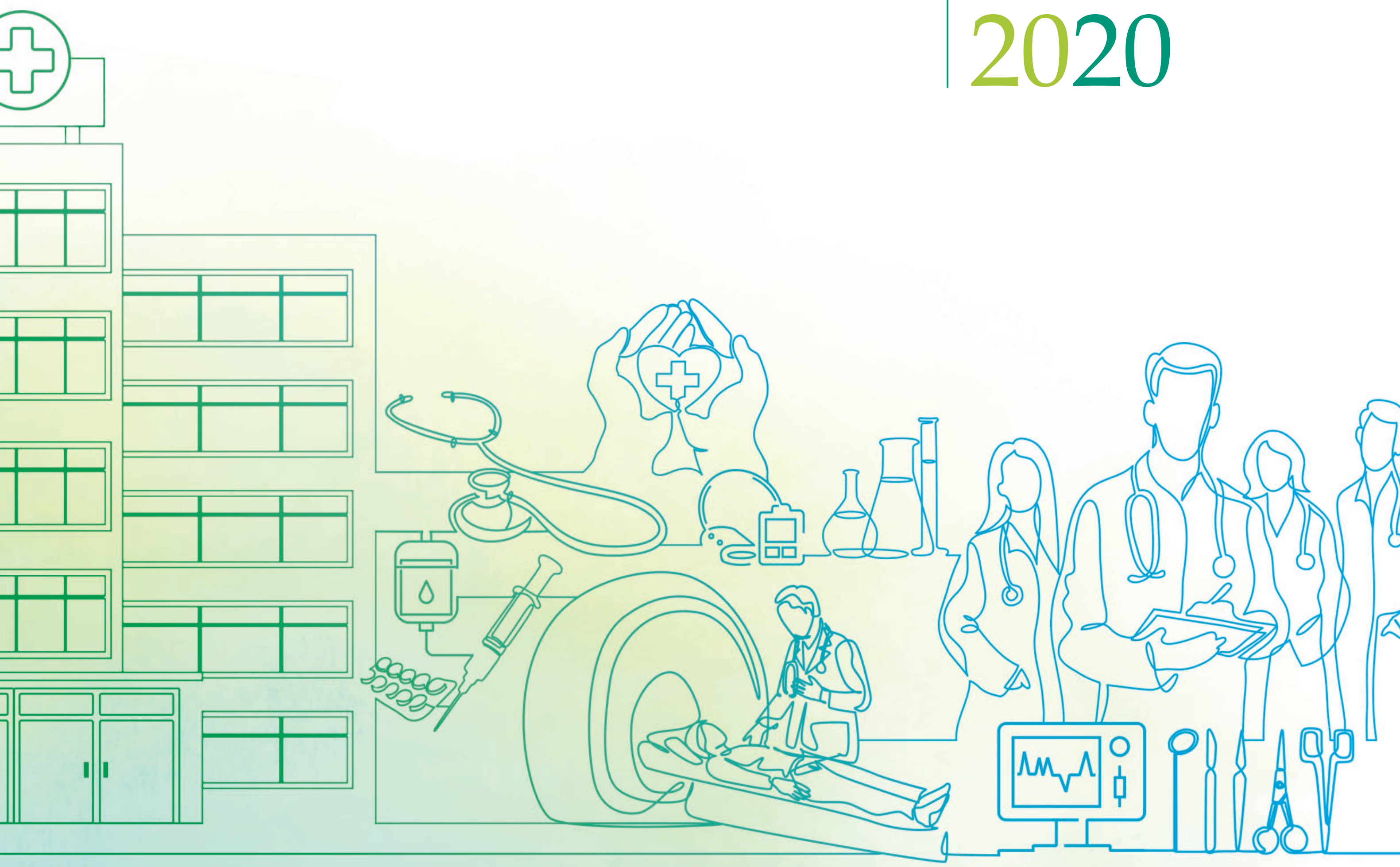
Honliv Healthcare Management Group Company Limited

宏力醫療管理集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 9906

ANNUAL REPORT 2020



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CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS:

Mr. Qin Yan (秦岩) *(President and Chairman)*
Dr. Teng Qingxiao (滕清曉)
Mr. Wang Zhongtao (王忠濤)

NON-EXECUTIVE DIRECTOR:

Mr. Qin Hongchao (秦紅超)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Zhao Chun (趙淳)
Mr. Sun Jigang (孫冀剛)
Mr. Jiang Tianfan (江天帆)

AUDIT COMMITTEE

Mr. Sun Jigang (孫冀剛) *(Chairman)*
Mr. Zhao Chun (趙淳)
Mr. Jiang Tianfan (江天帆)

REMUNERATION COMMITTEE

Mr. Jiang Tianfan (江天帆) *(Chairman)*
Mr. Zhao Chun (趙淳)
Mr. Sun Jigang (孫冀剛)

NOMINATION COMMITTEE

Mr. Zhao Chun (趙淳) *(Chairman)*
Mr. Sun Jigang (孫冀剛)
Mr. Jiang Tianfan (江天帆)

REGISTERED OFFICE

Campbells Corporate Services Limited
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Cayman Islands

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AUTHORISED REPRESENTATIVES

Mr. Qin Yan (秦岩)
Ms. Hui Yin Shan (許燕珊)

JOINT COMPANY SECRETARY

Ms. Wang Xiaoyang (王曉陽)
Ms. Hui Yin Shan (許燕珊)

AUDITOR

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Certified Public Accountants and
Registered Public Interest Entity Auditor

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COMPLIANCE ADVISER

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Henan Province
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COMPANY WEBSITE

www.honlivhp.com

STOCK CODE

9906

LISTING DATE

13 July 2020

CHAIRMAN'S STATEMENT

Dear Shareholders,

The year 2020 is destined to be an unprecedented year. The sudden outbreak of COVID-19 swept across the world in early 2020, which caused an unprecedented impact on the global social order and economy. The Chinese government has taken resolute and strong measures to prevent and control the outbreak, with which it has effectively contained the spread of the epidemic, stabilised the economy and restored normal social order. In the face of the turbulent epidemic environment, the Group made all efforts to overcome the difficulties caused by the epidemic and solve problems including a shortage of anti-epidemic supplies and poor supply channels, together with all of its employees. The Group set up fever clinics, designated a hospital to receive and treat infected patients, assist communities in epidemic prevention and control, ensured the supply of supplies, and offered socialised services relating to COVID-19 nucleic acid tests, demonstrating its social responsibility and its important role in the healthcare system. In the meantime, with the sincere cooperation of all employees, the Group guaranteed the normal operation of its healthcare business to the greatest extent. In particular, after the response level was gradually downgraded, the business volume increased rapidly. It achieved the operational goal of a slight decline in the revenue of its primary business. On behalf of the Board of Directors, I would like to express my sincere gratitude to all the Shareholders for their support, the management, employees and partners for their trust, and all sectors of the community for their assistance.

Although the Group was hit hard by the COVID-19 pandemic in 2020, it overcame many difficulties and responded positively. It posted consolidated income of RMB524.0 million for the year ended 31 December 2020, a year-on-year decline of merely 1.3%. The total number of admissions to its hospital stood at 51,059, a year-on-year decrease of 9.9%. However, some operating results increased to varying degrees. For instance, the average cost per hospital stay rose 4.2% from a year earlier to RMB5,458.7. A single outpatient visit cost an average of RMB234.1, up 3.4% from a year earlier. The number of outpatient visits grew 1.5% year on year to 1,041,526.

During the Reporting Period, the Group insisted on its development strategy and attached importance to quality, safety, efficiency and cost control, helping it achieve high-quality development. Combining our years of operation and management experience, we have established a management system and an information platform with our own distinctive characteristics to improve service quality. We create a comfortable working environment for employees, and provide a comfortable and safe healthcare environment for patients and continuously improve their medical experience. Actions were taken to expand healthcare service channels, provide home-based healthcare services and give full play to the function of Internet + healthcare services, in order to meet the personalised healthcare needs of different patients.

The year 2020 is a pivotal year to achieve a shift from "focusing on disease treatment" to "focusing on people's health" as mentioned in the Healthy China action plan. The Group made useful exploration in improving people's health and achieved certain results.

In order to enhance our service capacity, we continuously pushed forward with the construction of the Phase I project in 2020, which has laid a foundation for the next step of development. In addition, active efforts were made to seek appropriate acquisition targets to achieve the purpose of external expansion.

CHAIRMAN'S STATEMENT

The year 2020 is crucial to China's new healthcare reform, during which a package of reform policies and measures were gradually implemented and had a significant effect on hospital operation. For instance, health insurance played a dominant role in the coordinated reform of medical services, health insurance and pharmaceutical industry. The pilot drug procurement program became normal, and the first step was taken in the centralised procurement of high-value medical consumables. Internet-based diagnosis and treatment was changing the habits of people with healthcare needs. A large number of county-level hospitals with strong comprehensive services and standardised management have been upgraded to tertiary hospitals. The establishment of close medical communities affected the competition pattern of the healthcare industry. The campaign of "Private Hospital Management Years" kicked off. The implementation of these policies puts forward higher requirements for the technical level, fine management and profitability of the hospital. The Group analysed changes in trends, adapted to the development of the times and responded favourably to build the brand of Honliv Healthcare.

Looking back at 2020, we have demonstrated our social responsibility and management ability in the fight against COVID-19. Treatment of patients fully showed our technical level. In the future, we will closely focus on our strategic planning to tap the potential internally and expand the market externally, with a view to increasing our scale and upgrading technical services. With benevolent mind and act, our healthcare services will be lifted to a higher level, which will enable the Group to provide high-quality healthcare services for the society and patients and protect the interests of Shareholders.

Honliv Healthcare Management Group Company Limited
Mr. Qin Yan
President and Chairman
25 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW AND OUTLOOK

2020 was a crucial year in the history of China's healthcare reform. It was a year when the country achieved the goal of "establishing and improving a basic medical and health care system covering both urban and rural residents by 2020" and started to accomplish the goal of "Healthy China 2030". 2020 was also the first year when China implemented 15 major special actions for a shift from focusing on curing diseases onto focusing on the people's health based on two cores of disease prevention and health promotion as proposed in the Opinions of the State Council on Carrying Out Health China Operation (關於實施健康中國行動的意見). All these will have a profound impact on the development direction of the healthcare sector. COVID-19 not only affected the development of various industries in 2020 but also will continue to influence the global economic order. Under the new circumstances, the policies that had a significant impact on the operation of the medical service industry in China were as follows:

Medical insurance: In 2020, various measures for the reform of medical insurance payment methods were implemented. The increasingly detailed healthcare reform measures play a fundamental leading role in the "coordinated reform of medical services, health insurance and pharmaceutical industry" and guide the improvement of medical service quality, promoting the coordinated development of the whole health sector in China.

Pharmaceuticals: In 2020, the pilot drug procurement program became normal, and the first step was taken in the centralised procurement of high-value medical consumables. The centralised procurement will further reduce operating costs for medical institutions, and at the same time put forward higher requirements for the improvement of medical technology and the enhancement of core competitiveness of medical institutions.

Hospitals: 2020 witnessed the rapid growth of internet hospitals. The COVID-19 pandemic accelerated the growth of internet hospitals. Internet-based diagnosis and treatment was changing the habits of people with healthcare needs. In 2020, a large number of county-level hospitals with strong comprehensive service capacity and standardised management were upgraded to Class-III hospitals, building a reasonable structure for hierarchical diagnosis and treatment and laying a foundation for the treatment of 90% of patients in country-level medical institutions. Meanwhile, the three-year campaign of "Private Hospital Management Years" that started from 2020 will bring new opportunities to the standardised and high-quality development of private hospitals. A group of private hospitals with standardised management and strong core competitiveness will move into a golden era of development.

China pushed forward with the establishment of county-level closely coordinated medical communities: The establishment of closely coordinated medical communities will facilitate the significant improvement of county-level healthcare service capacity, effective use of the medical insurance fund, reasonable control of residents' medical expenses, and basic formation of a rational, orderly pattern of medical treatment. It will also have a profound effect on the competition pattern of the healthcare industry and promote the vigorous development of medical services in counties.

The impact of the COVID-19 pandemic on the healthcare industry persists: Although the pandemic has caused an impact on China's healthcare industry, it has promoted the optimisation of the industry. Medical institutions with strong comprehensive service capacity, wide coverage, and powerful technology are more likely to win trust from patients. The pandemic has increased health consciousness among people who now focus on not only physical health but also mental health. They pay more attention to disease prevention rather than curing. In the post-pandemic era, the change of people's health idea has also created unlimited development opportunities for the healthcare industry.

MANAGEMENT DISCUSSION AND ANALYSIS

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

BUSINESS REVIEW

In 2020, the Group's consolidated revenue amounted to RMB524.0 million for the year ended 31 December 2020, a decrease of RMB7.1 million or 1.3% as compared to RMB531.1 million for the year ended 31 December 2019. The decrease was primarily due to a decrease in revenue generated from treatments and general hospital services and pharmaceutical sales. The main reason behind this was that the COVID-19 pandemic led to a decrease in consolidated revenue at the first half of 2020 by 9.8% as compared to the same period in 2019. In contrast, the decline in consolidated revenue for 2020 significantly decreased as compared to 2019 thanks to business growth after the ease of the pandemic at the second half of 2020, which demonstrated the Company's strong ability to withstand risks.

Hospital Services

Henan Honliv Hospital, which provides hospital services on the behalf of the Group, experienced a certain decline in some of its operating results due to the COVID-19 pandemic. In particular, during the Reporting Period, (i) the number of inpatient visits totalled at 51,059 (as of 31 December 2019: 56,687), representing a year-on-year decrease of 9.9%. The decrease was mainly because patients with mild symptoms were asked to visit and stay in hospitals less frequently due to stricter prevention and control measures against COVID-19. In contrast to the drop of 18.2% in the first half of 2020 as compared to the same period in 2019, the number of inpatients markedly increased in the second half of 2020, therefore reducing the decline.

Meanwhile, some operating results improved to some extent. In particular, during the Reporting Period, (i) the average spending per inpatient visit was RMB5,458.7, representing a year-on-year increase of 4.2%; (ii) the average spending per outpatient visit was RMB234.1, representing a year-on-year increase of 3.4%; and (iii) the number of outpatient visits totalled 1,041,526, representing a year-on-year increase of 1.5%.

The increase in the average spending per inpatient visit was mainly attributable to a larger proportion of patients with critical symptoms during COVID-19. The increase in the number of outpatient visits and average spending per outpatient visit were mainly attributable to a significant rebound in medical demand as a result of easing of COVID-19 and social control in the second half of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	Year ended 31 December		
	2020	2019	Change %
Outpatient visits	**1,041,526**	1,025,771	1.5
Average spending per outpatient visit (RMB)	**234.1**	226.3	3.4
Inpatient visits	**51,059**	56,687	(9.9)
Average spending per inpatient visit (RMB)	**5,458.7**	5,240.8	4.2
Number of beds in operation as of the end of the relevant period	**1,500**	1,500	
Average length of stay per inpatient visit (days)	**9.2**	9.0	
Number of surgeries	**11,089**	11,894	(6.8)

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

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

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

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

(iv) In June 2020, our hospital was included by Henan Provincial Health Commission (河南省衛生健康委) in the second batch of medical institutions with the COVID-19 nucleic acid testing capability and became the only hospital with this capability in Changyuan City. During the COVID-19 pandemic, all the staff of our hospital stuck to their posts. As a designated COVID-19 hospital, we did our best to prevent and control the epidemic and made outstanding contributions to the fight. We were also responsible for taking nucleic acid samples and performing nucleic acid testing within the city. In 2020, we conducted more than 48,000 nucleic acid tests, which not only provided strong guarantee for the city-wide pandemic prevention and control but also helped increase our operating revenue.

(v) Despite major impact from COVID-19 in the first half of 2020, thanks to the Group's effective prevention and control measures, pro-active response strategy, and improved medical technology and service levels, the number of surgeries remained stable without a dramatic decline when compared with the same period in 2019 after the containment of COVID-19.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group seriously and strictly implemented relevant national prevention and control policies and measures during the fight against COVID-19, which ensured no infection among its employees and providing strong technical support for COVID-19 prevention and control efforts within cities. For this reason, the Group was awarded honorary titles at the city, province, and country levels such as national outstanding individuals and groups in the fight against the pandemic. Our industry influence continued to grow.

