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Honliv Healthcare Management Group Company Limited

宏力醫療管理集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9906)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL SUMMARY

| | Year ended 31 December | | Change % |
|--|-------------------------------|-------------------------|---------------------|
| | 2021 RMB'000 | 2020 RMB'000 | |
| Revenue | 606,837 | 524,043 | 15.8 |
| Gross profit | 135,306 | 137,592 | (1.7) |
| Profit attributable to owners of the Company | 36,615 | 21,840 | 67.7 |
| Basic and diluted earnings per share <i>(in RMB)</i> | 0.06 | 0.04 | 50 |

RESULTS

The Board of the Company announces the audited consolidated financial results of the Group for the year ended 31 December 2021, together with the comparative figures for the year ended 31 December 2020 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | Year ended 31 December | |
|---|------|------------------------|------------------|
| | | 2021 | 2020 |
| | Note | RMB'000 | RMB'000 |
| Revenue | 3 | 606,837 | 524,043 |
| Cost of sales | | <u>(471,531)</u> | <u>(386,451)</u> |
| Gross profit | | 135,306 | 137,592 |
| Administrative expenses | | (68,545) | (71,199) |
| Net impairment losses on financial assets | | (85) | (4,610) |
| Other income | | 752 | 440 |
| Other expense | | (196) | (196) |
| Other losses — net | 4 | <u>(671)</u> | <u>(57)</u> |
| Operating profit | | 66,561 | 61,970 |
| Finance income | | 903 | 791 |
| Finance costs | | <u>(16,922)</u> | <u>(31,908)</u> |
| Finance costs — net | | <u>(16,019)</u> | <u>(31,117)</u> |
| Profit before income tax | | 50,542 | 30,853 |
| Income tax expense | 5 | <u>(13,524)</u> | <u>(8,662)</u> |
| Profit for the year | | <u>37,018</u> | <u>22,191</u> |
| Other comprehensive income | | <u>—</u> | <u>—</u> |
| Total comprehensive income | | <u>37,018</u> | <u>22,191</u> |
| Profit and total comprehensive income attributable to: | | | |
| Owners of the Company | | 36,615 | 21,840 |
| Non-controlling interests | | <u>403</u> | <u>351</u> |
| | | <u>37,018</u> | <u>22,191</u> |
| Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share) | | | |
| Basic and diluted earnings per share | 6 | <u>0.06</u> | <u>0.04</u> |

CONSOLIDATED BALANCE SHEET

| | | As at 31 December | |
|-----------------------------------|------|-------------------|----------------|
| | | 2021 | 2020 |
| | Note | RMB'000 | RMB'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 540,347 | 489,350 |
| Right-of-use assets | | 81,134 | 83,174 |
| Investment properties | | 2,874 | 3,070 |
| Intangible assets | | 566 | 525 |
| Deferred income tax assets | | 1,174 | 1,153 |
| Prepayments | | 8,429 | 42,982 |
| Total non-current assets | | 634,524 | 620,254 |
| Current assets | | | |
| Inventories | | 27,137 | 20,707 |
| Trade receivables | 7 | 34,499 | 19,055 |
| Other receivables and prepayments | | 1,944 | 4,420 |
| Restricted deposit | | – | 5,550 |
| Cash and cash equivalents | | 263,610 | 302,478 |
| Total current assets | | 327,190 | 352,210 |
| Total assets | | 961,714 | 972,464 |

