goods or services		
Sales of medical imaging film products	67,885	92,770
Provision of medical imaging cloud services	6,528	5,851
	<u>74,413</u>	<u>98,621</u>
Timing of revenue recognition		
Goods transferred at a point in time	67,885	92,770
Services transferred over time	6,528	5,851
	<u>74,413</u>	<u>98,621</u>
Total revenue from contracts with customers	<u>74,413</u>	<u>98,621</u>

(b) Contract liabilities

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Contract liabilities	<u>3,661</u>	<u>1,585</u>

Contract liabilities represented the obligations to provide services to a customer for which the Group has received consideration.

(i) Revenue recognised in relation to contract liabilities

The following table shows the revenue recognised during the period that was included in the contract liabilities at the beginning of the per.

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	<u>887</u>	<u>586</u>

(c) Performance obligations

Information about the Group's performance obligations is summarised below:

Sales of medical imaging film products

The performance obligation is satisfied upon acceptance of consumables when the control of goods is transferred, and the transaction is completed. Payment is generally due within 90 to 365 days from acceptance by customers, except for new customers, where payment in advance is normally required.

Provision of medical imaging cloud services

The performance obligation of medical imaging cloud services is satisfied over time as services are rendered. As the services are provided together with the medical imaging film products to customers, payments are made in advance with the payment for medical consumables.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 June 2023 and 31 December 2022 are as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within one year	65,862	129,617
Over one year	8,910	50,497
	74,772	180,114

(d) An analysis of other income and gains is as follows:

		Six months ended 30 June	
		2023	2022
	<i>Note</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
Other income			
Interest on bank deposits		112	25
Gains			
Government grants	<i>(1)</i>	1,202	1,520
Others		710	95
Total		2,024	1,640

(1) The government grants mainly represent subsidies received from the local governments for the purpose of rewarding the Group for its financial contribution. There are no unfulfilled conditions and other contingencies attached to the receipts of those subsidies. There is no assurance that the Group will continue to receive such subsidies in the future.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Audited)
Cost of inventories sold	29,753	57,567
Cost of services provided	1,018	952
Employee benefit expenses	4,354	2,298
— Wages, salaries and allowances	3,585	1,837
— Social insurance and housing fund	724	438
— Welfare and other expenses	45	23
Research and development costs	734	185
Listing expenses	—	3,707
Depreciation of items of property, plant and equipment	2,448	1,990
Impairment of trade receivables	1,374	124
Depreciation of right-of-use assets	136	155
Amortisation of intangible assets	15	418

7. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The income tax expense of the Group for the period is analysed as follows:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Audited)
Current — Mainland China	7,027	6,123
Deferred tax	(344)	(31)
Total tax charge for the period	<u>6,683</u>	<u>6,092</u>

* In mainland China, the current income tax has been provided based on the statutory rate of 25% of the assessable profit of the subsidiaries of the Group in Mainland China as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

8. DIVIDENDS

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Final declared— HK2.1 cents (2022: nil) per ordinary share	<u>18,305</u>	<u>—</u>
	<u>18,305</u>	<u>—</u>

On 28 March 2023, the board of directors declared a final dividend in respect of 31 December 2022 of HK2.1 cent (six months ended 30 June 2022: Nil) per ordinary share, amounting to a total of approximately HK\$19,950,000 (six months ended 30 June 2022: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

For the purpose of computing basic and diluted earnings per share, the number of ordinary shares has been adjusted retrospectively for the effect of the issue of capital as if the issue of capital had been completed on 1 January 2022.

The calculation of the basic earnings per share amount is based on the profit for the six months ended 30 June 2023 attributable to ordinary equity holders of the parent of RMB15.9 million (six months ended 30 June 2022: RMB15.3 million), and the weighted average number of ordinary shares of 950,000,000 (six months ended 30 June 2022: 757,150,000) in issue during the periods.

No adjustment has been made to the basic earnings per share amount presented for the six months ended 30 June 2023 and 2022 in respect of a dilution as the Group had no potential dilutive ordinary shares in issue during the periods.