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

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

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

(ii) Bringing in highly skilled talent and continuously developing new businesses and technologies to enhance service capabilities and technology levels: To better satisfy patients' medical needs, the hospital added the pediatric surgery department, VIP clinics, multidisciplinary team (MDT) clinics, a pulmonary nodule diagnosis and treatment centre and ten specialist care clinics. A chronic disease management centre has also been set up to provide services mainly to patients with chronic diseases and major illnesses and granted the qualification as the "Designated Hospital of Physical Examinations for Occupational Diseases" in Henan Province. The Group also works to establish centres for stroke, trauma, treatment of critically ill pregnant and birth-giving women, treatment of critical new-borns to improve the hospital's comprehensive diagnosis and treatment capability.

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

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

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

Hospital Management Services

Neixiang Jutan Hospital ("Jutan Hospital") has grown rapidly under the Group's management, proving the replicability of our business and providing experience for our future external development.

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

Pharmaceutical Services

The Group directly sells medicines to patients. Our pharmaceutical sales increased by 2.6% year on year to RMB177.8 million (as of 31 December 2019: RMB173.4 million) during the Reporting Period. This growth was mainly attributable to an increase in outpatient visits and a rise in medicines prescribed for outpatients with critical illnesses in 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Despite a deterioration in operating results as China adopted strict control measures against COVID-19 in the first half of 2020, the Group's full year operating results recovered rapidly with the pandemic under control. Owing to normalised COVID-19 prevention and control measures and the Group's outstanding performance during the pandemic prevention and control period, the Directors believe that the Group has gained more trust from patients in terms of its hospitals' comprehensive service capabilities, thereby enhancing its reputation, which will attract more patients to its hospitals. Despite the effective containment of the pandemic, in the second half of the year, our work, in particular the installation and commissioning of supporting facilities for the construction of the first-phase building, was affected to some extent by the spread of COVID-19 in some regions of China and the failure to combat the pandemic overseas. As a result, the first-phase building was not put into operation at the end of 2020 as indicated in our interim results announcement and the establishment of pharmacy intravenous admixture services (PIVAS) in the building was also delayed.

The Directors will continue to assess the impact of the outbreak of COVID-19 on our operation and financial performance. The Directors believe that the adverse operational and financial impact caused by the outbreak is temporary and would not result in a material adverse effect on our continuing business operation and sustainability.

China's second and third rounds of volume-based procurement for 87 drugs in 2020 affected our revenue from pharmaceutical sales. The Directors, however, are of view that the drugs procured centrally had only a limited effect on the Group's operating revenue in this financial year as they only accounted for a small portion of pharmaceuticals offered by its hospitals. The Directors are looking at the impact of normalised volume-based drug procurement on our revenue and costs and will develop feasible revenue increase and cost control options and continue to pay attention to the long-term impact of the drug procurement on our operating results and financial performance.

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

FUTURE PROSPECTS

In 2021, we will tap the potential and improve quality and expand the market under the framework of strategic objectives. We work to improve medical safety and profitability and increase the market share through measures such as improving quality, increasing efficiency and reducing costs; seek for a balanced development among a cluster of disciplines with our advantageous disciplines; and further implement the service tenet of "caring about society and people" to build the brand of Honliv Healthcare and improve its reputation. In addition, we will further develop and implement "internet + healthcare services". so as to provide more patients with high-quality, effective medical services and facilitate the attainment of the goal of "health for all".

FINANCIAL REVIEW

Revenues and Costs

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

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

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

	Year ended 31 December			
	2020		2019	
	(RMB'000)	***% of revenue***	*(RMB'000)*	*% of revenue*
Outpatient healthcare services	**243,860**	**46.5%**	232,256	43.7%
Inpatient healthcare services	**278,600**	**53.2%**	296,072	55.8%
Total	**522,460**	**99.7%**	528,328	99.5%

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

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

Our revenue decreased by 1.3% from RMB531.1 million for the year ended 31 December 2019 to RMB524.0 million for the year ended 31 December 2020, primarily due to a decrease in revenue generated from treatments and general hospital services and pharmaceutical sales.

MANAGEMENT DISCUSSION AND ANALYSIS

Our revenue from treatments and general healthcare services and pharmaceutical sales in aggregate decreased by 1.1% from RMB528.3 million for the year ended 31 December 2019 to RMB522.5 million for the year ended 31 December 2020, primarily due to a decrease in the number of inpatient visits because of COVID-19.

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

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

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

Cost of Sales

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

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

Gross Profit and Gross Profit Margin

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

Other Expenses

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

Administrative Expenses

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

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

Net Finance Cost

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

Income Tax Expense

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

Profit for the Year and Net Profit Margin

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

Funds and Financing

We adopt a prudent treasury management policy to maintain a solid and healthy financial position. The Group funds its operations principally from cash generated from its operations and bank facilities. Its cash requirements relate primarily to operating activities, repayment of liabilities as they become due, capital expenditures, interest and dividend payments.

As at 31 December 2020, the Group's consolidated bank balances and cash totalled approximately RMB302 million (31 December 2019: RMB105 million) which were denominated mainly in RMB. The Company had bank loan facilities of RMB200 million in 2020 and obtained from a bank a loan facility with an amount of RMB150 million on 18 March 2021. Application of one year loan drawdown can be made under this facility until 18 March 2022 subject to the approval and conditions imposed by the bank. As at the date of this report, the Group has not used this loan facility.

As at 31 December 2020, the Group had interest-bearing bank loans of RMB213 million (31 December 2019: RMB208 million). All bank loans of the Group bear interest at floating rates and will become due within one year.

As at 31 December 2020, on the basis of total interest-bearing liabilities divided by total assets, the Group's gearing ratio was 25.4% (2019: 37.5%).

Net Current Liabilities

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

Inventories

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

Trade Receivables

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

MANAGEMENT DISCUSSION AND ANALYSIS

Other Receivables and Prepayments

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

Indebtedness

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

Trade and Notes Payables

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

Accruals, Other Payables and Provisions

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

Lease Liabilities

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

Liquidity and Capital Resources

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

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

Net Cash Generated from Operating Activities

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

Net Cash Flows Used in Investing Activities

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

Net Cash Flows from Financing Activities

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

Financial Instruments

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

Contingent Liabilities

As at 31 December 2020, the Group had no contingent liabilities or guarantees that would have a material impact on the financial position or operation of the Group.

Exposure to Fluctuation in Exchange Rates and Other Risks

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. Therefore, the Group is exposed to foreign exchange risks.

The Group did not use any derivative contract to hedge against its exposure to currency risks. The management 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.

We are also exposed to risk of talent shortage, so we have been taking an active approach to attract, train and retain sufficient qualified doctors, management personnel and other medical staff members, otherwise our hospital business would be affected to some degree.

Liability-to-Asset Ratio

As of 31 December 2020, our liability-to-asset ratio (total liabilities divided by total assets) was 45.5% (as of 31 December 2019: 66.7%).

CHARGES ON GROUP ASSETS

As of 31 December 2020, the Group did not have any significant pledge of assets to secure general banking facilities and bank loan granted to the Group.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSALS

The Group did not make any material acquisitions or disposals of subsidiaries, associated companies or joint ventures and significant investment during the year ended 31 December 2020.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus, this annual report, the interim report of the Company dated 25 September 2020 and other announcements published by the Company up to the date of this annual report, the Group does not have other plans for material investments or capital assets as at the date of this annual report.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSEQUENT EVENTS

As of the date of this annual report, there were no major events subsequent to the year ended 31 December 2020.

LITIGATION

Save as disclosed in the Prospectus, the Group was not involved in any material legal proceeding during the year ended 31 December 2020.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2020, the Group had a total of 1,586 full-time employees (31 December 2019: 1,496). For FY2020, the staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately RMB152 million (FY2019: RMB145 million).

The Group ensured that the remuneration packages of employees remain competitive and the remuneration level of its employees was determined on the basis of performance with reference to the profitability of the Group, industry remuneration standards and market conditions within the general framework of the Group's remuneration system.

USE OF PROCEEDS

In connection with the Company's Global Offering, 150,000,000 Shares with a nominal value of HK$0.0001 each were issued at a price of HK$2.10 per Share raising net proceeds of approximately HK$264.8 million, after deduction of the underwriting fees and related expenses by the Company in connection with the Global Offering. Dealings in the Shares of the Company on the Stock Exchange commenced on the Listing Date. The Group will apply such proceeds in a manner consistent with the intended use of proceeds as set out in the the Prospectus.

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

Business objective as stated in the Prospectus	Percentage to total amount %	Net proceeds *HK$ million*	Utilised amount as at 31 December 2020 *HK$ million*	Unutilised amount as at 31 December 2020 *HK$ million*	Expected timeline for unutilized amount
Finance the ramp up of the Company's first-phase building	29.5	78.0	57.8	20.2	By the end of 2021
Expand the Company's business by acquiring hospitals	26.1	69.2	0	69.2	Within one and a half year after receiving net proceeds
Repay the Company's general borrowings, particularly the outstanding loans from two banks with an aggregate principal amount of RMB63.0 million	15.0	39.8	0	39.8	April 2021
Working capital and other general corporate purposes	10.0	26.5	26.5	0	Within one year after receiving net proceeds

Business objective as stated in the Prospectus	Percentage to total amount *%*	Net proceeds *HK$ million*	Utilised amount as at 31 December 2020 *HK$ million*	Unutilised amount as at 31 December 2020 *HK$ million*	Expected timeline for unutilized amount
Purchase medical equipment and improve and upgrade the Company's information technology systems	8.0	21.3	21.3	0	Within three years after receiving net proceeds
Develop the Company's pharmaceutical supply chain business	6.3	16.7	0	16.7	By the end of 2021
Employee recruitment and training	5.0	13.3	13.3	0	Within three years after receiving net proceeds
Total	**100.0**	**264.8**	**119**	**145.8**	

Notes:

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

As at 31 December 2020, the net proceeds from the Global Offering not yet utilized were deposited into short-term demand deposits in the Company's account at one of the receiving banks as disclosed in the Prospectus.

REPORT OF DIRECTORS

The Board is pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Company is mainly engaged in providing general healthcare services, pharmaceutical services, and hospital management services in Mainland China.

BUSINESS REVIEW

A fair review of the business of the Group and a description of the principal risks and uncertainties being faced by the Group, as well as the business outlook of the Group are provided in the section headed "Management Discussion and Analysis" of this annual report. Relevant discussions form part of this Directors' Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Group is committed to achieving a high level of ESG performance. It strives to improve its sustainable development capabilities so as to fulfil its corporate social responsibilities while protecting the interests of Shareholders and investors.

The Group strictly complies with the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) and other relevant laws and regulations. A special treatment process has been set up for the four main types of emissions and discharges and wastes (medical waste, medical waste water, waste gas and domestic waste) generated during operation. During the year, the Company was not subject to any administrative penalties or related litigation in relation to environmental pollution.

As a healthcare service provider, the Group is dedicated to providing high-quality medical services and delivering good medical experience to patients. The management system has been formulated and improved to protect the legitimate rights and interests of patients and medical staff. Especially in the face of the sudden outbreak of COVID-19 in early 2020, the Group responded quickly with several measures against the epidemic, including the development of the Measures for the Prevention and Control of COVID-19 Infection (《新冠肺炎醫院感染預防與控制措施》) and other systems and processes in relation to epidemic prevention and control, which yielded good results.

Disclosure related to the Group's environmental policies and performance and relationships with major stakeholders are included in the Environmental, Social and Governance Report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

To the best of the Directors' belief, as at the date of this Directors' Report, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

RELATIONSHIP WITH STAKEHOLDERS

The Group is committed to operating in a sustainable manner while striking a balance between the interests of our stakeholders including our Substantial shareholders, employees, patients, customers, suppliers and communities. An account of the Group's relationship with our substantial Shareholders is included in the paragraphs headed —"Directors' and Chief Executives' Interest and Short Positions in Shares, Underlying Shares and Debentures of the Company or its Associated Corporation" and "Interest of Substantial Shareholders and Other Persons in Shares and Underlying Shares" in this section of this annual report.

The Group considers its employees as the key to the sustainable growth of our business. We are committed to providing all employees a safe and harassment-free working environment with equal opportunities in relation to employment, remuneration, training and learning, personal career development and academic research. This commitment is reflected in our corporate responsibility policy and employment policy. The Group attaches great importance to workplace safety and all employees are required to receive necessary safety training with due awareness of safety matters. The Group adopts a high standard of health and safety measures in all company activities. We have in place a fair and effective performance appraisal system and reward outstanding employees and encourage employees at all levels to play to their strengths and potential so as to achieve business targets. For continuous development, we adopt various measures and policies to attract best talent and formulate training programmes suitable for personal development of talents with different levels and academic backgrounds to help them improve academic standards and leadership and management skills. Good communication is essential for cooperation and mutual trust between management and employees. The Group holds regular academic meetings and seminars to share the latest company developments with employees and obtain their feedbacks and suggestions so as to achieve continuous improvement.

As a patient-oriented healthcare service provider, we consider patients as one of the most important stakeholders. We spare no effort to serve our patients and continually improve our standards of services to satisfy individual requirements of patients. The Group has also used various new media platforms as an effective communication channel with our patients that allow them to quickly obtain their personal information and hospital development information through various channels and help us collect their opinions and suggestions for improvement.

The Group abides by the strictest professional ethics and professional codes of conduct when cooperating with suppliers. The Group has formulated purchasing policies and principles that are in line with its actual conditions, as well as a supplier code of conduct to facilitate a common means whereby we all comply with regulations governing labour, health and safety, and the environment. In order to more effectively and closely monitor suppliers' performance, our procurement department reviews the performance of our major suppliers on an annual basis and will ask unsatisfactory performers to make rectification until the termination of cooperation.

The Group believes that the community is one of our most important stakeholders and it is our incumbent duty to be responsible to the community. We have feasible measures on community environmental protection, health education, health improvements for women and children, and safeguards of the interests of vulnerable groups and follow the measures to the strictest extent possible, thereby creating a good corporate image in the community.

RESULTS AND FINAL DIVIDEND

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of comprehensive income on page 48 of this annual report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020.

DIVIDEND POLICY

According to the dividend policy of the Group, the Company will declare dividends to Shareholders in compliance with applicable rules and regulations (including the Cayman Islands laws) and the Company's Memorandum and Articles of Association. The payment and the amount of any dividends will be at the discretion of the Directors and will depend upon the Company's future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the Directors deem relevant. Subject to those factors and the Company's Memorandum and Articles of Association, we expect that the profit to be distributed in cash each year will be up to 30% of the distributable profit in our consolidated financial statements for that year.

REPORT OF DIRECTORS

Future dividend payments will also depend upon the availability of dividends received from the operating subsidiaries of the Company in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require the Company's subsidiaries in the PRC to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from the Company's operating subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instrument or other agreements that the Company or its subsidiaries may enter into in the future.

The relevant dividend policy will continue to be reviewed from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

SHARE CAPITAL

Details of the movements in the share capital of the Group for the year ended 31 December 2020 are set out in note 25 to the consolidated financial statements in this annual report.

RESERVES

Details of the movements in the reserves of the Group for the year ended 31 December 2020 are set out in the consolidated statement of changes in equity on page 51 of this annual report.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands (as amended), and subject to the provisions of the Company's Memorandum and Articles of Association, the share premium of the Company is available for paying distributions or dividends to Shareholders, provided that immediately following the payment of distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the Group's property, plant and equipment during the year ended 31 December 2020 are set out in note 12 to the consolidated financial statements in this annual report.

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results and assets and liabilities of the Group for the last five financial years/period is set out on page 103 of this annual report. This summary does not form part of the audited financial statements.

BORROWINGS

Details of the borrowings of the Group for the year ended 31 December 2020 are set out in note 28 to the consolidated financial statements in the annual report.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme as set out in this annual report, no equity-linked agreements were entered into by the Group or existed during the year ended 31 December 2020.

MAJOR CUSTOMERS AND SUPPLIERS

Revenue from the Group's five largest customers in aggregate accounted for less than 1.0% (2019: less than 1.0%) of the total revenue for the year ended 31 December 2020.

Purchases from the Group's five largest suppliers in aggregate accounted for approximately 51.0% (2019: 50.8%) of the total purchases for the year ended 31 December 2020 and purchases from the largest supplier accounted for approximately 28.1% (2019: 22.5%) of the total purchases for the year ended 31 December 2020.