| | | As at 31 December | |
|---|-------------|--------------------------|-----------------------|
| | | 2021 | 2020 |
| | <i>Note</i> | RMB'000 | RMB'000 |
| EQUITY | | | |
| Equity attributable to the owners of the Company | | | |
| Share capital | | 52 | 52 |
| Reserves | | 439,389 | 435,399 |
| Retained earnings | | 122,385 | 89,760 |
| | | <u>561,826</u> | <u>525,211</u> |
| Subtotal | | 561,826 | 525,211 |
| Non-controlling interests | | 4,809 | 4,406 |
| | | <u>4,809</u> | <u>4,406</u> |
| Total equity | | 566,635 | 529,617 |
| | | <u><u>566,635</u></u> | <u><u>529,617</u></u> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Lease liabilities | | 540 | 440 |
| Deferred income | | 1,994 | 2,000 |
| | | <u>1,994</u> | <u>2,000</u> |
| Total non-current liabilities | | 2,534 | 2,440 |
| | | <u>2,534</u> | <u>2,440</u> |
| Current liabilities | | | |
| Trade and notes payables | 8 | 106,087 | 95,547 |
| Accruals, other payables and provisions | | 92,288 | 90,066 |
| Current income tax liabilities | | 6,228 | 5,185 |
| Borrowings | | 187,000 | 246,769 |
| Lease liabilities | | 942 | 2,840 |
| | | <u>942</u> | <u>2,840</u> |
| Total current liabilities | | 392,545 | 440,407 |
| | | <u>392,545</u> | <u>440,407</u> |
| Total liabilities | | 395,079 | 442,847 |
| | | <u>395,079</u> | <u>442,847</u> |
| Total equity and liabilities | | 961,714 | 972,464 |
| | | <u><u>961,714</u></u> | <u><u>972,464</u></u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 BASIS OF PREPARATION

(a) Compliance with HKFRS and HKCO

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

(b) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis.

(c) New and amended standards adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2021:

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform — Phase 2

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

(d) New standards and interpretations not yet adopted

| | | Effective for annual periods beginning on or after |
|---|--|---|
| • Amendments to HKAS 16 | Property, Plant and Equipment: Proceeds before intended use | 1 January 2022 |
| • Amendments to HKAS 37 | Onerous Contracts — Cost of Fulfilling a Contract | 1 January 2022 |
| • Amendments to HKFRS 3 | Reference to the Conceptual Framework | 1 January 2022 |
| • Annual Improvements 2018–2020 cycle | Annual Improvements 2018–2020 cycle | 1 January 2022 |
| • HKFRS 17 | Insurance Contracts | 1 January 2023 |
| • Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current | 1 January 2023 |
| • Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies | 1 January 2023 |
| • Amendments to HKAS 8 | Definition of Accounting Estimates | 1 January 2023 |
| • Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction | 1 January 2023 |

(e) **Going concern**

As at 31 December 2021, the Group's current liabilities exceeded its current assets by RMB65,355,000. The Group had cash and cash equivalents of RMB263,610,000 as at 31 December 2021.

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**"), a subsidiary of the Group, had renewed RMB82 million bank borrowings upon maturity and obtained an additional bank borrowing amounting to RMB26 million from its existing bank since 1 January 2022; and
- on 16 March 2022 and 17 March 2022, Honliv Hospital obtained further additional loan facilities of RMB200 million from two of the banks. Application of one-year loan drawdowns can be made under these facilities until 16 March 2023 and 17 March 2023 subject to the approval and conditions imposed by the bank. As at the reporting date, the Group has not utilized these additional loan facilities.

Management has prepared cash flow projections of the Group covering a period of not less than twelve months from 31 December 2021. Taking into account the Group's future operational performance and the expected future operating cash inflows; and the continuous availability of banking facilities, management concluded that the Group will have sufficient financial resources to support its operations and to meet its financial obligations and commitments as and when they fall due in the coming twelve months from 31 December 2021.