The calculation of basic and diluted earnings per share is based on:

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Earnings		
Profit for the period attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	<u>15,948</u>	<u>15,316</u>
	<u>15,948</u>	<u>15,316</u>

	Number of shares	
	Six months ended 30 June	
	2023 (Unaudited)	2022 (Audited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	<u>950,000,000</u>	<u>757,150,000</u>
	<u><u>950,000,000</u></u>	<u><u>757,150,000</u></u>

10. TRADE AND BILLS RECEIVABLES

	30 June 2023 RMB'000	31 December 2022 RMB'000
Trade receivables	144,280	145,277
Bills receivable	5,132	10,150
Impairment losses	<u>(1,851)</u>	<u>(476)</u>
Trade and bills receivables, net	<u><u>147,561</u></u>	<u><u>154,951</u></u>

An ageing analysis of the trade receivables at the end of each period, based on the invoice date of the trade receivables and net of provisions, is as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 1 year	140,171	142,249
1 to 2 years	<u>2,258</u>	<u>2,552</u>
	<u><u>142,429</u></u>	<u><u>144,801</u></u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	30 June 2023 RMB'000	31 December 2022 RMB'000
At beginning of period	476	276
Impairment losses (<i>Note 6</i>)	<u>1,375</u>	<u>200</u>
At end of period	<u><u>1,851</u></u>	<u><u>476</u></u>

An impairment analysis is performed at the end of each period using an expected credit loss (“ECL”) model to measure expected credit losses (“ECLs”). The ECL rates are based on days past due for groupings of various customer segments with similar loss patterns. The measurement of ECLs reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for over two periods or when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of future recovery.

Set out below is the information about the credit risk exposure on the Group’s trade receivables using a provision matrix:

As at 30 June 2023

	Current	Within 1 year	Past due 1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.30%	0.89%	11.35%	100.00%	
Gross carrying amount (<i>RMB’000</i>)	114,866	25,880	2,547	987	144,280
Expected credit losses (<i>RMB’000</i>)	345	230	289	987	1,851

As at 31 December 2022

	Current	Within 1 year	Past due 1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.12%	0.24%	5.31%	100.00%	
Gross carrying amount (<i>RMB’000</i>)	121,129	21,316	2,695	137	145,277
Expected credit losses (<i>RMB’000</i>)	145	51	143	137	476

11. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each period, based on the invoice date, is as follows:

	30 June 2023	31 December 2022
	<i>RMB’000</i>	<i>RMB’000</i>
	(Unaudited)	(Audited)
Within 1 year	<u>1,217</u>	<u>2,291</u>
	<u>1,217</u>	<u>2,291</u>

The trade payables are non-interest-bearing.

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY

The Company is a comprehensive medical imaging solutions provider, principally engaged in providing medical imaging film products and medical imaging cloud services in Shandong Province. The Company is a holding company of the Group which was incorporated in the Cayman Islands as an exempted company with limited liability on 11 December 2020. The shares of the Company were listed on the Main Board of the Stock Exchange on 29 December 2022. We are the only provider in Shandong Province which provides medical imaging film products together with medical imaging cloud services.

BUSINESS REVIEW

We have been the distributor of international medical imaging film products since 2016. Leveraging on our established customer base in the medical imaging market in Shandong Province and with a view to increasing our profitability, we have provided our self-branded medical imaging film products to our customers in Shandong Province since 2018. Having established a market position in the medical imaging film products market in Shandong Province and by riding on the increasing demand for medical imaging informatisation and medical imaging cloud platform, we have been tapping into the medical imaging cloud services market by providing hospitals and healthcare institutions with medical imaging cloud services since 2017.

1. Sales of medical imaging film products

We are engaged in the sales of (i) medical imaging films procured from international brands; and (ii) medical imaging films under our own “冠澤慧醫” (Guanze Huiyi) brand to hospitals and healthcare institutions. In the course of the sales of medical imaging films, depending on our customers' needs, we will provide the corresponding self-service film output printer and/or medical image printer to them and our customers are not charged for the corresponding equipment. Occasionally, we also provide medical image data distribution system (including CDs) without charging our customers. The types of medical imaging films distributed or provided by us primarily include medical dry laser films, thermal films and medical printing films.