To the best knowledge of the Directors, neither the Directors nor any of their close associates (as defined in the Listing Rules) or any Shareholder (which to the knowledge of the Directors own more than 5% of the Company's issued share capital), had any direct or indirect interest in the five largest customers or the five largest suppliers of the Group during the year ended 31 December 2020.

PERMITTED INDEMNITY PROVISION

Pursuant to the Memorandum and Articles of Association and subject to the applicable laws and regulations, every Director, Auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director, Auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

Such permitted indemnity provision has been in force for the year ended 31 December 2020. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

DIRECTORS

The members of the Board during the year ended 31 December 2020 and up to the date of this annual report are as follows:

Executive Directors

Mr. Qin Yan *(Chairman and President)*
Dr. Teng Qingxiao
Mr. Wang Zhongtao

Non-Executive Director

Mr. Qin Hongchao

Independent Non-Executive Directors

Mr. Zhao Chun
Mr. Sun Jigang
Mr. Jiang Tianfan

Except for Qin Yan and Qin Hongchao who are brothers, none of the other Directors has relationships with one another.

REPORT OF DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and the senior management of the Company are set out under the section headed "Directors and Senior Management" on pages 31 to 34 of this annual report.

DISCLOSURE OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

There are no other changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors, entered into a service contract with the Company for an initial term of three years commencing from the Listing Date.

The non-executive Director, and each of the independent non-executive Directors entered into a letter of appointment with the Company for an initial term of three years commencing from the Listing Date.

None of the Directors has entered into any service contract with the Company or any of its subsidiaries which is not terminable by the Group within one year without payment of compensation, other than statutory compensation.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence. The emolument of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as incentive to the Directors and eligible employees, details of the scheme are set in the paragraph headed "— Share Option Scheme" in this section.

Details of the remuneration of the Directors and the five highest paid individuals in the Group are set out in notes 38 and 7 to the consolidated financial statements in this annual report.

For the year ended 31 December 2020, no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

None of the Directors has waived or agreed to waive any emoluments for the year ended 31 December 2020.

Except as disclosed above, no other payments have been made or are payable, for the year ended 31 December 2020, by the Group to or on behalf of any of the Directors.

RETIREMENT BENEFITS SCHEME

All of our employees are in PRC and they are members of the state-managed retirement benefits scheme operated by the PRC government. Our employees are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme. Details of the pension obligations of the Company are set out in Note 7 to the consolidated financial statements in this annual report.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors a confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company believes that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As of 31 December 2020, none of the Directors or their respective close associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

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

Long Position in Shares of the Company

As of 31 December 2020, the interests and short positions of Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (b) to be and were entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

(i) The Company

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

NOTES:

1. The calculation is based on the total number of 600,000,000 Shares in issue as at 31 December 2020.

2. Such Shares are held by Sunny Rock. Sunny Rock is owned as to 100% by Mr. Qin Yan. Thus, Mr. Qin Yan is deemed to be interested in such Shares held by Sunny Rock by virtue of Part XV of the SFO. Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock, and Rubrical Investment are concert parties under a concert party agreement dated 10 December 2019. By virtue of the SFO, Mr. Qin Yan and Sunny Rock are interested in 133,195,050 ordinary Shares held by Mr. Qin Hongchao and Rubrical Investment.

3. Such Shares are held by Rubrical Investment. Rubrical Investment is owned as to 100% by Mr. Qin Hongchao. Thus, Mr. Qin Hongchao is deemed to be interested in such Shares held by Rubrical Investment by virtue of Part XV of the SFO. Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock, and Rubrical Investment are concert parties under a concert party agreement dated 10 December 2019. By virtue of the SFO, Mr. Qin Hongchao and Rubrical Investment are interested in 310,788,450 ordinary Shares held by Mr. Qin Yan and Sunny Rock.

REPORT OF DIRECTORS

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

Name of Director	Name of Associated Corporation	Nature/Capacity of Interest	Class of shares in which interested	Number of shares	Approximate percentage of holding of such class of shares
Mr. Qin Yan	Sunny Rock Capital Limited	Beneficial Owner	Ordinary	1	100.00%

Save as disclosed above, as of 31 December 2020, none of the Directors or Chief Executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

To the best knowledge of Directors, as of 31 December 2020, the following persons (other than Directors or chief executives of the Company), are directly or indirectly, interested in 5% or more of the shares or short positions in the shares and the underlying shares of the Company, which were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name of Shareholder	Long/Short Positions	Nature/Capacity of Interest	Number of Shares	Note	Percentage of Shareholding[1]
Cao Jinming	Long Position	Interest of your spouse	443,983,500	2	74.00%
Rubrical Investment Limited	Long Position	Beneficial owner	133,195,050		22.20%
	Long Position	Parties acting in concert/ Interest in controlled corporations	310,788,450	3	51.80%
Sun Mingyan	Long Position	Interest of your spouse	443,983,500	4	74.00%
Sunny Rock Capital Limited	Long Position	Beneficial owner	310,788,450		51.80%
	Long Position	Parties acting in concert/ Interest in controlled corporations	133,195,050	5	22.20%
HWABAO TRUST CO., LTD	Long Position	Trustee	50,888,000		8.48%
HWABAO OVERSEAS INVESTMENT SERIES 2 NO 42-16 QDII SINGLE MONEY TRUST	Long Position	Trustee	50,888,000		8.48%
Changyuan City Investment Group Co., Ltd.*	Long Position	Beneficial owner	50,888,000		8.48%

Notes:

1. The calculation is based on the total number of 600,000,000 Shares in issue as at 31 December 2020

2. Ms. Cao Jinming is the spouse of Mr. Qin Hongchao, who indirectly holds 133,195,050 Shares of the Company through Rubrical Investment Limited and 310,788,450 Shares of the Company under a concert party agreement dated 10 December 2019. Under the SFO, Ms. Cao Jinming is deemed to be interested in the same number of Shares in which Mr. Qin Hongchao maintains on interest.

3. Pursuant to a concert party agreement dated 10 December 2019, Rubrical Investment Limited was deemed to be interested in 310,788,450 Shares held by the other parties to a concert party agreement dated 10 December 2019 as at 31 December 2020 under the SFO.

4. Ms. Sun Mingyan is the spouse of Mr. Qin Yan, who indirectly holds 310,788,450 Shares of the Company through Sunny Rock Capital Limited and 133,195,050 Shares of the Company under a concert party agreement dated 10 December 2019 which Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock Capital Limited and Rubrical Investment Limited are parties to thereto. Under the SFO, Ms. Sun Mingyan is deemed to be interested in the same number of Shares in which Mr. Qin Yan maintains on interest.

5. Pursuant to a concert party agreement dated 10 December 2019, Sunny Rock Capital Limited was deemed to be interested in 133,195,050 Shares held by the other parties to a concert party agreement dated 10 December 2019 as at 31 December 2020 under the SFO.

* *English translation is for identification purpose only.*

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

SHARE OPTION SCHEME

Shareholders of the Company adopted the Share Option Scheme pursuant to a resolution in writing on 17 June 2020.

The purpose of the Share Option Scheme is to grant options to selected participants as incentives or rewards for their contribution to the Group. It is expected that grantees of an option will make an effort to contribute to the development of the Group so as to bring about an increased market price of the Shares in order to capitalize on the benefits of the options granted.

The Board may invite any Directors and employees of any member of the Group and any advisers, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners, service providers of any member of the Group, who it considers, in its sole discretion and in accordance with the provisions of the Share Option Scheme and the Listing Rules, have contributed or will contribute to the Group, to take up options to subscribe for Shares of the Company.

The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Listing Date.

Grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options).

Where any grant of options to a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% (or such other higher percentage as may from time to time be specified by the Stock Exchange) of the Shares in issue; and

(b) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet the date of the offer of grant, in excess of HK$5 million (or such other higher amount as may from time to time be specified by the Stock Exchange);

such further grant of options must be approved by the Shareholders in a general meeting. The Company must send a circular to its Shareholders. The grantee, his associates and all core connected persons of the Company must abstain from voting in favor of the relevant resolution at such general meeting. Any vote taken at the general meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial Shareholder or an independent non-executive Director or any of their respective associates must be approved by the Shareholders in a general meeting.

The subscription price per Share under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a Business Day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five Business Days immediately preceding the date of the offer of grant (provided that in the event that any option is proposed to be granted within a period of less than five Business Days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares for the Global Offering shall be used as the closing price for any Business Day falling within the period before Listing); and (iii) the nominal value of a Share on the date of grant.

The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group shall not in aggregate exceed 30% of the issued share capital of the Company from time to time. The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group shall not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on the Stock Exchange, such 10% limit represents 60,000,000 Shares (the "General Scheme Limit").

The Company may issue a circular to the Shareholders and seek approval of the Shareholders in a general meeting to extend the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group shall not exceed 10% of the Shares in issue as of the date of approval of the limit. The Company may seek separate Shareholders' approval in a general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to above to participants specifically identified by the Company before such approval is sought. In such event, the Company must send a circular to its Shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Company (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of options in aggregate in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of the Company with such participant and his close associates (or his associates if the participant is a connected person) abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

No options were granted, exercised, canceled or lapsed by the Company under the Share Option Scheme from the Listing Date to 31 December 2020.

A summary of the terms of the Share Option Scheme has been set out in the section headed "E. Share Option Scheme" in Appendix V of the Prospectus.

DIRECTORS' RIGHT TO ACQUIRE SECURITIES

As of the year ended 31 December 2020, no right to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate has been granted to Directors or their respective spouse or children under the age of 18, and none of any such right has been exercised by them; and none of the Company and any of its subsidiaries has been a party to any arrangement to enable the Directors, or their respective spouse or children under the age of 18, to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACT OF SIGNIFICANCE

None of the Directors or any related entities of the Directors had any material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company's holding company, or any of the Company's subsidiaries or fellow subsidiaries was a party as of 31 December 2020.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No Controlling Shareholder or its subsidiaries had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the business of the Group to which the Company or any of its subsidiaries was a party as of 31 December 2020.

MANAGEMENT CONTRACTS

Other than the service contracts and appointment letters of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to undertake management or administration of the whole or any substantial part of any business of the Company as of 31 December 2020.

REPORT OF DIRECTORS

BOARD COMMITTEES

Audit Committee

The Company established the Audit Committee in accordance with Rule 3.21 of the Listing Rules and the CG Code on 13 July 2020. Its primary duties include reviewing and supervising financial reporting procedures, including proposing on appointing or changing the external auditors; supervising the Company's internal audit system and risk management system and their implementation; facilitating communication between the internal auditors and external auditors; auditing the financial information and its disclosure; reviewing the Company's internal control system and auditing significant connected transactions; nominating the heads of the internal audit department; and other matters that the Board has authorised it to deal with.

As at 31 December 2020 and up to the publication date of this annual report, the audit committee comprises three independent non-executive Directors (Mr. Sun Jigang, Mr. Zhao Chun and Mr. Jiang Tianfan).

Remuneration Committee

The Company established the remuneration committee in accordance with Rule 3.25 of the Listing Rules and the CG Code on 13 July 2020. Its primary duties include formulating the criteria for and conducting assessment on our Directors and senior management as well as determining and reviewing the remuneration policies and plans for our Directors and senior management; reviewing the performance of our Directors and senior management and conducting annual assessment on their performance and results; supervising the implementation of the remuneration policies of the Company; and other matters that the Board has authorised it to deal with.

As at 31 December 2020 and up to the publication date of this annual report, the remuneration committee comprises three independent non-executive Directors (Mr. Jiang Tianfan, Mr. Sun Jigang and Mr. Zhao Chun).

Nomination Committee

The Company established the nomination committee in accordance with Rule 3.25 of the Listing Rules and the CG Code on 13 July 2020. Its primary duties include preparing the procedures and criteria for determining candidates of the Directors and general managers of the Company; reviewing the procedures and criteria for determining candidates for the Directors and general managers of the Company and making proposals to the Board; looking widely for the qualified candidates for the directors and general managers; reviewing and making proposals on the candidates for the directors and managers; reviewing and making proposals on the candidates for the other senior management on which the Board needs to resolve; and other matters that the Board has authorised it to deal with.

As at 31 December 2020 and up to the publication date of this annual report, the nomination committee comprises three independent non-executive Directors (Mr. Zhao Chun, Mr. Jiang Tianfan and Mr. Sun Jigang).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Memorandum and Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its code of conduct for securities transactions by the Directors.

Having made specific enquiry, all Directors confirmed that they have complied with the required requirements as set out in the Model Code throughout the period from the Listing Date to 31 December 2020.

DEED OF NON-COMPETITION

The Controlling Shareholders, Henan Honliv Group and Mr. Qin Zili entered into the Deed of Non-competition in favour of the Company, pursuant to which they have irrevocably given certain non-competition undertakings to the Company. Details of the Deed of Non-competition are set out in the section headed "Relationship with our Controlling Shareholders — Non-competition Undertakings" in the Prospectus.

During the year ended 31 December 2020, no written notice of any New Business Opportunity (as defined in the Deed of Non-competition) had been received by the Company. Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock Capital Limited, Rubrical Investment Limited, Henan Honliv Group and Mr. Qin Zili confirmed that they have complied with the Deed of Non-competition for the year ended 31 December 2020 (the "Confirmation"). Upon receiving the Confirmation, the independent non-executive Directors of the Company have reviewed the same as part of the annual review process. In view of the above, the independent non-executive Directors have confirmed that, as far as they can ascertain, there is no breach by any of the parties therein of the non-competition undertakings in the Deed of Non-competition given by them.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT OT THE LISTING RULES

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

ANNUAL GENERAL MEETING

The Annual General Meeting (the "AGM") of the Company will be held on Friday, 18 June 2021. Shareholders of the Company should refer to the details regarding the AGM in the circular to be despatched by the Company and the notice of meeting and form of proxy accompanying therewith.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, 15 June 2021 to Friday, 18 June 2021, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, all transfer of Shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. (Hong Kong time) on Friday, 11 June 2021, being the last registration date.

CODE ON CORPORATE GOVERNANCE PRACTICES

The full text of the corporate governance report is set out on pages 35 to 42 of this annual report.

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

From the Listing Date and up to 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

REPORT OF DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available and to the best of the Board's knowledge, information and belief, the Company has always maintained sufficient public float as of the date of this annual report.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

RELATED PARTY TRANSACTIONS

The Group has no non-exempt continuing connected transactions for the year ended 31 December 2020. Details of related party transactions of the Group undertaken in the ordinary course of business are set out in Note 35 to the consolidated financial statements. None of these related party transactions is required to be disclosed under Chapter 14A of the Listing Rules.

AUDITOR

The independent auditor of the Company for the year ended 31 December 2020 is PricewaterhouseCoopers. The total fees for the Company's external auditor are RMB2.35 million.

DIRECTORS AND SENIOR MANAGEMENT

The Board consists of three executive Directors, one non-executive Director and three independent non-executive Directors.

BOARD OF DIRECTORS

Executive Directors

Mr. Qin Yan (秦岩), aged 33, is an executive Director, the chairman of the Board, and the president of the Company, mainly responsible for overall strategic planning and business development of the Group. Mr. Qin Yan has over 12 years of experience in corporate management. In June 2007, Mr. Qin Yan joined Henan Honliv Hospital as an associate office manager and participated in the management of Henan Honliv Hospital and stayed in this position. Since April 2014, Mr. Qin Yan has served as a supervisor of Henan Honliv Hospital, mainly responsible for supervising the business conduct of the directors and senior management.

Mr. Qin Yan obtained a master's degree in philosophy from the University of Cambridge in the United Kingdom in October 2014.

Mr. Qin Yan has served as the legal representative of Honliv Yishenghuo since September 2014.

Mr. Qin Yan is the younger brother of Mr. Qin Hongchao and cousin of Ms. Wang Xiaoyang.