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

3 REVENUE

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

| | Year ended 31 December | |
|--|------------------------|----------------|
| | 2021 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Nature of revenue recognition | | |
| Treatments and general healthcare services | 392,356 | 344,630 |
| Pharmaceutical sales | 214,481 | 177,830 |
| Hospital management services | — | 1,583 |
| | <u>606,837</u> | <u>524,043</u> |
| Timing of revenue recognition | | |
| At a point in time | 408,500 | 322,944 |
| Over time | 198,337 | 201,099 |
| | <u>606,837</u> | <u>524,043</u> |

4 OTHER LOSSES – NET

| | Year ended 31 December | |
|---|------------------------|----------------|
| | 2021 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Losses on disposal of property, plant and equipment | (60) | (2) |
| Others | (611) | (55) |
| | <u>(671)</u> | <u>(57)</u> |

5 INCOME TAX EXPENSE

| | Year ended 31 December | |
|----------------------------|------------------------|----------------|
| | 2021 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Current income tax | | |
| — PRC corporate income tax | 13,545 | 9,815 |
| Deferred income tax | (21) | (1,153) |
| | <u>13,524</u> | <u>8,662</u> |

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 | |
|---|-------------------------------|-----------------------|
| | 2021 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Profit before income tax | 50,542 | 30,853 |
| Calculated at a tax rate of 25% | 12,636 | 7,713 |
| Expenses not tax deductible | 816 | 2,733 |
| Tax effect of tax losses not recognised as deferred income tax assets | 72 | 547 |
| Adjustment for current tax of prior periods | – | (2,331) |
| Income tax expense | 13,524 | 8,662 |

(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 2021 and 2020. 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 2021 and 2020.

(d) Withholding tax

The withholding tax rate of Honliv Health Care Management (HK) Limited 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 2021, deferred income tax liabilities of RMB12,755,000 (2020: RMB9,437,000) have not been recognized for the withholding tax that would be payable on the unremitted earnings of the PRC subsidiaries. Management expects to reinvest such amounts in these subsidiaries in the foreseeable future. Unremitted earnings of these subsidiaries at 31 December 2021 amounted to RMB127,547,000 (2020: RMB94,374,000).

6 EARNINGS PER SHARE

(a) Basic earnings per share

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

| | Year ended 31 December | |
|--|------------------------|---------|
| | 2021 | 2020 |
| Profit attributable to owners of the Company (<i>RMB'000</i>) | 36,615 | 21,840 |
| Weighted average number of ordinary shares deemed to be in issue (<i>in thousands</i>) | 600,000 | 520,492 |
| Basic earnings per share (<i>in RMB</i>) | 0.06 | 0.04 |

(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 2021 and 2020.

7 TRADE RECEIVABLES

| | As at 31 December | |
|--|-------------------|----------------|
| | 2021 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade receivables | 39,273 | 23,744 |
| Less: loss allowance for impairment of trade receivables | (4,774) | (4,689) |
| Trade receivables — net | 34,499 | 19,055 |

The carrying amounts of the Group's trade receivables were denominated in RMB and approximated their fair values. The balances mainly represent amounts to be claimed from government's insurance schemes.

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

| | As at 31 December | |
|--------------------|--------------------------|----------------|
| | 2021 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Up to 3 months | 30,038 | 15,627 |
| 3 to 6 months | 2,141 | 2,289 |
| 6 months to 1 year | 2,219 | 2,624 |
| 1 to 2 years | 1,847 | 2,947 |
| 2 to 3 years | 2,784 | 244 |
| Over 3 years | 244 | 13 |
| | <u>39,273</u> | <u>23,744</u> |

(i) Impairment and risk exposure

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

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

8 TRADE AND NOTES PAYABLES

| | As at 31 December | |
|----------------|--------------------------|----------------|
| | 2021 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade payables | 106,087 | 89,997 |
| Notes payable | – | 5,550 |
| | <u>106,087</u> | <u>95,547</u> |

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 2021 and 2020, the ageing analysis of trade payables based on demand note date was as follows:

| | As at 31 December | |
|--------------------|--------------------------|-----------------------|
| | 2021 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Up to 3 months | 83,439 | 60,765 |
| 3 to 6 months | 16,194 | 17,387 |
| 6 months to 1 year | 1,351 | 7,413 |
| 1 to 2 years | 1,253 | 1,099 |
| 2 to 3 years | 725 | 416 |
| Over 3 years | 3,125 | 2,917 |
| | <u>106,087</u> | <u>89,997</u> |

9 DIVIDENDS

The board of directors of the Company does not resolve to declare a dividend for the year ended 31 December 2021 (Nil for the year ended 31 December 2020).