During the Period, the revenue from the sales of medical imaging film products was RMB67.9 million. The level of revenue represented a decrease of 26.8% as compared to the corresponding period of last year (For the six months ended 30 June 2022: RMB92.8 million). The decrease was mainly attributable to the decrease in revenue generated from sales of medical imaging film products due to the shift in customers' preference from third-party international brand to our own self-branded medical films. In spite of this, through the efforts of all staff and cost savings, we maintained an increase in net profit. Meanwhile, it is worth noting that (i) the gross profit increased due to a significant decrease in the cost of sales; and (ii) the self-branded "Guanze Huiyi" was recognised by more customers, accounting for a percentage of the total revenue of medical imaging film products of 50.3% for the Period as compared with 31.6% for the same period of last year. The increase in the revenue of Guanze Huiyi's medical imaging film and its percentage of total revenue was due to (i) our active development of our self-branded medical imaging film; and (ii) the transition of some customers from purchasing medical dry laser film from other medical imaging products manufacturers to purchasing our self-branded medical dry laser film for higher cost effectiveness.

2. Provision of medical imaging cloud services

We offer four types of medical imaging cloud services including (i) digital medical imaging cloud storage platform; (ii) digital medical image platform; (iii) regional imaging diagrams platform; and (iv) PACS system, in the course of the sales of medical imaging films. We procure software which offer the above services from our software suppliers. We also engage our software suppliers for updates on the software including adding new functions and clearing bugs for at least four times a year. Our Group is responsible for installing the software to the existing information technology systems of our customers. To connect the software and the existing information technology systems of our customers, we are also required to (i) formulate an application programme interface (API) and (ii) install a hard drive called front-end processor on-site.

During the Period, the revenue from provision of medical imaging cloud services increased 11.6% to approximately RMB6.5 million from approximately RMB5.8 million for the same period of last year. The increase in revenue is due to the increased demand for the functions of the medical imaging cloud services of the existing customers.

OUR STRATEGIES

We intend to adopt the following strategies to further develop our business:

- expand our customer base and further consolidate our market presence in Shandong Province by expanding to the eastern part of Shandong Province;
- enhance the delivery of our medical imaging cloud services through strategic acquisition, obtaining the medical device registration certificate and upgrade of our hardware and software;
- horizontally expand our value chain by broadening our product offerings;
- continue to promote our brands and increase market awareness by participating in exhibitions; and
- upgrade our information technology systems.

IMPACT OF POLICY AND UNCERTAINTIES

Our business operation, financial results and our cashflow may be adversely affected if the “Two Invoice System” is fully implemented in medical imaging films industry in Shandong Province. As part of the measures for the PRC healthcare system reform, the State Council together with seven other central government departments (including the NHFPC and the State Administration of Food and Drug) jointly issued the Notice on Opinions on the Implementation of the Two Invoice System in Drug Procurement by Public Medical Institutions (for Trial Implementation) (《關於在公立醫療機構藥品採購中推行兩票制的實施意見(試行)》) on 26 December 2016. Pursuant to the above notice, public medical institutions are required to implement the “Two Invoice System” for drug procurements gradually and encourage other medical institutions to promote the same with an aim to promote the “Two Invoice System” across the nation by 2018.