Dr. Teng Qingxiao (滕清曉), aged 55, is an executive Director, the Chief Operating Officer, and a senior vice president of the Company, mainly responsible for hospital healthcare management and human resources of the Group and currently serve as the president of Henan Honliv Hospital. Dr. Teng joined the Group in June 2007. On the administration front, he served as the deputy director and director of the department of otolaryngology in Henan Honliv Hospital from June 2007 to November 2010. Dr. Teng then served as the deputy president of Henan Honliv Hospital from December 2010 to May 2013, mainly responsible for assisting the president in the management of the hospital. In May 2013, Dr. Teng became the president of Henan Honliv Hospital and since then has been presiding over all aspects of hospital management, in particular finance, promotion and marketing. In addition, Dr. Teng had been an associate professor of Xinxiang Medical University (新鄉醫學院) from November 2005 to June 2007 specializing in the field of clinical medicine. Prior to joining the Group, Dr. Teng had practiced as a doctor in the department of otolaryngology at the Third Affiliated Hospital of Xinxiang Medical University (新鄉醫學院第三附屬醫院) from December 1996 to November 2005.

Dr. Teng graduated from Xinxiang Medical University (新鄉醫學院) in the PRC with a bachelor's degree of medicine specializing in clinical medicine in July 2002. He later obtained a master's degree of medicine specializing in pathology and pathophysiology from Xinxiang Medical University in June 2008. In November 2013, Dr. Teng completed the postgraduate course in medical and health management convened by the School of Continuing Education, Tsinghua University (清華大學繼續教育學院) in the PRC. Dr. Teng has been licensed by the Health Bureau of Henan Province (河南省衛生廳) to practice as a doctor since May 1999. He obtained the qualifications to practice as an associate chief doctor and a chief doctor in May 2005 and February 2012, respectively, from the People's Government of Henan Province.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang Zhongtao (王忠濤), aged 42, is an executive Director and financial controller of the Company, mainly responsible for overall accounting management and financing of our Group. Mr. Wang joined the Group as a Director in March 2018 and also assumed the role of the financial controller of Henan Honliv Hospital in June 2019. Mr. Wang has over 20 years of experience in finance management and accounting. Prior to joining the Group, Mr. Wang served as an accountant at Henan Honliv Group from July 1997 to June 2010, and then as the deputy finance manager from July 2009 to August 2017, mainly responsible for management and control of all aspects of accounting, finance and audit matters. From August 2017 to May 2019, Mr. Wang served as the finance manager of Henan Honliv Group, mainly responsible for supervision of Henan Honliv Group's operational results, as well as improving internal systems.

In July 1999, Mr. Wang graduated from Henan Xinxiang of Business School (河南新鄉商業學校) in the PRC, specializing in finance and accounting. In July 2017, Mr. Wang obtained a diploma from the Xinxiang College (新鄉學院), specialized in architectural engineering technology. He has been licensed by the Ministry of Finance to practice as an accountant (intermediate) since May 2007, and a non-practicing member of the Chinese Institution of Certified Public Accountants since February 2013.

Non-executive Director

Mr. Qin Hongchao (秦紅超), aged 35, joined the Company in January 2016 as a non-executive Director. Since February 2006, Mr. Qin Hongchao served as the deputy manager of the corporate management department at Henan Honliv Group, mainly responsible for strategic planning and management. Since October 2012, Mr. Qin Hongchao has been the vice chairman of Henan Honliv Group, mainly responsible for assisting the chairman with overall corporate governance.

Mr. Qin Hongchao obtained a diploma in hospitality management from American Hotel & Lodging Educational Institution in the United States in March 2009, and completed the practicum in hospitality management program at Prospect College of Business and Language(1) in Canada in July 2009.

Mr. Qin Hongchao is the elder brother of Mr. Qin Yan and cousin of Ms. Wang Xiao Yang.

Note (1): This institution is not a designated learning institution recognized by the Canadian Government.

Independent Non-executive Directors

Mr. Zhao Chun (趙淳), aged 68, was appointed as an independent non-executive Director of the Company on 7 June 2016. From March 2016 to March 2019, Mr. Zhao served as the vice president of the Expert Certification Committee on the Competitiveness of Chinese Private Hospitals* (中國醫院競爭力（民營）星級認證專家委員會) under Ailibi Hospital Management Research Centre. In addition, since September 2000, Mr. Zhao has held management positions in the Management of Private Hospitals Branch of Chinese Hospital Association (中國醫院協會 — 民營醫院管理分會), such as deputy secretary general and secretary general, and is currently the executive vice president. From February 2006 to August 2011, Mr. Zhao was the deputy secretary general of Chinese Hospital Association (中國醫院協會).

Mr. Zhao obtained a diploma in philosophy from Nankai University (南開大學) in the PRC in June 1987.

Mr. Sun Jigang (孫冀剛), aged 53, was appointed as an independent non-executive Director of the Company on 5 July 2017. Mr. Sun has more than 11 years of experience in financial management. Between December 2008 and December 2010, he served as the chief financial officer of Gongda Chemical Industry Equipment Co., Ltd.* (石家莊工大化工設備有限公司); between January 2011 and August 2011, he was the chief financial officer of Beijing Puhua International Hospital Co., Ltd.* (北京天壇普華醫院有限公司). In both positions, he was responsible for matters concerning corporate finance, financial planning and budgeting, and financial reporting, in particular the preparation, review and analysis of financial statements. From September 2011 to May 2016, Mr. Sun served as the chief financial officer and the chief investment officer of Concord Medical Services Holdings Limited ("CMS Holdings") (a company listed on the New York Stock Exchange with stock code: CCM), mainly responsible for its finance, compliance and disclosure of financial information. Mr. Sun is currently the founding partner of Oceanpine Capital, a private equity fund focused on investments in the healthcare sector.

Mr. Sun graduated from China Foreign Affairs University (外交學院) in the PRC with a bachelor's degree in English in July 1990. He also obtained a master's degree in University of Chicago Graduate School of Business (currently known as the University of Chicago Booth School of Business) in the U.S. in March 1998.

Mr. Jiang Tianfan (江天帆), aged 40, was appointed as an independent non-executive Director of the Company on 17 December 2019 with effect from the Listing Date. Mr. Jiang has been serving as the chairman of board of directors of True Glory Global Limited since December 2013. From August 2015 to June 2017, Mr. Jiang served as the executive director of UMP Healthcare Holdings Limited (香港聯合醫務集團有限公司, a company listed on the Stock Exchange with the stock code of 722). From August 2009 to November 2016, Mr. Jiang worked as an executive director in China Resources Medical Holdings Company Limited (華潤醫療控股有限公司, previously known as Phoenix Healthcare Group Co. Ltd. (鳳凰醫療集團有限公司), a company listed on the Stock Exchange with the stock code of 1515), and as the chief financial officer from November 2011 to November 2016.

Mr. Jiang obtained a bachelor's degree in law from Shanghai International Studies University (上海外國語大學) in July 2003. He further obtained a master's degree in business administration from Washington University in St. Louis in May 2009.

SENIOR MANAGEMENT

Mr. Qin Yan (秦岩) — please refer to the paragraph headed "— Board of Directors — Executive Directors" in this section for his biographical details.

Dr. Teng Qingxiao (滕清曉) — please refer to the paragraph headed "— Board of Directors — Executive Directors" in this section for his biographical details.

Mr. Wang Zhongtao (王忠濤) — please refer to the paragraph headed "— Board of Directors — Executive Directors" in this section for his biographical details.

Dr. Hua Xiuzhi (滑修之), aged 52, is currently a vice president of the Company, mainly responsible for hospital management of the Group and currently serves as the deputy general manager of Henan Honliv Hospital. Dr. Hua joined the Group in September 2003. He served as the manager of the equipment department at Henan Honliv Hospital from April 2004 to January 2006, and as the assistant to the president of Henan Honliv Hospital from January 2006 to March 2006. From March 2006 to December 2010, he served as a vice president of Henan Honliv Hospital, mainly responsible for the healthcare operation of the hospital. Since December 2010, Dr. Hua has served as the deputy general manager of Henan Honliv Hospital, mainly responsible for expansion of the healthcare business of the Group. Prior to joining the Group, Dr. Hua practiced as a doctor of clinical medicine at People's Hospital of Changyuan County (長垣縣人民醫院) from September 1991 to September 2003.

DIRECTORS AND SENIOR MANAGEMENT

Dr. Hua graduated from Henan Medical University (河南醫科大學) in the PRC (currently known as Zhengzhou University School of Medicine (鄭州大學醫學院)), in July 1991, with a bachelor's degree in medicine, specializing in preventive medicine. Dr. Hua obtained the qualification certificate as a doctor from the Health Bureau of Henan Province (河南省衛生廳) in May 1999, and has been licensed by the same bureau to practice as a doctor since April 2001.

Since September 2017, Dr. Hua has served as the legal representative of Yexian Honliv Hospital Co., Ltd.* (葉縣宏力醫院有限公司) ("Yexian Honliv"). Yexian Honliv is an indirectly majority controlled company of Mr. Qin Zili and therefore a connected person of the Company under Rule 14.12(2)(b) of the Listing Rules.

Dr. Qian Feng (錢峰), aged 51, was appointed as vice president of the Company on 10 December 2019, mainly responsible for healthcare service quality control of the Group. Dr. Qian serves as a vice president and the associate chief physician of Henan Honliv Hospital since December 2010. Dr. Qian served as a gastroenterologist of the gastroenterology department in Henan Honliv Hospital from October 2006 to July 2009, and the director of the same department and the endoscopy center from July 2009 to December 2010. Prior to joining the Group, Dr. Qian served as gastroenterologist in the Fifth People's Hospital of Shangqiu City (商丘市第五人民醫院) from October 1992 to October 2006. In addition, Dr. Qian is the alliance director and an expert of the National Early Gastrointestinal Cancer Prevention & Treatment Center Alliance ("GECA") (國家消化道早癌防治中心). He is currently a member of Hospital Management Branch of Chinese Non-government Medical Institutions Association ("CNMIA") (中國非公立醫療機構協會醫院管理分會委員).

Dr. Qian graduated from Henan Medical University (河南醫科大學) in the PRC with a bachelor's degree in medicine specializing in clinical medicine in July 1992. He also obtained the certificate of completion of graduate coursework in psychology from Xinxiang Medical University (新鄉醫學院) in the PRC in July 2014.

Ms. Wang Xiaoyang (王曉陽), aged 34, was appointed as the assistant of the Chairman on December 10, 2019 and a joint company secretary of the Company on 7 June 2016, mainly responsible managing for investor relations of the Group. Ms. Wang joined the Group in February 2011 and has served as the assistant manager of human resources department of Henan Honliv Hospital, mainly responsible for recruitment, staffing, training and development. Ms. Wang obtained a bachelor's degree of science in mathematics with business management from the University of Birmingham in July 2009, and a master's degree of science in analysis, design and management of information systems from London School of Economics and Political Science in November 2010.

JOINT COMPANY SECRETARIES

Ms. Wang Xiaoyang (王曉陽) — please refer to the paragraph headed "— Board of Directors — Senior Management" in this section for her biographical details.

Ms. Hui Yin Shan (許燕珊) was appointed as the joint company secretary on 30 October 2020. Ms. Hui is a Senior Manager of Corporate Services Division of Tricor Services Limited, Asia's leading business expansion specialist. Ms. Hui has over 18 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Hui has been the company secretary or joint company secretary of several listed companies on the Hong Kong Stock Exchange.

Ms. Hui graduated from The Hong Kong Polytechnic University and is a Chartered Secretary and an Associate Member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.

* *English translation is for identification purpose only.*

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company confirms that it has complied with all code provisions of the Corporate Governance Code since the Listing Date up to 31 December 2020, save and except for code provision A.2.1.

The Company will review and commit in making necessary arrangement to comply with all code provisions set out in the CG Code and in rising expectations of Shareholders and investors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2020. The Company confirmed that there was no incident of non-compliance of the Model Code by any Directors during the year ended 31 December 2020.

BOARD OF DIRECTORS

The Directors are accountable to all Shareholders for their leadership and supervision over the Group's operation and are committed to achieving the goal of increasing Shareholders' value.

The Board of the Company currently comprises the following Directors:

Executive Directors

Mr. Qin Yan (秦岩) *(President and Chairman)*
Dr. Teng Qingxiao (滕清曉)
Mr. Wang Zhongtao (王忠濤)

Non-executive Director

Mr. Qin Hongchao (秦紅超)

Independent Non-executive Directors

Mr. Zhao Chun (趙淳)
Mr. Sun Jigang (孫冀剛)
Mr. Jiang Tianfan (江天帆)

There is no relationship between members of the Board other than that Mr. Qin Yan and Mr. Qin Hongchao are brothers who are also cousins of Ms. Wang Xiaoyang (王曉陽), the joint company secretary.

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 31 to 34 of this annual report.

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

The roles of 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.

Independent Non-executive Directors

During the year ended 31 December 2020, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent in accordance with the guidelines set out of in the Listing Rules.

Appointment and Re-election of Directors

According to the Memorandum and Articles of Association, at every annual general meeting, one-thrid of the Directors (or if their number is not a multiple of three, the number nearest to but no less than one-third) are subject to retirement by or rotation at least once every three years and any new Director appointed to fill casual vacancy as an addition to the Board shall hold office until the next following general meeting of the Company. The retiring Directors shall be eligible for re-election.

Any other appointment, resignation, removal or re-designation of Directors will be timely disclosed to the Shareholders by announcement and shall include in such announcement, the reasons given by the Director for his resignation.

Each Director (including non-executive Director) has entered into a service contract or letter of appointment with the Company for an initial term of 3 years commencing from the Listing Date and shall be subject to retirement by rotation once every three years.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

CORPORATE GOVERNANCE REPORT

The Company has arranged appropriate insurance coverage to protect Directors from possible legal action against them. The insurance coverage would be reviewed on an annual basis.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

On appointment to the Board, each Director receives a comprehensive induction package to ensure that he/she has a proper understanding of the business and operations of the Company and if fully aware of the responsibilities and obligations as being a Director as well as the compliance practice under the Listing Rules and other relevant regulatory requirements.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are kept updated on the statutory and regulatory development and changes in the business and the market so as to facilitate the discharge of their responsibility. Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant. All Directors have participated in the courses relating to the roles, functions and duties of a director of a listed company or further enhanced their professional development.

The training records of the Directors for the year ended 31 December 2020 are summarized as follows:

Directors	Type of Training *Note*
Executive Directors	
Mr. Qin Yan *(President and Chairman)*	A
Dr. Teng Qingxiao	A
Mr. Wang Zhongtao	A
Non-Executive Director	
Mr. Qin Hongchao	A
Independent Non-Executive Directors	
Mr. Zhao Chun	A
Mr. Sun Jigang	A
Mr. Jiang Tianfan	A

Note:

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

Board Meetings and Directors' Attendance Records

According to code provision A.1.1, regular Board meetings should be held at least four times a year a approximately quarterly intervals. As the Shares of the Company were listed on 13 July 2020, four Board meetings were held for the year ended 31 December 2020, one of which was to approve the Company's interim report for the six months ended 30 June 2020.

CORPORATE GOVERNANCE REPORT

A summary of the attendance records of the Directors at the Board meetings held during the year is set out below:

Name of Directors	Attendance/ No. of Board Meeting(s)
Executive Directors	
Mr. Qin Yan *(President and Chairman)*	4/4
Dr. Teng Qingxiao	4/4
Mr. Wang Zhongtao	4/4
Non-executive Director	
Mr. Qin Hongchao	4/4
Independent Non-executive Directors	
Mr. Zhao Chun	4/4
Mr. Sun Jigang	4/4
Mr. Jiang Tianfan	4/4

BOARD COMMITTEES

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Sun Jigang, Mr. Zhao Chun and Mr. Jiang Tianfan. Mr. Sun Jigang is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in any matters of the Company.

The Audit Committee held two meetings to review, in respect of the year ended 31 December 2020, the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, and arrangements for employees to raise concerns about possible improprieties.

The attendance records of the members of the Audit Committee are as follows:

Name of Members of the Audit Committee	Attendance
Mr. Sun Jigang *(Chairman)*	2/2
Mr. Zhao Chun	2/2
Mr. Jiang Tianfan	2/2

Remuneration Committee

The Remuneration Committee consists of three independent non-executive Directors, namely Mr. Jiang Tianfan, Mr. Sun Jigang and Mr. Zhao Chun. Mr. Jiang Tianfan is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include determining the policy and structure for the remuneration of directors and senior management, to establish a formal and transparent procedure for developing remuneration policy, to evaluate the performance of directors and senior management, to review and recommend the terms of incentive schemes and directors' service contracts, and to recommend the remuneration packages for all directors and senior management.

The Remuneration Committee met once meeting during the year to review and make recommendation to the Board on the remuneration policy and the remuneration packages of the Directors and senior management.