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW AND OUTLOOK

In 2021, medical institutions focused their development and operations on two key areas: their principal medical businesses, and COVID-19 prevention and control. The normalisation of COVID-19 prevention and control measures has reshaped the diagnostic process and treatment practices of medical institutions. Medical institutions with standardised management, safe and secure environment and reliable technology have made remarkable achievements in both pandemic prevention and control, and their business development. Patients' strong need for quality healthcare has also become a new impetus for the development of county-level medical institutions.

In 2021, China released various policies on COVID-19 prevention and control and the principal businesses of medical institutions. New requirements have been placed on medical institutions:

1. Formulation and implementation of healthcare standards: Higher standards were put forward for the healthy and standardised development of medical and health institutions.
2. COVID-19 prevention and control: In view of the characteristics of the transmission and onset of COVID-19, China has formulated various prevention and control measures in a timely manner. The implementation of the policies is challenging for medical institutions and medical staff.
3. Medical insurance: In 2021, with the reform on medical insurance payment methods, the Three-year Action Plan on DRG/DIP Payment (《DRG/DIP支付方式改革三年行動計劃》) opened a new chapter for medical insurance payment.
4. Pharmaceuticals: In 2021, centralised procurement policies of drugs and medical consumables drive medical institutions to improve medical technologies and enhance their core competitiveness.

5. Hospitals: In 2021, medical institutions focused on both the growth of their principal businesses and COVID-19 prevention and control. They bore heavy responsibilities in preventing overseas-imported cases and repeated outbreaks in China. Greater demands were placed on hospitals to ensure medical safety. As stated in the Opinions of the CPC Central Committee and the State Council on Comprehensively Promoting Rural Revitalization and Accelerating Agricultural and Rural Modernization (《中共中央國務院關於全面推進鄉村振興加快農業農村現代化的意見》) promulgated in January 2021, efforts will be stepped up to build tightly-knit medical communities and implement total budget management for medical insurance. Efforts will also be made to build a modern county-level health management system, and cultivate and expand quality health resources in the future. The COVID-19 pandemic has accelerated the reform on the healthcare system. The synergy between prevention and treatment will be strengthened.

In 2021, our Group firmly seized the development opportunities under the circumstances to continuously strengthen our internal systems and controls, increase the number of service items, improve our service capability, and expand our business scale, in demonstration of our shared sense of responsibility in the year when the pandemic continued to rage. In the future, we will strive to optimise our management system and standardise our operations. Under our management's professional leadership, all specialisations will advance together, make full use of the development of smart hospitals and take a solid step towards conglomerate operation.

BUSINESS REVIEW

Our revenue for the year ended 31 December 2021 is RMB606.8 million, representing an increase of RMB82.8 million or 15.8% compared to the revenue of RMB524.0 million for the year ended 31 December 2020. This is mainly due to the increase in revenues generated from treatment and general medical services and pharmaceutical sales. This is because the healthcare needs of patients have been met following the restoration of the normal diagnosis and treatment order. Further, our first-phase building, which has come into use, has expanded the business area, improved the medical treatment experience, added new diagnoses, treatment subjects and items, and enhanced service capability. The number of visits has risen significantly. The increase in consolidated revenue for the year ended 2021 shows the Company's strong ability to resist risks.