OUTLOOK

It is expected that the medical imaging cloud services will bring business growth to the Group in terms of the following:

- (a) with the rapid development of the medical imaging market in China, the use of digital medical imaging film supported by medical imaging cloud services will also be a development trend in the future. Because of the rapid popularisation of internet and the continuous information technological development, an increasing number of hospitals and healthcare institutions in China are deploying medical imaging cloud services for improving efficiency and to enhance convenient image reading, resulting in the continuous growth of the market size from approximately RMB0.7 billion in 2016 to approximately RMB3.5 billion in 2021 at a CAGR of 36.6%. Driven by the needs of larger storage capacity due to the improvement in imaging devices and significant increase in medical image volume, cloud platform has become a more cost-efficient way for information storage than traditional local storage. Coupled with the needs of information and data sharing within regions and between hospitals and healthcare institutions, the market size of medical imaging cloud services industry in China is expected to further grow from approximately RMB3.5 billion in 2021 to approximately RMB18.9 billion in 2030 with a CAGR of 20.6%.
- (b) having benefited from the abundant medical resources, rapid informatisation development and huge demand for medical diagnosis and treatment in Shandong Province, the market size of the medical imaging cloud services industry in Shandong Province increased rapidly from less than RMB0.06 billion in 2016 to approximately RMB0.30 billion in 2021 at a CAGR of approximately 40.5%, and it is expected to grow continuously and reach approximately RMB1.63 billion in 2030 with a CAGR of approximately 20.5%.
- (c) the development of digital healthcare has created a rare historical opportunity for the further implementation of medical alliances. As the only solution provider in Shandong Province which provides medical imaging film products together with medical imaging cloud services, we have worked closely with healthcare institutions in Shandong Province since we commenced our business, we have accumulated extensive business experience and been striving to improve our service quality. At the same time, we will actively participate in the reform of the medical industry in China, and use our experience and global resources to accelerate technological innovation in core areas.

THE GROUP'S BUSINESS DEVELOPMENT STRATEGY

As a listed medical imaging solution provider, we must be vigilant of the current situation that we face. We will seize opportunities to overcome challenges and improve the equipment of related medical devices at the same time. We endeavour to recognise the situation clearly and be open to transformation so as to formulate effective development strategies. In summary, we are committed to the following:

(a) Strengthening operational risk management

Firstly, we will strengthen the business training for relevant staff to enable a good awareness of risk management, and supervise all processes such as storage, sales, and installation of medical devices. Secondly, the medical device recall system must be prepared in advance, and corresponding preventative strategies must be in place. We must carry out risk management at the institutional level, to improve the overall mechanism and the response mechanism for issues;

(b) Creating a strong brand strategy

Brand strategy is an inseparable focus of marketing activities and business operations, and an intangible asset. Branding can provide businesses and customers with more value than the products.

(c) Strengthening financial risk control

We will focus on capital operation risk control, including inventory management, based on sales. When preparing production budgets, we will evaluate and analyze market conditions and sales conditions to avoid increasing inventory backlogs due to blind production. We will guard ourselves against capital recovery risks and strengthen working capital risk management and control, etc.

Our Directors believe that there is ample opportunity for our Group to capture the medical imaging cloud services market and the allocation of approximately 37.3% of the net proceeds from the Listing to upgrade and enhance its medical imaging cloud services will further facilitate market penetration and enhance our Group's competitiveness. According to China Insights Industry Consultancy Limited ("CIC"), the market of Tier-2 distributors medical imaging film products and the medical imaging cloud services market in East Shandong are fragmented. Our Directors believe that our self-branded products can tap into the market in East Shandong taking into consideration the following factors:

- (a) the unit selling price of our self-branded medical imaging film is generally lower than the unit selling price of international medical imaging film products. Proven by our track record, certain hospitals and healthcare institutions may change their preference to our self-branded products;
- (b) our management team and sales and marketing team are familiar with the procurement process of the hospitals and healthcare institutions in Shandong Province;
- (c) we are the only provider in Shandong Province which provides both medical imaging film products and medical imaging cloud services, which in turn may facilitate the hospitals and the medical practitioners to adapt to the shift from traditional medical imaging films to medical imaging cloud films; and
- (d) our solid and established relationship with various deliverers would be beneficial to our Group in expanding our customer network in East Shandong as a result of their delivery channel.

Technological Innovation

The healthcare systems in developed countries have begun to shift from traditional medical imaging films to digital films over the past two decades, and digitisation in medical imaging has since gradually become a global trend. The shift to digital films is mainly aimed at facilitating digital storage, access, and transmission of medical imaging data for purposes such as remote consultation and diagnosis. Presently, medical imaging results along with other patient information are usually stored in medical institutions database and could be accessed online by physicians and patients through patient portal, where the patients can still request hard copies of their medical imaging examination results for purposes such as transferring between medical institutions.