Details of the remuneration of the senior management by band are set out in note 7 in the consolidated financial statements of this annual report.

The attendance records of the members of the Remuneration Committee are as follows:

Name of Members of the Remuneration Committee	Attendance
Mr. Jiang Tianfan *(Chairman)*	1/1
Mr. Sun Jigang	1/1
Mr. Zhao Chun	1/1

Nomination Committee

The Nomination Committee consists of three independent non-executive Directors, namely Mr. Zhao Chun, Mr. Sun Jigang and Mr. Jiang Tianfan. Mr. Zhao Chun is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

The Board has adopted a board diversity policy (the "Board Diversity Policy"), which sets out the approach to achieve diversity of the Board. The Board has also adopted a director nomination policy (the "Director Nomination Policy"), which sets out the selection criteria and process and succession planning considerations in relation to nomination and appointment of Directors of the Company.

According to the Board Diversity Policy and the Director Nomination Policy, the Nomination Committee reviews and assesses the Board composition and makes recommendations of changes to the composition of the Board. The Nomination Committee would consider the benefits of all aspects of diversity set out in the Board Diversity Policy and Director Nomination Policy, including but not limited to gender, age, cultural, educational background, ethnicity, professional experience, skills, knowledge and length of service and other qualities in reviewing and assessing the composition of the Board and all appointments to the Board will be based on merits and will take into account of factors based on the Company's own business model and specific needs from time to time.

The Nomination Committee held one meeting to review the structure, size and composition of the Board and the independence of the independent non-executive Directors.

The attendance records of the members of the Nomination Committee are as follows:

Name of Members of the Nomination Committee	Attendance
Mr. Zhao Chun *(Chairman)*	1/1
Mr. Sun Jigang	1/1
Mr. Jiang Tianfan	1/1

Corporate Governance Functions

The Board is responsible for performing the functions of corporate governance. For the year ended 31 December 2020, the Board has performed the functions set out in the code provision D.3.1.

Risk Management and Internal Controls

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year ended 31 December 2020, the Board, as supported by the Audit Committee as well as the management report and the internal audit findings, has performed an annual review on the adequacy and effectiveness of the Group's risk management and internal control systems in different aspects of the Group such as financial, operation, compliance and risk management, and has also assessed the accounting and financial reporting functions of the Group, estimated the resources and budgets for training programs and appraised the staff members' qualifications and experience. In respect of continuing connected transactions, the Group has implemented a series of general management policies controlled by multiple departments to improve corporate governance structure and monitor the implementation of internal control policies, including financial control system, anti-fraud and legal monitoring system, operations and compliance management system, risk management and assessment policies and internal audit rules.

The Board considers that the abovementioned systems are effective and adequate.

The internal audit department is responsible for conducting comprehensive audits of each department of the Group to facilitate the management's control on the assets of the Group. In addition, it offers consulting services in respect of internal control to each department of the Group to assist them in optimizing and enhancing the risk management and internal control systems and the operating processes. For the year ended 31 December 2020, the internal audit department did not discover any circumstances involving fraud, non-compliance or violation against laws, regulations and rules or any material incidents due to lack of internal control.

The Board considers that the current risk management and internal control systems cover the existing businesses of the Group, and will continue to be optimized in line with the business development of the Group.

In particular, the Board will devote efforts to complying with the Listing Rules, ensuring compliance with the relevant laws and regulation and safeguarding the interests of the Company and the Shareholders as a whole.

The Company has developed its disclosure policy, which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

Directors' Responsibility in Respect of the Financial Statement

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2020, which give a true and fair view of the financial position of the Group as well as the results and cash flow during the year.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Auditor and Auditors' Remuneration

The auditor of the Company for the financial year under review is PricewaterhouseCoopers. During the year ended 31 December 2020, remuneration of audit services provided by the auditor of the Company to the Group was approximately RMB2.35 million. There was no amount incurred for non-audit services of the auditor.

The Audit Committee is responsible for making recommendations to the Board as to the appointment, re-appointment and removal of the external auditor. Such appointment, re-appointment and removal are subject to the approval by the Board and the general meetings of the Company by the Shareholders.

The statement of the independent auditor of the Group about their reporting responsibilities on the consolidated financial statements of the Group is set out in the independent auditor's report from pages 43 to 47 of this annual report.

Remuneration of Directors and Senior Management

Details of the remuneration by band of the members of the Board and senior management of the Company, whose biographies are set out on pages 31 to 34 of this annual report, for the year ended 31 December 2020 are set out below:

Remuneration band *(RMB'000)*	**Number of individuals**
Nil to 200	5
201 to 400	3
401 to 600	1
Above 601	1

Company Secretary

Ms. Wang Xiaoyang acts as a joint company secretary of the Company. The Company has engaged Tricor Services Limited, external service provider, and Ms. Hui Yinshan (許燕珊) been appointed in place of Ms. Lau Jeanie as a joint company secretary with effect from 30 October 2020. Her primary contact person at the Company is Ms. Wang Xiaoyang.

For the year ended 31 December 2020, Ms. Wang Xiaoyang and Ms. Hui Yin Shan have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

Constitutional Documents

The Memorandum and Articles of Association of the Company were amended and restated with effect from the Listing Date. Save as disclosed above, during the year ended 31 December 2020, the Company has not made any changes to its Memorandum and Articles of Association.

The Memorandum and Articles of Association are available on the Company's website and the Stock Exchange's website.

CORPORATE GOVERNANCE REPORT

Shareholders' Rights

To safeguard Shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting

Pursuant to article 12.3 of the Memorandum and Articles of Association, any two or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by deposited an written and signed requisition at the principal office of the Company in Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them may do so in the same manner, provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Investors Relations

The Board believes that effective communication with investors is essential for establishing investors' confidence and attracting new investors. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which enables investors to make the best investment decision.

The Company has disclosed all necessary information to the Shareholders in compliance with the Listing Rules. Updated and key information of the Company is also available on the Company's website at www.honlivhp.com. The Company also replied the enquiries from Shareholders timely, if any. The general meetings of the Company provide an important channel for communications between the Board and the Shareholders. The Chairman, as well as the chairman of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committee and where appropriate, the chairman of the independent Board Committee, will be available to answer questions at the general meetings.

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

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

Fax: 86-373-8882111
Email: wangxiaoyang@honliv.com

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of
Honliv Healthcare Management Group Company Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Honliv Healthcare Management Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 48 to 102, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to expected credit losses assessment of trade receivables.

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit losses assessment of trade receivables Refer to note 3.1.2, note 4(b) and note 20 to the consolidated financial statements. As at 31 December 2020, the net carrying amount of the Group's trade receivables amounted to RMB19.1 million, among which, a loss allowance of RMB4.7 million was recognised as at the same date. The Group applies the simplified approach under HKFRS 9 to measure expected credit loss, which requires expected lifetime losses to be recognised from initial recognition of the trade receivables.	Our procedures in relation to management's assessment on the expected credit losses of trade receivables include: We obtained an understanding of the management's internal control and assessment process of expected credit losses of trade receivables and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk. We evaluated and tested the key controls over management's expected credit losses assessment of trade receivables. We evaluated the outcome of prior period assessment of expected credit losses of trade receivables to assess the effectiveness of management's estimation process. We assessed the reasonableness of assumptions used and judgments made by management by (1) checking the historical payment pattern and actual credit losses of customers, (2) evaluating the rationality of the groups of trade receivables whose expected credit losses are assessed on a collective or individual basis by reference to the contract terms and types of services sells to customers, and (3) evaluating the reasonableness of the forward-looking adjustments made by management, such as macroeconomic conditions, industry risks and probabilities of default to which it sells its services, by comparing with the relevant macroeconomic parameters and comparable industry information.

Key Audit Matter	How our audit addressed the Key Audit Matter
Loss allowance of trade receivables reflected management's best estimate on the expected credit losses. The estimate required significant management judgment in making assumptions about the expected credit loss rates based on historical credit losses and adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the 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. We focused on auditing the expected credit losses assessment of trade receivables because the estimation of expected credit losses is subject to high degree of estimation uncertainty. The inherent risk in relation to expected credit losses assessment of trade receivables is considered significant due to the subjectivity of significant assumptions used in expected credit losses assessment of trade receivables.	We tested the aging of trade receivables, on a sample basis, by checking to underlying accounting records and supporting documents. We checked the accuracy, on a sample basis, of the key data inputs such as trade receivables amounts as at 31 December 2020 by requesting confirmations. We considered whether the judgements made in selecting significant assumptions and data would give rise to indicators of possible management bias. We tested the mathematical accuracy of the calculation of the expected credit losses. We assessed the adequacy of the disclosures related to the expected credit losses in notes note 3.1.2, notes 4(b) and note 20 to the consolidated financial statements. Based on the above procedures performed, we considered that management's judgments and assumptions adopted in the expected credit losses assessment of trade receivables were supported by the evidence obtained and procedures performed.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tsun NG.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2020	2019
	Note	***RMB'000***	*RMB'000*
Revenue	*5*	**524,043**	531,108
Cost of sales	*6*	**(386,451)**	(360,952)
Gross profit		**137,592**	170,156
Other expense		**(196)**	(196)
Other income		**440**	440
Other (losses)/gains — net	*8*	**(57)**	207
Administrative expenses	*6*	**(71,199)**	(74,101)
Net impairment losses on financial assets	*3.1.2*	**(4,610)**	(25)
Operating profit		**61,970**	96,481
Finance income		**791**	706
Finance costs		**(31,908)**	(28,708)
Finance costs — net	*9*	**(31,117)**	(28,002)
Profit before income tax		**30,853**	68,479
Income tax expense	*10*	**(8,662)**	(18,621)
Profit for the year		**22,191**	49,858
Other comprehensive income		**–**	–
Total comprehensive income		**22,191**	49,858
Profit and total comprehensive income attributable to:			
Owners of the Company		**21,840**	49,362
Non-controlling interests		**351**	496
		22,191	49,858
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
Basic and diluted earnings per share	*11*	**0.04**	0.11

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2020	2019
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*12*	**489,350**	406,554
Right-of-use assets	*13(a)*	**83,174**	87,658
Investment properties	*14*	**3,070**	3,266
Intangible assets	*15*	**525**	315
Deferred income tax assets	*16*	**1,153**	–
Prepayments	*21*	**42,982**	61,560
Total non-current assets		**620,254**	559,353
Current assets			
Inventories	*19*	**20,707**	23,124
Trade receivables	*20*	**19,055**	16,988
Other receivables and prepayments	*21*	**4,420**	6,257
Restricted deposit	*24*	**5,550**	15,000
Cash and cash equivalents	*23*	**302,478**	104,602
Total current assets		**352,210**	165,971
Total assets		**972,464**	725,324
EQUITY			
Equity attributable to the owners of the Company			
Share capital	*25*	**52**	33
Reserves	*26*	**435,399**	166,146
Retained earnings		**89,760**	71,394
Subtotal		**525,211**	237,573
Non-controlling interests		**4,406**	4,055
Total equity		**529,617**	241,628

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2020	2019
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	*28*	**–**	33,869
Lease liabilities	*13(b)*	**440**	2,700
Deferred income	*29*	**2,000**	2,000
Total non-current liabilities		**2,440**	38,569
Current liabilities			
Borrowings	*28*	**246,769**	237,827
Trade and notes payables	*30*	**95,547**	115,006
Current income tax liabilities		**5,185**	3,315
Accruals, other payables and provisions	*31*	**90,066**	79,031
Amounts due to related parties	*22*	**–**	7,850
Lease liabilities	*13(b)*	**2,840**	2,098
Total current liabilities		**440,407**	445,127
Total liabilities		**442,847**	483,696
Total equity and liabilities		**972,464**	725,324

The financial statements on pages 48 to 102 were approved by the Board of Directors on 25 March 2021 and were signed on its behalf.

Qin Yan **Wang Zhongtao**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to the owners of the Company					
	Note	Share Capital RMB'000	Reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2019		33	77,107	26,947	104,087	2,710	106,797
Comprehensive income							
— Profit for the year		–	–	49,362	49,362	496	49,858
Transactions with owners							
— Appropriation to statutory surplus reserves	26(a)	–	4,915	(4,915)	–	–	–
— Capital contribution by the Controlling Shareholders		–	70,000	–	70,000	–	70,000
— Issue of shares of the Company to a pre-IPO investor		–	14,973	–	14,973	–	14,973
— Transaction with a non-controlling shareholder		–	(849)	–	(849)	849	–
Balance at 31 December 2019		33	166,146	71,394	237,573	4,055	241,628
Balance at 1 January 2020		**33**	**166,146**	**71,394**	**237,573**	**4,055**	**241,628**
Comprehensive income							
— Profit for the year		**–**	**–**	**21,840**	**21,840**	**351**	**22,191**
Transactions with owners							
— Appropriation to statutory surplus reserves	26(a)	**–**	**3,474**	**(3,474)**	**–**	**–**	**–**
— Issuance of ordinary shares	25(b)	**14**	**265,784**	**–**	**265,798**	**–**	**265,798**
— Issue of shares pursuant to Capitalisation Issue	25(a)	**5**	**(5)**	**–**	**–**	**–**	**–**
Balance at 31 December 2020		**52**	**435,399**	**89,760**	**525,211**	**4,406**	**529,617**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash generated from operations	*32(a)*	**82,559**	177,232
Income taxes paid		**(7,945)**	(91,187)
Net cash generated from operating activities		**74,614**	86,045
Cash flows from investing activities			
Payments for purchase of property, plant and equipment		**(80,432)**	(65,396)
Payments for purchase of intangible assets		**(421)**	(325)
Loans to a related party	*35(e)*	**–**	(282,295)
Loan repayments from a related party	*35(e)*	**–**	282,295
Interests received		**791**	706
Net cash used in investing activities		**(80,062)**	(65,015)
Cash flows from financing activities			
Proceeds from global offering		**283,887**	–
Capital contribution from the Controlling Shareholders		**–**	70,000
Capital contribution from a pre-IPO investor		**–**	14,973
Borrowings from banks and financial institutions		**213,000**	291,400
Repayments of borrowings from banks and financial institutions		**(237,927)**	(223,675)
Borrowings from a related party	*35(e)*	**–**	91,103
Repayments to a related party	*35(e)*	**–**	(129,739)
Principal elements of lease payments		**(1,518)**	(1,464)
Dividends paid to shareholders		**(7,227)**	(9,575)
Payments of listing expenses		**(14,090)**	(2,580)
Interest paid		**(20,969)**	(26,801)
Net cash generated from financing activities		**215,156**	73,642
Net increase in cash and cash equivalents		**209,708**	94,672
Cash and cash equivalents at beginning of year		**104,602**	9,930
Effects of exchange rate changes on cash and cash equivalents		**(11,832)**	–
Cash and cash equivalents at end of year		**302,478**	104,602

1 GENERAL INFORMATION AND BASIS OF PRESENTATION

1.1 General information

Honliv Healthcare Management Group Company Limited (the "Company") was incorporated in the Cayman Islands on 6 January 2016 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Campbells Corporate Services Limited, Floor 4, Willow House, Cricket Square, Grand Cayman KY1-9010, Cayman Islands.

The Company is an investment holding company and together with its subsidiaries (the "Group"), are principally engaged in the ownership, operation and management of hospitals in the People's Republic of China (the "PRC") (the "Listing Business").

The ordinary shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") on 13 July 2020("the Listing").

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

2.1.1 Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance ("HKCO") Cap.622.

2.1.2 Historical cost convention

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

2.1.3 New and amended standards adopted by the Group

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

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

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.4 New standards and interpretations not yet adopted

Certain new accounting standards and amendments to existing standards have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. The directors of the Company are of the view that the above new standards and amendments to existing standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.1.5 Going concern

As at 31 December 2020, the Group's current liabilities exceeded its current assets by RMB 88,197,000. The Group had cash and cash equivalents of RMB302,478,000 as at 31 December 2020.

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

- Management has been communicating with the banks which are providing existing banking facilities to the Group with a view to proactively managing the renewal of the Group's banking facilities upon maturity and securing additional credit facilities. As at the date of the report, Henan Honliv Hospital Co., Ltd. ("Honliv Hospital") had renewed RMB82 million bank of borrowings upon maturity since 1 January 2021; and

- on 18 March 2021 Honliv Hospital obtained an additional loan facility of RMB150 million from one of its existing banks. Application of one-year loan drawdowns can be made under this facility until 18 March 2022 subject to the approval and conditions imposed by the bank. As at the reporting date, the Group has not utilized this additional loan facility.