Hospital Services

Henan Honliv Hospital provides hospital services on behalf of the Group. The following table sets out certain key operating figures of our hospital services for the periods indicated.

| | Year ended 31 December | | Change % |
|--|------------------------|-----------|----------|
| | 2021 | 2020 | |
| Outpatient visits | 1,183,408 | 1,041,526 | 13.6 |
| Average spending per outpatient visit (<i>RMB</i>) | 265.7 | 234.1 | 13.5 |
| Inpatient visits | 43,973 | 51,059 | (13.9) |
| Average spending per inpatient visit (<i>RMB</i>) | 6,645.4 | 5,458.7 | 21.7 |
| Number of beds in operation as of the end of the relevant period | 1,500 | 1,500 | 0.0 |
| Average length of stay per inpatient visit (<i>days</i>) | 10.6 | 9.2 | 15.2 |
| Number of surgeries | 11,240 | 11,089 | 1.4 |

In 2021, with normalised pandemic prevention and control measures, we not only ensured the normal development of our diagnosis and treatment business, but also actively sought breakthroughs in our operations under the new situation. We made achievements in specialty development, including:

- i) Our first phase building was officially opened in 2021;
- ii) We obtained official approval for an internet hospital in June 2021;
- iii) Our radiotherapy oncology centre was officially opened in 2021;
- iv) We opened independent wards for the oncology department;
- v) The hospital not only undertook nucleic acid testing within the hospital, but also mass nucleic acid sampling and testing in the community in 2021. A total of 579,000 nucleic acid tests were conducted in 2021, with 66.2% conducted in the hospital and 33.8% conducted in the community respectively.

vi) We administered 136,800 doses of COVID-19 vaccines in 2021.

We also place strong emphasis on our academic research:

- (1) Ten of our information systems, including our “Patient Risk Management System”, have been recognised as scientific and technological achievements by the Department of Science and Technology of Henan Province;
- (2) Our hospital’s Henan Engineering Technology Research Centre for Early Diagnosis and Treatment of Digestive Tract Tumours was directly identified as the Engineering Technology Research Centre of Henan Province in 2021 by the Department of Science and Technology of Henan Province;
- (3) We undertook the construction and development of smart nursing in hospitals as part of the national continuing medical education project;

As of 31 December 2021, our top ten departments contributed to 57.6% of our revenue. The composition of our departments remained basically unchanged.

In 2021, our major revenue-driven strategies for hospital services are as follow:

- (i) Equal importance was attached to the pandemic prevention and control and our principal businesses. We carried out new technical projects according to the anti-pandemic needs;
- (ii) We enhanced the development of comprehensive medical services, with the aim to improve the medical treatment experience and satisfaction, and healthcare safety and quality for patients;
- (iii) We expanded our business area and optimisation of the medical environment. Our first-phase building was officially put into use;
- (iv) We constantly developed new businesses and technologies. We added the radiotherapy department. We also introduced new technologies, including radio-frequency ablation to be applied clinically;
- (v) We expanded our service scope. We built a smart hospital to provide patients with convenient online healthcare services and home nursing services.

Hospital Management Services

We terminated our partnership with Jutan Hospital in earlier 2021 due to operational changes. Although the cooperation has ended, we have accumulated experience in the operation process as a guide for subsequent business expansion. As of the date of this announcement, we are negotiating with Jutan Hospital on the payment of outstanding management fees.

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

As of the date of this announcement, we do not have any other management arrangements with third-party hospitals. We will continuously seek opportunities to expand our hospital management services.

Pharmaceutical Services

Our pharmaceutical sales mainly come from the direct sales of drugs to patients, and the revenue from pharmaceutical sales during the Reporting Period is RMB214.5 million (for the year ended 31 December 2020: RMB177.8 million), representing a year-on-year increase of 20.6%. The increase is largely because of the growth in patient numbers in 2021.

COVID-19 Impact and Response

In 2021, with the normalisation of pandemic prevention and control measures, the Group placed equal emphasis on the pandemic prevention and control and its principal businesses in terms of operation. It actively shouldered social responsibilities in carrying out nucleic acid testing and COVID-19 vaccination, ensuring the implementation of pandemic prevention and control measures. The Directors will continuously assess the impact of the COVID-19 outbreak on our operating and financial performance and actively seek growth opportunities. The Directors believe that the adverse operational and financial impact caused by the pandemic is temporary and would not result in a material adverse effect on our continuing business operation and sustainability. In the long run, the pandemic will promote further standardization of hospital management with mature prevention and control measures.