According to “Opinions of the General Office of the State Council on Promoting the Development of “Internet + Medical Health” (國務院辦公廳關於促進「互聯網+醫療健康」發展的意見) promulgated by the General Office of the State Council in 2018 and “Notice on Accelerating the Mutual Recognition of the Examination Results” (國家衛生健康委辦公廳關於加快推進檢查檢驗結果互認工作的通知) (the “Notice”) published by the National Health Commission in 2021, the PRC government called for the construction of the national and regional health platform, through the establishment of medical institutions examination database including “medical imaging cloud films” serving as the source of database, in order to promote the sharing of examination data, and to achieve the interconnection and mutual recognition of examination data between medical institutions in the same region.

The Group has strong research and development capabilities, following the trend of growing demand for medical imaging informatisation and medical imaging cloud services, and has chosen to vigorously develop medical imaging cloud services business in face of the immense market opportunities while traditional medical imaging films is being transformed. Currently, the business has shown a good momentum of development. As cloud computing technology further matures and the continuous improvement of healthcare institutions’ acceptance of cloud computing, medical imaging cloud will maintain rapid growth in the next few years, and medical core business systems will gradually migrate to the cloud. In the future, we will strive to help the medical imaging centers of cooperative healthcare institutions to realise functions such as image cloud storage, remote consultation, quality control, multi-disciplinary consultation, and big data applications, so that the general public can enjoy high-quality examinations and accurate diagnoses. We believe that our research and development capabilities are the cornerstone of our long-term competitiveness and the driving force for our future growth and development.

FINANCIAL REVIEW

During the Period, the Group’s operating results were contributed by the: (i) sales of medical imaging film products; and (ii) provision of medical imaging cloud services in Mainland China.

Revenue

Revenue decreased by 24.5% to approximately RMB74.4 million during the Period (for the six months ended 30 June 2022: RMB98.6 million), mainly attributable to the decrease in revenue generated from sales of medical imaging film products.

(i) Sales of medical imaging film products

Revenue generated from sales of medical imaging film products decreased by approximately RMB24.9 million, or 26.8%, to approximately RMB67.9 million during the Period (for the six months ended 30 June 2022: RMB92.8 million). The decrease was primarily attributable to the shift in customers' demand from third-party international brand films to our self-branded medical films.

(ii) Provision of medical imaging cloud services

Revenue generated from the provision of medical imaging cloud services increased by approximately RMB0.7 million, or 11.6%, to approximately RMB6.5 million during the Period (for the six months ended 30 June 2022: RMB5.8 million).

Cost of Sales

Cost of sales decreased by 47.1% to approximately RMB31.2 million during the Period (for the six months ended 30 June 2022: RMB59.0 million), which was mainly due to the lower cost of self-branded films as compared to international brand films. While the Group was further expanding the sales percentage by self-branded films, the overall cost of sales decreased.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB3.6 million to approximately RMB43.2 million during the Period (for the six months ended 30 June 2022: RMB39.6 million), which was primarily due to the significant decrease in cost of sales for the reasons set out in the subparagraph headed "Cost of Sales" above.

Gross profit margin increased by approximately 17.9 percentage points to approximately 58.1% during the Period (for the six months ended 30 June 2022: 40.2%), which was primarily attributable to (i) the increase of approximately 18.2 percentage points in gross profit margin from sales of medical imaging film products to approximately 56.2% (for the six months ended 30 June 2022: 37.9%) because of the gradual shift in customers' demand from third-party international brand films to self-branded medical films, which had a higher gross profit margin; and (ii) the increase to approximately 8.8% of the percentage of revenue contributed from the provision of medical imaging cloud services, which had a higher gross profit margin as compared to the sales of medical imaging film products (for the six months ended 30 June 2022: 5.9%).