Management has prepared cash flow projections of the Group covering a period of not less than twelve months from 31 December 2020. Taking into account the Group's future operational performance and the expected future operating cash inflows, and the continuous availability of banking facility, management has concluded that the Group will have sufficient financial resources to support its operations and to meet its financial obligations and commitments as and when they fall due in the coming twelve months from 31 December 2020.

The directors have reviewed the Group's cash flow projection and have made due and careful enquiry and considered the basis and assumptions of management's projections. According to the measures above, the directors are satisfied that it is appropriate to prepare the financial information on a going concern basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Principles of consolidation and equity accounting

2.2.1 Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated balance sheet respectively.

2.2.2 Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 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 for the years ended 31 December 2020 and 2019, so no segment information was presented.

2.5 Foreign currency translation

2.5.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Since the majority of the assets and operations of the Group are located in the PRC, the consolidated financial statements are presented in RMB, which is the Group's functional and presentation currency.

2.5.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and gains resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the consolidated statement of comprehensive income within finance income or costs. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "Other (losses)/gains — net".

2.5.3 Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet

- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign currency translation *(Continued)*

2.5.3 Group companies *(Continued)*

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the reporting period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Buildings and structures	3-30 years
— Machinery and equipment	2-10 years
— Office equipment and furniture fixtures	2-10 years
— Vehicles	3-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other (losses)/gains-net' in the consolidated statement of comprehensive income.

Construction in progress (the 'CIP') includes the costs of construction and acquisition and capitalized borrowing costs. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the cost are transferred to plant, property and equipment and depreciated in accordance with policy as stated above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Investment properties

Investment properties, principally comprising buildings, are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group. Investment properties are measured at cost, including related transaction costs and where applicable borrowing costs. Investment properties are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated using the straight-line method to write off the cost less accumulated impairment loss of the asset over its estimated useful life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.8 Intangible assets

2.8.1 Computer software

Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortised using the straight-line method over their estimated useful lives of 3 years. Costs associated with maintaining computer software programs are recognised as expense as incurred.

2.9 Impairment of non-financial assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.10 Financial assets

2.10.1 Classification

There are one type financial assets of the Group's which are financial assets measured at amortised cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

2.10.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.3 Measurement

Debt Instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group adopted measurement below in which was classified debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated statement of comprehensive income and presented in other (losses)/gains — net together with foreign exchange gains and losses.

2.10.4 Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 3.1.2 for further details.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of pharmaceuticals is determined using the weighted average method and cost of medical consumables and others is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade receivables

Trade receivables are amounts due from customers and governments' social insurance schemes for treatments and general healthcare services rendered, pharmaceutical sales and hospital management services rendered in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 20 for further information about the Group's accounting for trade receivables and note 3.1.2 for the description of the Group's impairment policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and deposits held at call with financial institutions.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.19 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

2.19.1 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.19.2 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets and liabilities and when the deferred income tax balances relate to the same taxation authority. Current income tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred income tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Employee benefits

2.20.1 Short-term obligations

Liabilities for wages and salaries are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

2.20.2 Pension obligations

The Group's companies incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to the existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

2.21 Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.22 Revenue recognition

The Group's revenue is primarily derived from providing treatments and general healthcare service to customers, sales of pharmaceuticals and hospital management services.

Revenues are recognised when, or as, the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws applicable, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- Provides all of the benefits received and consumed simultaneously by the customer;
- Creates and enhances an asset that the customer controls as the Group performs; or
- Does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Revenue recognition *(Continued)*

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

The progress towards complete satisfaction of performance obligation, depending on the nature of the good and service to be transferred, is measured based on one of the following methods that best depicts the Group's performance in satisfying the performance obligation:

- Direct measurements of the value of individual services transferred by the Group to the customer; or
- The Group's efforts or inputs to the satisfaction of the performance obligation.

The following is a description of the accounting policy for the principal revenue streams of the Group.

2.22.1 *Treatments and General healthcare service*

Revenue from provision of treatments and general hospital services is recognised when the related services have been rendered to customers.

For inpatient service, the customers normally receive inpatient treatment which contains various treatment components that are all highly relevant and regarded as one performance obligation. The usual period of inpatient is within two weeks. Relevant revenue of inpatient treatment is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. The progress towards the complete satisfaction of performance obligation is measured by direct measurements of the value of individual services transferred by the Group to the customer.

Relevant revenue of outpatient services is recognized at a point in time.

The Group usually receives the payment from social security card or prepaid cards paid by bank card or cash from customers in advance before the hospital services are rendered. The balance amounts of the prepaid cards are presented in the balance sheet within "Accruals, other payables and provisions".

2.22.2 *Pharmaceutical Sales*

Revenue from pharmaceutical sales are recognised when control of the inventory has transferred, being when the inventory are delivered to the customers, the customers has full discretion to use the inventory, and there is no unfulfilled obligation that could affect the customers' acceptance of the inventory.

2.22.3 *Revenue from hospital management services*

The hospital management services are in relation to the consulting services rendered to Neixiang Jutan Hospital, a not-for-profit private general hospital established under the laws of the PRC in February 2015, with a period of 10 years from 2016 to 2026. Revenue from providing hospital management services is recognised in the accounting period in which the services are rendered over the period as the related services are performed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Earnings per share

2.23.1 Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, and

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

2.23.2 Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.24 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities are the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

- amounts expected to be payable by the Group under residual value guarantees

- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and

- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Leases *(Continued)*

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of apartments are recognised on a straight-line basis as an expense in the consolidated statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.25 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets. Note 29 provides further information on how the Group accounts for government grants.

2.27 Interest income

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see note 9 below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the senior management of the Group and approved by the executive directors.

3.1.1 Market risk

(i) Foreign exchange risk

Foreign currency risk is the risk that the value of a financial instrument fluctuates because of the changes in foreign exchange rates.

The Group mainly operates in the PRC with most of the transactions settled in RMB. Foreign exchange rate risk arises when recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

As at 31 December 2020, the Group's assets and liabilities are primarily denominated in RMB, except for certain cash and cash equivalent denominated in USD or HKD (note 23).

The Group is primarily exposed to change in RMB/HKD exchange rate. At 31 December 2020, if RMB had weakened/strengthened by 5% against the HKD with all other variables held constant, pre-tax profit for the year would have been RMB 5,198,000 (2019: Nil) higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD denominated cash at banks.

The Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future, as may be necessary.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from short-term and long-term borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Bank borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group has not entered into interest rate swaps to hedge against the exposure to changes in fair values of the borrowings. The Group will, however, continue to monitor interest rate risk exposure and will consider hedging significant interest rate risk exposure should the need arise.

As at 31 December 2020, the Group's interest-bearing borrowings at variable rates was RMB187,769,000 (2019: RMB169,696,000) (note 32).

For the year ended 31 December 2020, if interest rates on borrowings had been one percent higher/lower with all other variables held constant, the post-tax profit for the year would have decreased/increased by RMB1,408,000(2019: RMB1,273,000), mainly as a result of higher/lower interest expense on floating rate borrowings.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk

Credit risk mainly arises from cash and cash equivalents, restricted deposits, and other financial assets at amortised cost, as well as credit exposures to customers and government's social insurance schemes. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

(i) Risk management

The credit risk of cash and cash equivalents and restricted deposits is limited because the counterparties are state-owned or public listed commercial banks which are high-credit-quality financial institutions located in the PRC.

The Group, being a provider of healthcare services to patients, has a highly diversified customer base, without any single customer contributing material revenue. However, the Group has concentrated debtors' portfolio, as majority patients will claim their medical bills from governments' social insurance schemes and new rural cooperative medical insurance scheme which is run by another government body. The reimbursement from these organisations mainly take three to six months. The Group has policy in place to ensure the treatments and medicines prescribed and provided to such insured patients are in line with respective organisations' policies and within reimbursement limits, provided fulfilling all ethics and moral responsibilities as healthcare provider. The Group also has controls to closely monitor the patients' billings and claim status to minimize the credit risk.

(ii) Impairment of financial assets

The Group has three types of financial assets that are subject to the expected credit loss model:

- cash and cash equivalents and restricted deposit
- trade receivables; and
- other financial assets at amortised cost.

Cash and cash equivalents and restricted deposit

While cash and cash equivalents and restricted deposits are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk *(Continued)*

On that basis, the loss allowance as at 31 December 2020 and 2019 was determined as follows for trade receivables:

31 December 2020	**Lifetime expected credit loss rate**	**Gross carrying amount** *RMB'000*	**Lifetime expected credit loss** *RMB'000*	**Net carrying Amount** *RMB'000*
Provision on individual basis	**100.00%**	**4,588**	**(4,588)**	**–**
Provision on collective basis	**0.53%**	**19,156**	**(101)**	**19,055**
		23,744	**(4,689)**	**19,055**

31 December 2019	Lifetime expected credit loss rate	Gross carrying amount *RMB'000*	Lifetime expected credit loss *RMB'000*	Net carrying Amount *RMB'000*
Provision on individual basis	0.53%	3,016	(16)	3,000
Provision on collective basis	0.46%	14,051	(63)	13,988
		17,067	(79)	16,988

The closing loss allowances for trade receivables as at 31 December 2020 and 2019 as follows:

	Trade receivables As at 31 December	
	2020 *RMB'000*	2019 *RMB'000*
Opening loss allowance as at 1 January	**(79)**	(54)
Increase in trade receivables loss allowance recognised in the consolidated statement of comprehensive income during the year	**(4,610)**	(25)
	(4,689)	(79)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than one year past due.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk *(Continued)*

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables. The directors of the Company have assessed that other receivables have not had a significant increase in credit risk since initial recognition. Thus, a 12-month expected credit loss approach that results from possible default event within 12 months of the reporting period of the Group is adopted by management. The directors of the Company do not expect any losses from non-performance by the counterparties of other receivables. Thus, no loss allowance provision for other receivables was recognized.

3.1.3 Liquidity risk

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

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

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Total contractual cash flows *RMB'000*	Carrying amount *RMB'000*
At 31 December 2020					
Borrowings	**254,699**	**–**	**–**	**254,699**	**246,769**
Trade and notes payables	**95,547**	**–**	**–**	**95,547**	**95,547**
Accruals, other payables and provision (excluding accrued employee benefits and duty and other tax payable) *(note 31)*	**48,737**	**–**	**–**	**48,737**	**48,737**
Lease liabilities	**3,545**	**451**	**–**	**3,996**	**3,280**
	402,528	**451**	**–**	**402,979**	**394,333**
At 31 December 2019					
Borrowings	250,760	37,010	–	287,770	271,696
Trade and notes payables	115,006	–	–	115,006	115,006
Accruals, other payables and provision (excluding accrued employee benefits and duty and other tax payable) *(note 31)*	42,951	–	–	42,951	42,951
Amounts due to related parties	7,850	–	–	7,850	7,850
Lease liabilities	2,663	2,504	451	5,618	4,798
	419,230	39,514	451	459,195	442,301

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. The capital is calculated as total equity as shown in the consolidated balance sheets plus net debt.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated as total liabilities divided by total assets. The liability-to-asset ratio of the Group as at 31 December 2020 and 2019 was as follows:

	As at 31 December	
	2020	2019
The liability-to-asset ratio	**45.54%**	66.69%

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Useful lives of properties, plant and equipment

The estimate of useful lives of property, plant and equipment was made by the management with reference to the established industry practices, technical assessments made on the durability of the assets, as well as the historical magnitude and trend of repair and maintenance expenses incurred by the Group. It could change significantly as when the actual useful life is different with the one previously estimated.

(b) Impairment of trade receivables

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses accounting estimates and judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in note 3.1.2.

5 REVENUE

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

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

6 EXPENSES BY NATURE

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Employee benefits expenses *(note 7)*	**151,746**	145,260
Cost of pharmaceuticals	**145,056**	131,580
Cost of medical consumables	**66,812**	60,598
Utilities, maintenance fee and office expenses	**31,843**	44,688
Depreciation and amortisation	**28,309**	24,278
Expenses in relation to the Listing	**15,639**	11,152
Auditors' remuneration — audit services	**2,350**	–
Other expenses	**15,895**	17,497
	457,650	435,053

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Wages and salaries	**140,014**	131,580
Contributions to pension plans *(a)*	**6,647**	8,071
Welfare and other expenses	**5,085**	5,609
	151,746	145,260

Employee benefit expenses were charged in the following categories in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Cost of sales	**129,579**	123,350
Administrative expenses	**22,167**	21,910
	151,746	145,260

(a) Contributions to pension plans

The Group's companies incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefit obligations payable to the existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group. The Group did not have any forfeited contribution for the years ended 31 December 2020 and 2019 in connection with the defined contribution scheme. The Group did not have defined benefit plan for the years ended 31 December 2020 and 2019.

7 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 1(2019: 1) director whose emoluments are reflected in analysis presented in note 38. The emoluments payable to the remaining individuals were as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Basic salaries, housing allowance, other allowance and benefits in kind	**2,713**	3,197
Contribution to pension plans	**11**	59
	2,724	3,256

The number of highest paid non-director individuals whose remunerations fell within the following band is as follows:

	Number of individuals Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Emolument bands		
Nil to HK$1,000,000	**4**	3
HK$1,000,001 to HK$1,500,000	**–**	1
	4	4

8 OTHER (LOSSES)/GAINS — NET

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Losses on disposal of plant and equipment	**(2)**	(35)
Others	**(55)**	242
	(57)	207

9 FINANCE COSTS — NET

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Finance cost:		
Interest expense on bank borrowings	**12,923**	12,293
Interest expense on other borrowings	**6,889**	10,659
Interest expense on lease liabilities	**264**	295
Net foreign exchange losses	**11,832**	–
Additional cost on the delay of tax payment	**–**	5,461
Total finance costs	**31,908**	28,708
Finance income:		
Interest income	**(791)**	(706)
Net finance costs	**31,117**	28,002

10 INCOME TAX EXPENSE

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

10 INCOME TAX EXPENSE *(Continued)*

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of the PRC, the principal place of the Group's operations, as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Profit before income tax	**30,853**	68,479
Calculated at a tax rate of 25%	**7,713**	17,120
Income not subject to tax	**–**	(118)
Expenses not tax deductible	**2,733**	1,555
Tax effect of tax losses not recognised as deferred income tax assets *(note 16)*	**547**	64
Adjustment for current tax of prior periods	**(2,331)**	–
Income tax expense	**8,662**	18,621

(a) Cayman Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(b) PRC Corporate Income Tax

Subsidiaries established and operated in Mainland China are subject to PRC corporate income tax at the rate of 25%.

(c) Hong Kong profits tax

Hong Kong profits tax rate is 16.5% for the years ended 31 December 2020 and 2019. No Hong Kong profit tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the years ended 31 December 2020 and 2019.

(d) Withholding tax

The withholding tax rate of Honliv Hong Kong was 10% pursuant to PRC corporate income tax based on the remittance of dividends from subsidiaries in the PRC in the foreseeable future.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

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

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

(b) Diluted earnings per share

Diluted earnings per share were the same as basic earnings per share as the Group had no potential dilutive shares during the years ended 31 December 2020 and 2019.