The above analysis is conducted by the management based on the currently available information on the COVID-19 pandemic. However, our management cannot ensure that the COVID-19 pandemic will not cause or have a material adverse effect on our operating results in the future.

FUTURE OUTLOOK

In 2022, under the framework of strategic objectives, we will tap the potential to improve quality internally, and expand the market to enlarge our scale. By a series of measures such as improving quality and efficiency and reducing costs, we will improve medical safety, enhance profitability and expand our market share. With the advantages of disciplines, the discipline cluster can be developed and promote the balanced development of other disciplines. We will further implement and expand our capabilities to provide internet medical services. We will achieve the goal of providing quality and efficient medical care to more patients, thereby contributing to public health.

FINANCIAL REVIEW

Revenues and Costs

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

| | Year ended 31 December | | | |
|--|------------------------|----------------|----------------|----------------|
| | 2021 | | 2020 | |
| | (RMB'000) | % of revenue | (RMB'000) | % of revenue |
| Treatments and general healthcare services | 392,356 | 64.7% | 344,630 | 65.8% |
| Pharmaceutical sales | 214,481 | 35.3% | 177,830 | 33.9% |
| Hospital management services | — | — | 1,583 | 0.3% |
| Total | <u>606,837</u> | <u>100.00%</u> | <u>524,043</u> | <u>100.00%</u> |

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

| | Year ended 31 December | | | |
|--------------------------------|------------------------|--------------|-----------|--------------|
| | 2021 | | 2020 | |
| | (RMB'000) | % of revenue | (RMB'000) | % of revenue |
| Outpatient healthcare services | 314,439 | 51.8% | 243,860 | 46.5% |
| Inpatient healthcare services | 292,398 | 48.2% | 278,600 | 53.2% |
| Total | 606,837 | 100% | 522,460 | 99.7% |

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

| | Year ended 31 December | |
|--|------------------------|-----------|
| | 2021 | 2020 |
| Outpatient visits | 1,183,408 | 1,041,526 |
| Average spending per outpatient visit (RMB) | 265.7 | 234.1 |
| Inpatient visits | 43,973 | 51,059 |
| Average spending per inpatient visit (RMB) | 6,645.4 | 5,458.7 |
| Number of beds in operation as of the end of the relevant period | 1,500 | 1,500 |

Our revenue rose by 15.8% from RMB524.0 million for the year ended 31 December 2020 to RMB606.8 million for the year ended 31 December 2021, primarily due to an increase in the revenue generated from treatments and general hospital services and pharmaceutical sales owing to the increase in the number of patient visits and improvements in technology.

Our revenue from treatments and general healthcare services and pharmaceutical sales in aggregate grew by 16.1% from RMB522.5 million for the year ended 31 December 2020 to RMB606.8 million for the year ended 31 December 2021. The growth was largely because of an increase in the average spending per patient visit due to a rise in the number of outpatient visits and the number of critically ill patients.

Our revenue from outpatient healthcare services went up by 28.9% from RMB243.9 million for the year ended 31 December 2020 to RMB314.4 million for the year ended 31 December 2021, primarily due to an increase in the number of outpatient visits because of increased public health awareness amid the COVID-19 pandemic and the inclusion of the costs for COVID-19 detection into outpatient revenue.

Our revenue from inpatient healthcare services increased by 5.0% from RMB278.6 million for the year ended 31 December 2020 to RMB292.4 million for the year ended 31 December 2021, primarily due to an increase in the average spending per inpatient visit because of a rise in the number of critically ill patients with the implementation of graded diagnosis and treatment measures and under the impact of pandemic prevention and control.