Other Income and Gains

Other income and gains increased by approximately RMB0.4 million, or 23.4%, to approximately RMB2.0 million during the Period (for the six months ended 30 June 2022: RMB1.6 million). The increase was mainly attributable to the increase by approximately RMB0.6 million to approximately RMB0.7 million in the foreign exchange gain during the Period (for the six months ended 30 June 2022: RMB0.1 million).

Selling and Distribution Expenses

Selling and distribution expenses increased by approximately RMB1.0 million, or 8.5%, to approximately RMB13.3 million during the Period (for the six months ended 30 June 2022: RMB12.3 million), which was mainly attributable to the increase of labor cost and relevant travel and promotion expenses for business expansion during the Period.

Administrative Expenses

Administrative expenses decreased slightly by 0.1% to approximately RMB6.5 million during the Period (for the six months ended 30 June 2022: RMB6.6 million), which was primarily attributable to the offset of the decrease in agency services fee against the increase in labor cost and other administrative expenses.

Finance costs

Finance costs decreased by approximately RMB0.3 million, or 38.8%, to approximately RMB0.4 million during the Period (for the six months ended 30 June 2022: RMB0.7 million), which was primarily attributable to the decrease by RMB0.2 million to RMB0.1 million in the interest on discount of bills receivable during the Period (for the six months ended 30 June 2022: RMB0.3 million).

Income tax expense

Due to the increase in profit before tax, income tax expenses increased by approximately RMB0.6 million, or 9.7%, to approximately RMB6.7 million during the Period (for the six months ended 30 June 2022: RMB6.1 million) as a result of an increase in effective tax rate to approximately 29.3% during the Period (for the six months ended 30 June 2022: 28.3%). The increase of effective tax rate was primarily attributable to the increase of non-deductible expenses.

Profit for the Period and Net Profit Margin

As a result of the cumulative effect of the above factors, the Group's profit increased by approximately RMB0.7 million, or 4.7%, to approximately RMB16.1 million during the Period (for the six months ended 30 June 2022: RMB15.4 million). Net profit margin increased to approximately 21.7% during the Period (for the six months ended 30 June 2022: 15.6%).

Liquidity and Financial Resources

As at 30 June 2023, the Group reported net current assets of approximately RMB214.6 million (31 December 2022: RMB226.1 million). Cash and cash equivalents balances increased by approximately RMB41.8 million to approximately RMB71.2 million (31 December 2022: RMB29.4 million).

Net cash outflow generated from operating activities was approximately RMB0.4 million during the Period (for the six months ended 30 June 2022: net outflow of RMB2.3 million). The decrease in net cash outflow was mainly attributable to the substantial decrease in trade and bills receivables, which was partially offset by the increase in prepayments, other receivables and other assets and the decrease in other payables and accruals. The cash generated from operating activities was mainly from profit from operations during the Period.

The net cash used in investing activities was approximately RMB5.1 million during the Period (for the six months ended 30 June 2022: RMB12.5 million). The net cash used in investing activities was mainly attributable to the purchase and prepayment of property, plant and equipment. The net cash generated from financing activities was approximately RMB47.3 million during the Period (for the six months ended 30 June 2022: RMB9.4 million). The net cash generated from financing activities was mainly attributable to receipt of approximately RMB82.4 million from the Listing.

As at 30 June 2023, the Group maintained a healthy liquidity position. The Board expects that the bank loans will be settled by funding from internal resources or extended as it becomes due. All principal banks will continue to provide funding to the Group for its business operation.

Bank Borrowings

As at 30 June 2023, the Group had outstanding interest-bearing bank borrowings of RMB30.8 million (31 December 2022: RMB25.5 million).

Contingent Liabilities

As at 30 June 2023, the Group had no significant contingent liabilities (31 December 2022: nil).

Capital Commitments

As at 30 June 2023, the Group had no significant capital commitments (31 December 2022: nil).