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures *RMB'000*	Machinery and equipment *RMB'000*	Office equipment and furniture fixtures *RMB'000*	Vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2019						
Cost	240,405	173,628	33,903	20,972	222,196	691,104
Accumulated depreciation	(97,619)	(140,785)	(31,163)	(20,496)	–	(290,063)
Net book amount	142,786	32,843	2,740	476	222,196	401,041
Year ended 31 December 2019						
Opening net book amount	142,786	32,843	2,740	476	222,196	401,041
Additions	–	23,367	1,331	322	–	25,020
Disposals	–	(25)	(10)	–	–	(35)
Depreciation charge	(8,686)	(9,246)	(1,383)	(157)	–	(19,472)
Closing net book amount	134,100	46,939	2,678	641	222,196	406,554
At 31 December 2019						
Cost	240,405	192,789	34,611	21,260	222,196	711,261
Accumulated depreciation	(106,305)	(145,850)	(31,933)	(20,619)	–	(304,707)
Net book amount	134,100	46,939	2,678	641	222,196	406,554
Year ended 31 December 2020						
Opening net book amount	**134,100**	**46,939**	**2,678**	**641**	**222,196**	**406,554**
Additions	**2,976**	**22,108**	**3,887**	**1,310**	**76,131**	**106,412**
Disposals	**–**	**(1)**	**(1)**	**–**	**–**	**(2)**
Transfer	**–**	**1,088**	**–**	**–**	**(1,088)**	**–**
Depreciation charge	**(9,413)**	**(12,514)**	**(1,487)**	**(200)**	**–**	**(23,614)**
Closing net book amount	**127,663**	**57,620**	**5,077**	**1,751**	**297,239**	**489,350**
At 31 December 2020						
Cost	**243,381**	**215,592**	**35,737**	**22,570**	**297,239**	**814,519**
Accumulated depreciation	**(115,718)**	**(157,972)**	**(30,660)**	**(20,819)**	**–**	**(325,169)**
Net book amount	**127,663**	**57,620**	**5,077**	**1,751**	**297,239**	**489,350**

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) Buildings pledged for the Group's bank borrowings are as follows (note 28):

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Cost	**18,133**	4,841
Accumulated depreciation	**(2,756)**	(2,151)
Net book amount	**15,377**	2,690

(b) Machinery and equipment pledged for the Group's other borrowings are as follows (note 28):

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Cost	**104,701**	104,701
Accumulated depreciation	**(92,786)**	(86,604)
Net book amount	**11,915**	18,097

(c) Depreciation charges were expensed in the following categories in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Cost of sales	**19,029**	11,107
Administrative expenses	**4,585**	8,365
Total	**23,614**	19,472

13 LEASES

(a) Right-of-use assets

	Office *RMB'000*	Land use rights *RMB'000*	Total *RMB'000*
At 1 January 2019			
Cost	5,869	118,092	123,961
Accumulated depreciation and amortisation	(5,150)	(32,329)	(37,479)
Net book value	719	85,763	86,482
Year ended 31 December 2019			
Opening net book amount	719	85,763	86,842
Additions	5,845	–	5,845
Depreciation and amortisation	(2,307)	(2,362)	(4,669)
Closing net book amount	4,257	83,401	87,658
At 31 December 2019			
Cost	5,845	118,092	123,937
Accumulated depreciation and amortisation	(1,588)	(34,691)	(36,279)
Net book amount	4,257	83,401	87,658
Year ended 31 December 2020			
Opening net book amount	**4,257**	**83,401**	**87,658**
Depreciation and amortisation	**(2,122)**	**(2,362)**	**(4,484)**
Closing net book amount	**2,135**	**81,039**	**83,174**
At 31 December 2020			
Cost	**5,845**	**118,092**	**123,937**
Accumulated depreciation and amortisation	**(3,710)**	**(37,053)**	**(40,763)**
Net book amount	**2,135**	**81,039**	**83,174**

13 LEASES *(Continued)*

(b) Lease liabilities

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Lease liabilities		
Current	**2,840**	2,098
Non-current	**440**	2,700
Total	**3,280**	4,798

The consolidated statement of comprehensive income shows the following amounts relating to leases:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Depreciation charge of right of use assets		
Office	**2,122**	2,307
Land use rights	**2,362**	2,362
Total	**4,484**	4,669
Interest expense (included in finance cost)	**264**	295
Expense relating to short-term leases (included in administrative expenses)	**–**	600
	264	895

The Group leases certain office premises from third parties. Rental contracts are typically made for 2 year to 3 years. The total cash outflow for leases was RMB1,782,000 for the year ended 31 December 2020 (2019: RMB2,359,000).

Land use rights represents the land use rights granted by the PRC government authority on the use of land within the pre-approved lease period. The original lease terms of the land use rights of the Group held in the PRC are 50 years up to 14 April 2053 and 12 May 2059, respectively.

14 INVESTMENT PROPERTIES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
At beginning of the year		
Cost	**5,878**	5,878
Accumulated depreciation	**(2,612)**	(2,416)
Net book mount	**3,266**	3,462
For the year		
Opening net book amount	**3,266**	3,462
Depreciation charge	**(196)**	(196)
Closing net book amount	**3,070**	3,266
At end of the year		
Cost	**5,878**	5,878
Accumulated depreciation	**(2,808)**	(2,612)
Net book mount	**3,070**	3,266
Fair value at the end of year (a)	**7,290**	7,240

Investment properties pledged for the Group's bank borrowings are as follows (note 28):

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Cost	**5,878**	5,878
Accumulated depreciation	**(2,808)**	(2,612)
Net book amount	**3,070**	3,266

(a) As at 31 December 2020, the Group assessed the fair values of investment properties. The valuation method is income capitalisation method which was used to determine the fair value of Level 3 non-financial assets prescribed under the accounting standards. Non-financial assets are included in level 3 if one or more of the significant inputs are not based on observable market data. Income capitalisation method is based on capitalising the rental income derived from the existing tenancies, if any, with due provision for the reversionary potential of each constituent portion of the property at appropriate capitalisation rates.

(b) Rental income of the Group's investment properties of RMB 440,000 for the year ended 31 December 2020 (2019: RMB 440,000) was recognised as "other income" and depreciation of the Group's investment properties of RMB196,000 for the year ended 31 December 2020(2019: RMB196,000) was recognised as "other expense" in the consolidated statement of comprehensive income.

15 INTANGIBLE ASSETS

	As at and for the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
At beginning of the year		
Cost	**2,486**	2,161
Accumulated amortisation	**(2,171)**	(2,034)
Net book amount	**315**	127
For the year		
Opening net book amount	**315**	127
Additions	**421**	325
Amortisation	**(211)**	(137)
Closing net book amount	**525**	315
At end of the year		
Cost	**2,907**	2,486
Accumulated amortisation	**(2,382)**	(2,171)
Net book amount	**525**	315

The intangible assets of the Group are mainly computer software. Amortisation charges were charged in the following categories in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Cost of sales	**158**	74
Administrative expenses	**53**	63
	211	137

16 DEFERRED INCOME TAX

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Deferred tax assets:		
— Deferred tax assets to be recovered within 12 months	**1,153**	–
	1,153	–

The movement in deferred tax assets during the year is as follows:

	Provision for receivables
	RMB'000
Deferred tax assets	
Balance at 1 January 2019	–
Charged to the profit or loss	–
At 31 December 2019	–
At 1 January 2020	**–**
Charged to the profit or loss	**1,153**
At 31 December 2020	**1,153**

The expiry date of tax losses is as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
As at 31 December 2021	**75**	75
As at 31 December 2022	**122**	122
As at 31 December 2023	**209**	209
As at 31 December 2024	**256**	256
As at 31 December 2025	**2,187**	–
	2,849	662

The Group did not recognise deferred income tax assets of RMB713,000(2019: RMB166,000) in respect of tax losses amounting to RMB2,849,000(2019: RMB662,000) which can be carried forward against future taxable income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 SUBSIDIARIES

The Group's principal subsidiaries at 31 December 2020 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital and debt securities	Ownership interest held by the Group		Ownership interest held by non-controlling interests	
				2020	2019	**2020**	2019
Directly owned:							
Honor Living Investment Limited	The BVI, limited liability company	Investment holding in the BVI	1 ordinary shares, USD1	**100%**	100%	**–**	–
Indirectly owned:							
Honliv Health Care Management (HK) Limited (iv)	Hong Kong, limited liability company	Investment holding in Hong Kong	5,000 ordinary shares, USD5,000	**100%**	100%	**–**	–
Henan Hongyong Enterprise Management Consulting Co., Ltd. (河南宏永企業管理諮詢有限公司)	The PRC, limited liability company*	Investment holding in the PRC	RMB15,000,000	**100%**	100%	**–**	–
Henan Honliv Hospital Co., Ltd. (河南宏力醫院有限公司)	The PRC, limited liability company**	Hospital operation and hospital management services in the PRC	RMB146,900,000	**99%**	99%	**1%**	1%
Henan Hongjie Pharmaceuticals Co., Ltd. (河南宏捷醫藥有限公司)	The PRC, limited liability company**	Pharmaceutical wholesaler in the PRC	RMB1,000,000	**100%**	100%	**–**	–

* Registered as a wholly foreign owned enterprise under the PRC law.

** Registered as a wholly domestic owned enterprise under the PRC law.

(a) Significant restrictions

Cash and cash equivalents of RMB198,433,000 as at 31 December 2020(2019: RMB104,226,000) are held in mainland China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

18 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Assets as per consolidated balance sheet		
At amortised cost		
Trade receivables *(note 20)*	**19,055**	16,988
Other receivables (excluding prepayments) *(note 21)*	**665**	1,095
Restricted deposits *(note 24)*	**5,550**	15,000
Cash and cash equivalents *(note 23)*	**302,478**	104,602
	327,748	137,685
Liabilities as per consolidated balance sheet		
At amortised cost		
Borrowings *(note 28)*	**246,769**	271,696
Trade and notes payable *(note 30)*	**95,547**	115,006
Accruals, other payables and provisions (excluding accrued employee benefits and duty and other tax payable) *(note 31)*	**48,737**	42,951
Amounts due to related parties *(note 22)*	**–**	7,850
Lease liabilities *(note 13)*	**3,280**	4,798
	394,333	442,301

19 INVENTORIES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Pharmaceuticals	**17,824**	20,752
Medical consumables and others	**2,883**	2,372
	20,707	23,124

The cost of inventories recognised as expense and included in cost of sales amounted to RMB211,868,000 for the year ended 31 December 2020 (2019: RMB192,178,000).

20 TRADE RECEIVABLES

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

The carrying amounts of the Group's trade receivables were denominated in RMB and approximated their fair values. The balances mainly represent amounts to be claimed from government's insurance schemes. Details of credit term are set out in note 3.1.2.

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

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

(i) Impairment and risk exposure

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The loss allowance increased by RMB79,000 to RMB4,689,000 for trade receivables during the current reporting period.

All of the trade receivables were denominated in RMB. As a result, there is no exposure to foreign currency risk.

21 OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Current		
Other receivables	**665**	1,095
Prepayments of utilities expenses and consulting expenses	**3,755**	1,163
Prepayment of listing expenses	**–**	3,999
	4,420	6,257
Non-current		
Prepayments for purchase of machinery	**16,901**	11,560
Prepayments for construction *(note 35(f))*	**21,188**	50,000
Prepayments of consulting expenses	**4,893**	–
	42,982	61,560
	47,402	67,817

Due to the short-term nature of the other current receivables, their carrying amount approximates their fair value. Note 3.1.2 sets out information about the impairment of financial assets and the Group's exposure to credit risk. All of the other current receivables which is classified as the financial assets at amortised cost are denominated in RMB. As a result, there is no exposure to foreign currency risk.

22 BALANCES WITH RELATED PARTIES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Amounts due to related parties		
Trade in nature		
— Henan Honliv Yishenghuo Co., Ltd	**–**	621
	–	621
Non-trade in nature		
— Mr. Qin Yan	**–**	7,227
— Sunny Rock Capital Limited	**–**	1
— Rubrical Investment Limited	**–**	1
	–	7,229
	–	7,850

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 BALANCES WITH RELATED PARTIES *(Continued)*

As at 31 December 2019 and 2020, the ageing analysis of the amounts due to related parties which were trade in nature based on demand note date was as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Up to 3 months	**–**	10
3 to 6 months	**–**	–
6 months to 1 year	**–**	351
1 to 2 years	**–**	260
	–	621

23 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Cash at bank	**299,217**	101,710
Cash on hand	**3,261**	2,892
	302,478	104,602

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
RMB	**198,433**	104,226
USD	**177**	376
HKD	**103,868**	–
	302,478	104,602

24 RESTRICTED DEPOSIT

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Secured bank deposits	**5,550**	15,000

As at 31 December 2020 and 2019, the balance was restricted deposits held at bank as margin account for notes payables.

25 SHARE CAPITAL

	Note	**Number of ordinary shares**	**Nominal value of ordinary share** *HKD*	**Equivalent nominal value of ordinary share** *RMB'000*
Authorized:				
As at 31 December 2019 and 2020		3,900,000,000	390,000	327

		Number of ordinary shares	**Nominal value of ordinary share** *HKD*	**Equivalent nominal value of ordinary share** *RMB'000*
Issued and fully paid:				
As at 31 December 2019		395,284,960	39,528	33
Capitalisation issue	*(a)*	54,715,040	5,472	5
Issuance of ordinary shares	*(b)*	150,000,000	15,000	14
As at 31 December 2020		600,000,000	60,000	52

(a) Capitalisation issue

Pursuant to the written shareholder resolutions of the Company passed on 13 July 2020, the directors of the Company were authorized to allot and issue a total of 54,715,040 shares credited as fully paid at par to the holders of the Shares on the register of members of the Company at close of business on the date immediately preceding the Listing by way of capitalisation. Accordingly, the sum of HKD5,472 was booked as the debit of share capital and credit of the reserves account of the Company.

(b) Issuance of new ordinary shares

On 13 July 2020, the Company was listed on HKSE, 150,000,000 ordinary shares were issued at a price of HKD2.1 per share. Accordingly, 150,000,000 ordinary shares with par value of HKD0.0001 each were issued and HKD15,000 (equivalent to approximately RMB14,000) were credited to share capital, and remaining amounts, after netting of listing expenses, RMB265,784,000 were credited to share premium.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 RESERVES

		Share premium *RMB'000*	Statutory surplus reserves *RMB'000*	Other reserves *RMB'000*	Total *RMB'000*
At 1 January 2019		–	30,192	46,915	77,107
Appropriation to statutory surplus reserves	*(a)*	–	4,915	–	4,915
Cash injection by the Controlling Shareholders		–	–	70,000	70,000
Issue of shares of the Company to a pre-IPO investor		14,973	–	–	14,973
Transaction with a non-controlling shareholder		–	–	(849)	(849)
At 31 December 2019		14,973	35,107	116,066	166,146
At 1 January 2020		**14,973**	**35,107**	**116,066**	**166,146**
Appropriation to statutory surplus reserves	*(a)*	**–**	**3,474**	**–**	**3,474**
Issuance of ordinary shares	*25(b)*	**265,784**	**–**	**–**	**265,784**
Capitalisation issue	*25(a)*	**(5)**	**–**	**–**	**(5)**
At 31 December 2020		**280,752**	**38,581**	**116,066**	**435,399**

(a) In accordance with the PRC regulations and the articles of association of the companies now comprising the Group, before distributing the net profit of each year, companies registered in the PRC are required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under relevant PRC accounting standards to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional.

27 DIVIDENDS

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

28 BORROWINGS

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Non-current		
Other borrowings *(c)*	–	33,869
Current		
Short-term bank borrowings		
— Secured borrowings *(a)*	**70,900**	78,000
— Guaranteed borrowings *(b)*	**112,000**	130,000
— Other bank borrowings	**30,000**	–
	212,900	208,000
Other borrowings *(c)*	**33,869**	29,827
	246,769	237,827
Total borrowings	**246,769**	271,696

Secured borrowings for the year ended 31 December 2020 bear weighted average interest rate at 5.48% (2019: 5.53%) annually.

Guaranteed borrowings for the year ended 31 December 2020 bear weighted average interest rate at 6.80% (2019: 6.37%) annually.

Other bank borrowings for the year ended 31 December 2020 bear weighted average interest rate at 5.00% (2019: Nil) annually.

At 31 December 2020 and 2019, the Group's borrowings were repayable within one year.

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

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Property, plant and equipment and investment properties of the Group	**70,900**	23,000
Property, plant and equipment of Henan Honliv Group Co., Ltd.	**–**	55,000
	70,900	78,000

28 BORROWINGS *(Continued)*

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

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
The Group	**112,000**	20,000
Henan Honliv Group Co., Ltd. and Qin Zili	**–**	81,000
Henan Pucheng Property Co., Ltd.	**–**	29,000
	112,000	130,000

(c) Other borrowings

Other borrowings were all secured borrowings obtained from a financial institution.

(i) Other borrowings are secured by:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Machinery and equipment	**33,869**	63,696
	33,869	63,696

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

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Maturity of other borrowings		
No later than 1 year	**33,869**	29,827
Later than 1 year and no later than 2 years	**–**	33,869
	33,869	63,696

29 DEFERRED INCOME

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Non-current		
Government subsidy for construction project	**2,000**	2,000

The amounts represented subsidy granted by and received from a local government authority in the PRC. Relevant government grants related to assets which is a subsidy for the first-phase building of Honliv Hospital. Government grants relating to assets are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets. As at 31 December 2020, the first-phase building was still under construction.

30 TRADE AND NOTES PAYABLES

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

The carrying amounts of trade payables are considered to be the same as their fair values, due to their short-term maturities.

The carrying amounts of trade payables are denominated in RMB. As a result, there is no exposure to foreign currency risk.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 ACCRUALS, OTHER PAYABLES AND PROVISIONS

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Accrued employee benefits	**39,031**	33,690
Deposit from patients *(a)*	**32,740**	27,333
Duty and other tax payable	**2,298**	2,390
Payables for plant and equipment	**6,442**	3,933
Interest payable	**1,014**	1,907
Listing expense payable	**3,262**	4,287
Others	**5,279**	5,491
	90,066	79,031

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

32 CASH GENERATED FROM OPERATIONS

(a) Cash generated from operations

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Profit before income tax	**30,853**	68,479
Adjustments for:		
— Depreciation of property, plant and equipment *(note 12)*	**23,614**	19,472
— Depreciation of right-of-use assets *(note 13)*	**4,484**	4,669
— Depreciation of investment properties *(note 14)*	**196**	196
— Amortisation of intangible assets *(note 15)*	**211**	137
— Gains on disposal of property, plant and equipment	**2**	35
— Finance costs — net *(note 9)*	**19,285**	28,002
— Provision for receivables impairment *(note 3.1.2)*	**4,610**	25
— Net exchange differences	**11,832**	–
Changes in working capital		
— Inventories	**2,417**	(5,152)
— Trade receivables	**(6,677)**	25,868
— Other receivables	**(7,055)**	2,442
— Balance with related parties	**(623)**	10,500
— Trade and notes payables	**(19,459)**	(13,440)
— Accruals and other payables	**9,419**	37,999
— Restricted deposit	**9,450**	(2,000)
Cash generated from operations	**82,559**	177,232

32 CASH GENERATED FROM OPERATIONS *(Continued)*

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Cash and cash equivalents	**302,478**	104,602
Borrowings — repayable within one year	**(246,769)**	(237,827)
Borrowings — repayable after one year	**–**	(33,869)
Leases liabilities — repayable within one year	**(2,840)**	(2,098)
Leases liabilities — repayable after one year	**(440)**	(2,700)
Amounts due to a related party — repayable within one year	**–**	(7,229)
Net debt	**52,429**	(179,121)
Cash	**302,478**	104,602
Gross debt — interest free rates	**–**	(7,229)
Gross debt — fixed interest rates	**(62,280)**	(106,798)
Gross debt — variable interest rates	**(187,769)**	(169,696)
Net debt	**52,429**	(179,121)

	Borrowings due within 1 year	Borrowings due after 1 year	Amounts due to related parties due within 1 year	Lease liabilities	Total
Net debt as at 31 December 2018	(203,971)	–	(55,438)	(417)	(259,826)
Cash flows	(33,856)	(33,869)	48,211	1,465	(18,049)
Other changes	–	–	(2)	(5,846)	(5,848)
Net debt as at 31 December 2019	(237,827)	(33,869)	(7,229)	(4,798)	(283,723)
Cash flows	**24,927**	**–**	**7,229**	**1,518**	**33,674**
Other changes	**(33,869)**	**33,869**	**–**	**–**	**–**
Net debt as at 31 December 2020	**(246,769)**	**–**	**–**	**(3,280)**	**(250,049)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 CONTINGENCIES

The Group did not have any material contingent liabilities as at 31 December 2020.

34 COMMITMENTS

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Contracted but not provided for		
— Property, plant and equipment	**8,873**	81,733

35 RELATED PARTY TRANSACTIONS

(a) Parent entities

The Company is controlled by the following entities:

Name	Type	Place of incorporation	Ownership interest 2020	2019
Sunny Rock Capital Limited	Immediate parent entity	British Virgin Islands	**51.8%**	69.06%
Rubrical Investment Limited	Immediate parent entity	British Virgin Islands	**22.2%**	29.60%

Mr. Qin Yan directly held the interests of the Company through Sunny Rock Capital Limited.

Mr. Qin Hongchao held the interests of the Company through Rubrical Investment Limited.

Mr. Qin Yan and Mr. Qin Hongchao (together, the "Controlling Shareholders") are two brothers, who are acting in concert and control the Group through an agreement that signed on 10 December 2019.

(b) Subsidiaries

Interest in subsidiaries are set out in note 17.

(c) Key management compensation

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

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Wages and salaries	**3,335**	2,877
Contributions to pension plans	**72**	78
Welfare and other expenses	**74**	61
	3,481	3,016

35 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Transactions with related parties

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are under common control or joint control in the controlling shareholders' families. Members of key management and their close family member of the Group are also considered as related parties.

The directors of the Company are of the view that the following parties that had transactions or balances with the Group are related parties:

Name	Relationship with the Group
Henan Honliv Group Co., Ltd. (河南省宏力集團有限公司)	Entity controlled by a close family member of the Controlling Shareholders
Henan Hongda Constructions Engineering Co., Ltd. (河南省宏大建設工程有限公司)	Entity controlled by a close family member of the Controlling Shareholders
Henan Honliv Yishenghuo Co., Ltd. (河南省宏力一生活有限公司)	Entity controlled by the Controlling Shareholders
Henan Honliv Advanced Technology Agricultural Development Co., Ltd. (河南省宏力高科技農業發展有限公司)	Entity controlled by a close family member of the Controlling Shareholders
Henan Honliv Property Development Co., Ltd. (河南省宏力房地產開發有限公司)	Entity controlled by a close family member of the Controlling Shareholders
Henan Guxiang No.9 Catering Co., Ltd. (河南省谷香九號餐飲有限公司)	Common director of the Company
Henan Honliv Luqiao Co., Ltd. (河南省宏力路橋有限公司)	Entity controlled by a close family member of the Controlling Shareholders
Henan Honliv School (河南省宏力學校有限公司)	Entity controlled by a close family member of the Controlling Shareholders
Henan Honliv General Aviation Co., Ltd. (河南宏力通用航空有限公司)	Entity controlled by a close family member of the Controlling Shareholders

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

35 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Transactions with related parties *(Continued)*

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Medical examination service provided to related parties		
— Henan Honliv Group Co., Ltd.	**–**	2
— Henan Honliv School	**485**	525
— Other related parties	**504**	450
	989	977
Premise rental income provided to		
— Henan Honliv Yishenghuo Co., Ltd.	**330**	330
— Henan Guxiang No.9 Catering Co. Ltd.	**110**	110
	440	440
	1,429	1,417
Purchase of construction services from		
— Henan Hongda Construction Co., Ltd.	**60,712**	–
Purchase of rental services from		
— Henan Honliv Group Co., Ltd.	**580**	580
Purchase of goods from		
— Henan Honliv Yishenghuo Co., Ltd.	**122**	471
	61,414	1,051
Other transactions		
— Dividends paid to shareholders	**7,227**	9,575

(i) The Group provided parking space to Henan Honliv General Aviation Co., Ltd. on a free basis for the years ended 31 December 2020 and 2019.

35 RELATED PARTY TRANSACTIONS *(Continued)*

(e) Loans to/from related parties

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Non-interest bearing:		
— Loans to a related party	–	(282,295)
— Repayment of loans from a related party	–	282,295
— Borrowings from a related party	–	91,103
— Repayments to a related party	–	(129,739)
	–	(38,636)

(f) Year-end balances arising from purchases of services

Balances with related parties as at 31 December 2020 were disclosed in note 22.

Prepayments amounted to RMB21,188,000 as at 31 December 2020 to Henan Hongda Constructions Engineering Co., Ltd. for the first-phase building construction were disclosed in note 21.

(g) Secured and guaranteed borrowings by related parties' assets

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Secured and guaranteed borrowings by related parties' assets	–	136,000

36 EVENTS OCCURRING AFTER THE REPORTING PERIOD

There were no material subsequent events occurred during the period from 31 December 2020 to the approval date of these consolidated financial statements by the board of directors of the Company on 25 March 2021.

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	Note	31 December 2020 RMB'000	31 December 2019 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries		**158,573**	14,958
Total non-current assets		**158,573**	14,958
Current assets			
Other receivables and prepayments		**–**	3,999
Amounts due from related parties		**17,704**	–
Cash and cash equivalents		**101,117**	125
Total current assets		**118,821**	4,124
Total assets		**277,394**	19,082
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**52**	33
Reserves	*37(b)*	**287,237**	18,972
Accumulated losses		**(10,108)**	(2)
Total equity		**277,181**	19,003
LIABILITIES			
Current liabilities			
Accruals and other payables		**100**	–
Amounts due to related parties		**113**	79
Total current liabilities		**213**	79
Total liabilities		**213**	79
Total equity and liabilities		**277,394**	19,082

The balance sheet of the Company was approved by the Board of Directors on 25 March 2021 and signed on its behalf:

Qin Yan   **Wang Zhongtao**

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(b) Reserve movement of the Company

	Share premium *RMB'000*	Other reserves *RMB'000*	Total *RMB'000*
At 1 January 2019	–	–	–
Issue of shares of the Company to a pre-IPO investor	14,973	–	14,973
Listing expenses paid by a subsidiary	–	3,999	3,999
At 31 December 2019	14,973	3,999	18,972
At 1 January 2020	**14,973**	**3,999**	**18,972**
Issuance of ordinary shares	**265,784**	**–**	**265,784**
Capitalisation issue	**(5)**	**–**	**(5)**
Listing expenses paid by a subsidiary	**–**	**2,486**	**2,486**
At 31 December 2020	**280,752**	**6,485**	**287,237**

38 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors and chief executive emoluments

The remuneration of each director and the chief executive is set out below:

For the year ended 31 December 2020	Salaries *RMB'000*	Contribution to a pension plan *RMB'000*	Welfare and other expenses *RMB'000*	Total *RMB'000*
Executive directors				
Mr. Qin Yan	**802**	**6**	**4**	**812**
Mr. Teng Qingxiao	**502**	**6**	**4**	**512**
Mr. Wang Zhongtao	**203**	**6**	**4**	**213**
Non-executive director				
Mr. Qin Hongchao	**–**	**–**	**–**	**–**
Independent non-executive directors				
Mr. Zhao Chun	**84**	**–**	**–**	**84**
Mr. Sun Jigang	**84**	**–**	**–**	**84**
Mr. Jiang Tianfan	**84**	**–**	**–**	**84**
	1,759	**18**	**12**	**1,789**

38 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors and chief executive emoluments *(Continued)*

For the year ended 31 December 2019	Salaries *RMB'000*	Contribution to a pension plan *RMB'000*	Welfare and other expenses *RMB'000*	Total *RMB'000*
Executive directors				
Mr. Qin Yan	800	8	4	812
Dr. Hua Xiuzhi	301	8	4	313
Mr. Teng Qingxiao	500	8	4	512
Mr. Wang Zhongtao	88	4	2	94
Non-executive director				
Mr. Qin Hongchao	–	–	–	–
Independent non-executive directors				
Mr. Zhao Chun	–	–	–	–
Mr. Sun Jigang	–	–	–	–
	1,689	28	14	1,731

Notes:

Mr. Qin Yan is also the chief executive officer.

Mr. Hua Xiuzhi resigned as an executive director from the board on 10 December 2019.

Mr. Jiang Tianfan was appointed as an independent non-executive director from 13 July 2020.

During the years ended 31 December 2020 and 2019, no emoluments were paid by the Group to directors as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 2020 (2019: Nil).

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December 2020

A summary of the results and of the assets and liabilities of the Group for the last five years/periods is as follows:

	Year ended 31 December 2016 *RMB'000*	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2019 *RMB'000*	**Year ended 31 December 2020** ***RMB'000***
Results					
Revenue	461,575	478,924	496,551	531,108	**524,043**
Profit/(Loss) before income tax	102,648	95,943	98,472	68,479	**30,853**
Income tax (expense)/credit	(26,648)	(24,224)	(25,008)	(18,621)	**(8,662)**
Profit/(Loss) for the period/year	76,000	71,719	73,464	49,858	**22,191**
Profit/(Loss) attributable to owners of the Company	75,916	71,001	72,727	49,362	**21,840**

	As at 31 December 2016 *RMB'000*	As at 31 December 2017 *RMB'000*	As at 31 December 2018 *RMB'000*	As at 31 December 2019 *RMB'000*	**As at 31 December 2020** ***RMB'000***
Assets and liabilities					
Total assets	652,674	588,195	611,639	725,324	**972,464**
Total liabilities	430,645	421,017	504,842	483,696	**442,847**
Total equity	222,029	167,178	106,797	241,628	**529,617**

GLOSSARY

In this annual report, the following expressions have the meanings set out below unless the context requires otherwise.

"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors"	the Board of Directors
"BVI"	the British Virgin Islands
"Chairman"	the chairman of the Board
"China" or "PRC"	the People's Republic of China, excluding, for the purposes of this report, the Hong Kong Special Administrative Region of the People's Republic of China, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Company" or "the Company"	Honliv Healthcare Management Group Company Limited, an exempt limited liability company incorporated under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 6 January 2016 and whose Shares are listed on the Stock Exchange
"Companies Ordinance" or "Hong Kong Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and, unless the context requires otherwise, refers to Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock Capital Limited and Rubrical Investment Limited
"core connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Corporate Governance Code" or "CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Deed of Non-competition"	the deed of non-competition executed by our Controlling Shareholders in favour of us on 18 June 2020, as described in the paragraph headed "Report of Directors — Deed of Non-competition" in this annual report
"Director(s)"	the director(s) of the Company or any one of them
"Global Offering"	has the meaning ascribed to it under the Prospectus
"Group", "the Group", "we" or "us"	the Company and its subsidiaries or, where the context so requires in respect of the period before the Company became the holding company of the present subsidiaries of the Company, the present subsidiaries of the Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors

GLOSSARY

"Henan Honliv Group"	Henan Honliv Group Co., Ltd.* (河南省宏力集團有限公司), a limited liability company established in the PRC on 9 April 1998, and a connected person of the Company
"Henan Honliv Hospital" or "our Hospital"	Henan Honliv Hospital Co., Ltd.* (河南宏力醫院有限公司), a limited liability company established in the PRC on 24 May 2004, and a non wholy-owned subsidiary of the Company
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollar", "Hong Kong dollars", "HKD" or "HK$"	Hong Kong dollar and cent respectively, the lawful currency of Hong Kong
"Honliv Hong Kong"	Honliv Health Care Management (HK) Limited, a company incorporated in Hong Kong on 18 January 2016, and a wholly-owned subsidiary of the Company
"Honliv Yishenghuo"	Henan Honliv Yishenghuo Co., Ltd.* (河南宏力一生活有限公司), a limited liability company established in the PRC on September 15, 2014, and a connected person of the Company
"HKFRS"	financial reporting standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants
"Listing"	the listing of the Shares on the main board of the Stock Exchange
"Listing Date"	13 July 2020, being the date on which the Shares were listed on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Memorandum and Articles of Association"	the memorandum and articles of association of the Company amended and restated with effect from the Listing Date and as amended from time to time
"Model Code"	the Model Code for the Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Board
"Prospectus"	the prospectus of the Company dated 24 June 2020
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

GLOSSARY

"Share(s)"	share(s) with a nominal value of HK$0.0001 each in the capital of the Company
"Shareholder(s)"	holders of Shares
"Share Option Scheme"	the share option scheme adopted by the written resolutions of the Shareholders of the Company passed on 17 June 2020
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed thereto in the Companies Ordinance
"substantial shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Sunny Rock"	Sunny Rock Capital Limited, a company incorporated in the BVI on 17 November 2015, wholly owned by Mr. Qin Yan, a Controlling Shareholder, and hence a connected person of the Company
"Remuneration Committee"	the remuneration committee of the Board
"Reporting Period"	the year ended 31 December 2020
"Rubrical Investment"	Rubrical Investment Limited, a company incorporated in the BVI on 17 November 2015, wholly owned by Mr. Qin Hongchao, and a Controlling Shareholder and hence a connected person of the Company
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"United States" or "U.S."	the United States of America, its territories and possessions, and all areas subject to its jurisdiction
"U.S. dollar" or "USD"	United States dollar, the lawful currency of the United States