Foreign Exchange Exposure

The sales and purchases of the Group were denominated in Renminbi. The cash and cash equivalents of the Group were mainly denominated in Renminbi and Hong Kong dollars. The borrowings are denominated in Renminbi. Since the Group's exposure to fluctuations in foreign exchange rates was not significant, the Group has not implemented any foreign currency hedging policy at the moment. However, the management will closely monitor the foreign exchange exposure of the Group and will consider hedging the foreign exchange exposure if it becomes significant to the Group.

Pledge of Assets

As at 30 June 2023, certain of the Group's buildings with a net carrying amount of approximately RMB5.3 million were pledged to secure some of the Group's interest-bearing bank borrowings (31 December 2022: RMB5.4 million).

Gearing Ratio

As at 30 June 2023, the Group's gearing ratio increased by 2.1% to approximately 11.9% (31 December 2022: 9.8%), which was mainly due to the increase in interest-bearing bank borrowings. The gearing ratio is calculated by dividing total debt (including interest-bearing bank and other borrowings) by total equity at the end of the respective period.

Material Investments

During the Period, the Group did not make any significant investments (including any investment in an investee company with a value of 5% or more of the Group's total assets as of 30 June 2023).

Material Acquisitions and Disposals

During the Period, the Group did not have any material acquisitions or disposals of subsidiaries, consolidated affiliated entities or associated companies or future plans for material investments or capital assets as at the date of this announcement.

Dividend

On 28 March 2023, the Board declared an annual dividend of HK2.1 cents per ordinary share for the year ended 31 December 2022, amounting to a total dividend of approximately HK\$20.0 million.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: nil).

Employees and Remuneration Policies

The Group had a total of 49 (31 December 2022: 43) employees as at 30 June 2023. The Group's remuneration policies were in line with relevant legislation, market conditions and the performance of our employees. The remuneration of employees was determined based on their performance, skills, knowledge, experience and market trend. The Group reviews the remuneration policies and packages on a regular basis and will make necessary adjustment commensurate with the pay level in the industry.

Pension Scheme

The Group participates in the central pension schemes as defined by the laws of the countries in which it has operations. The subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees. During the Period, there is no forfeited contribution (by the Group on behalf of its employees who leave the Group prior to vesting fully in such contributions) available to be utilised by the Group to reduce the contributions payable in the future years or to reduce the Group's existing level of contributions to the defined contribution retirement plan.

RECENT DEVELOPMENT AND EVENTS AFTER THE PERIOD

Subsequent to the Period and up to the date of this announcement, we have continued to focus on our medical imaging film products and medical imaging cloud services business and there had not been any material change to our business model, revenue structure and cost structure. We continue to explore opportunities for our business through participating in different exhibitions.

Our Directors confirmed that, after the Period and up to the date of this announcement,

- (a) there had been no material adverse change in the market conditions or the industry and environment in which we operate that materially and adversely affect our financial or operating position;

- (b) there was no material adverse change in the operation and financial position or prospects of our Group; and
- (c) no event had occurred that would materially and adversely affect the information shown in the interim condensed consolidated financial statements set out in this announcement.

USE OF NET PROCEEDS FROM THE LISTING

The Company issued 192,850,000 Shares in the global offering at a price of HK\$0.53 per Share which were listed on the Main Board of the Stock Exchange on 29 December 2022. The net proceeds from the Listing received by the Company amounted to approximately HK\$76.8 million, which was equivalent to approximately RMB68.6 million.

There has been no change in the intended use of net proceeds from the Listing as disclosed in the Prospectus. A summary of the net proceeds as well as the expected timeline for utilization is set out below:

	Approx. %	Net proceeds from the Listing	Utilised amount up to 30 June 2023	Unutilised amount at 30 June 2023	Expected timeline for full utilisation
		RMB'million	RMB'million	RMB'million	
Expanding customer base and consolidating market presence	46.4%	31.8	–	31.8	December 2025
Enhancing medical imaging cloud services	37.3%	25.6	1.3	24.3	December 2025
Broadening product offerings	2.7%	1.9	–	1.9	December 2025
Promoting brands and increasing market awareness	2.5%	1.7	–	1.7	December 2025
Upgrading information technology systems	2.5%	1.7	–	1.7	December 2025
Working capital and other general corporate purposes	8.6%	5.9	5.9	–	December 2023
Total	100.0%	68.6	7.2	61.4	

As at 30 June 2023, the amount of unutilised net proceeds amounted to approximately RMB61.4 million. The unutilised net proceeds were placed in interest-bearing deposits with authorised financial institutions or licensed banks in Hong Kong and the PRC.

Up to 30 June 2023, the utilised net proceeds were applied in accordance with the planned use as previously disclosed in the Prospectus and the remaining net proceeds are expected to be used as planned. The remaining unutilised net proceeds are expected to be utilised on or before 31 December 2025.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Review Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance. The Directors recognise that sound corporate governance practices are crucial for the long-term growth of the Company and for safeguarding the interests of Shareholders. The Company has adopted the code provisions set out in the CG Code as its own code of corporate governance. To the best knowledge of the Directors, the Company has complied with the code provisions as set out in the CG Code during the Review Period save and except for code provision C.2.1 of the CG Code.

Code provision C.2.1 of the CG Code stipulates that the roles of the chairman and the chief executive should be separate and not be performed by the same individual. Nonetheless, in view of Mr. Meng Xianzhen's crucial role in the Group and its historical development and Mr. Meng Xianzhen's extensive experience in the industry, we consider that it is beneficial to the business development of the Group that Mr. Meng Xianzhen acts as both the Chairman and the Chief Executive Officer of the Group. This provides a strong and consistent leadership to the Group and allows for more effective planning and management to the Group. The balance of power and authority is ensured by the operation of the Board, which comprises experienced and diverse individuals. The Board currently comprises two executive Directors (including Mr. Meng Xianzhen), one non-executive Director and three independent non-executive Directors, and therefore has a strong independent element in its composition.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct for the Directors in their dealings in the Company's securities. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they had complied with the Model Code throughout the Review Period.

REVIEW OF INTERIM RESULTS

The Company has established the audit committee in compliance with Rule 3.21 of the Listing Rules and code provision D.3 of the CG Code for the purpose of reviewing and supervising the Group's financial reporting system, risk management and internal control systems. The audit committee of the Company, comprising three independent non-executive Directors, namely Dr. Wong Man Hin Raymond, Dr. Zhao Bin and Dr. Chang Shiwang, and chaired by Dr. Wong Man Hin Raymond, has reviewed the results (including the unaudited interim condensed consolidated financial statements) of the Group for the six months ended 30 June 2023.

In addition, the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2023 have been reviewed by our auditor, Ernst & Young, 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.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://www.guanzegroup.com>). The interim report for the six months ended 30 June 2023 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the same websites in due course.

DEFINITION

“Board”	the board of Directors
“Chairman”	the chairman of the Board
“China” or the “PRC”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“CG Code”	the corporate governance code as set out under Appendix 14 to the Listing Rules
“Company” or “Guanze Medical”	Guanze Medical Information Industry (Holding) Co., Ltd. (formerly known as Guanze Intelligent Medical Information Industry (Holding) Co., Ltd.), an exempted company incorporated in the Cayman Islands with limited liability on 11 December 2020
“Directors”	the director(s) of the Company
“Group”	the Company and its subsidiaries at the relevant time
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing”	the listing of the Shares on the Main Board on 29 December 2022

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Main Board”	main board of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“Prospectus”	the prospectus issued by the Company dated 15 December 2022
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Review Period” or “Period”	the six-month period from 1 January 2023 to 30 June 2023
“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	the Stock Exchange of Hong Kong Limited

By order of the Board
Guanze Medical Information Industry (Holding) Co., Ltd.
Meng Xianzhen
Chairman of the Board

Hong Kong, 24 August 2023

As at the date of this announcement, the executive Directors are Mr. Meng Xianzhen and Mr. Guo Zhenyu, the non-executive Director is Ms. Meng Cathy, the independent non-executive Directors are Dr. Zhao Bin, Dr. Chang Shiwang and Dr. Wong Man Hin Raymond.