Cost of Sales

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

Our cost of sales rose by 22.0% from RMB386.5 million for the year ended 31 December 2020 to RMB471.5 million for the year ended 31 December 2021, mainly due to (i) a year-on-year increase of RMB33.6 million in the cost of pharmaceuticals during the year ended 31 December 2021; (ii) a year-on-year increase of RMB19.5 million in the cost of medical consumables during the year ended 31 December 2021; and (iii) a year-on-year rise of RMB19.6 million in the labour cost; and (iv) a year-on-year growth of RMB10.1 million in the expenses on utilities, maintenance and offices, and depreciation and amortization.

Gross Profit and Gross Profit Margin

Our gross profit fell by 1.7% from RMB137.6 million for the year ended 31 December 2020 to RMB135.3 million for the year ended 31 December 2021, and our gross profit margin shrank from 26.3% for the year ended 31 December 2020 to 22.3% for the year ended 31 December 2021. The decline in gross profit and gross profit margin was mainly due to an increase in the cost of sales as a result of the rise in the cost of pharmaceuticals and labour cost, the growth in the operating cost from relevant consumables and utilities following the operation of the first-phase building, as well as the increase in the cost of depreciation during the Reporting Period.

Other Expense

Our other expense consists of depreciation of our investment properties. Our other expense remained stable during the Reporting Period.

Administrative Expenses

Our administrative expenses primarily consist of employee benefits expenses for administrative personnel, depreciation and amortization, utilities, maintenance and office expenses, expenses in relation to the Listing and other expenses.

Our administrative expenses fell by 3.7% from RMB71.2 million for the year ended 31 December 2020 to RMB68.5 million for the year ended 31 December 2021, primarily due to a reduction in expenses, in relation to the Listing.

Net Finance Cost

Our net finance costs dropped by 48.5% from RMB31.1 million for the year ended 31 December 2020 to RMB16.0 million for the year ended 31 December 2021, primarily due to a decrease in the interest expense as a result of the repayment of some borrowings during the year and the decrease of exchange losses during the Reporting Period.

Income Tax Expense

Our income tax expense jumped by 56.1% from RMB8.7 million for the year ended 31 December 2020 to RMB13.5 million for the year ended 31 December 2021, primarily due to an increase in our profit before tax.

Profit for the Year and Net Profit Margin

For the foregoing reasons, our profit grew by 66.8% from RMB22.2 million for the year ended 31 December 2020 to RMB37.0 million for the year ended 31 December 2021. Our net profit margin stood at 6.1% for the year ended 31 December 2021, versus 4.2% for the year ended 31 December 2020.

DISCUSSION OF ITEMS IN THE CONSOLIDATED BALANCE SHEET

Net Current Liabilities

Our net current liabilities decreased from RMB88.2 million as at 31 December 2020 to RMB65.4 million as at 31 December 2021. This was largely because of the cash inflows generated from operating activities.

Inventories

Our inventories rose by 31.1% from RMB20.7 million as at 31 December 2020 to RMB27.1 million as at 31 December 2021. This was primarily due to changes in the inventories reserved for the Spring Festival.

Trade Receivables

Our trade receivables climbed by 81.0% from RMB19.1 million as at 31 December 2020 to RMB34.5 million as at 31 December 2021, largely because of an increase in the revenue for the year ended 31 December 2021.

Other Receivables and Prepayments

Our other receivables and prepayments dropped from RMB4.4 million as at 31 December 2020 to RMB1.9 million as at 31 December 2021. The balance during the Reporting Period decreased by RMB2.5 million. The reason is due to the decrease of prepayments of utilities expenses and consulting expenses.

Indebtedness

Our borrowings dropped from RMB246.8 million as at 31 December 2020 to RMB187.0 million as at 31 December 2021. The balance during the Reporting Period fell by RMB59.8 million. This was mainly because we repaid part of the loans during the Reporting Period.

Trade and Notes Payables

Our trade payables went up from RMB95.5 million as at 31 December 2020 to RMB106.1 million as at 31 December 2021. The balance during the Reporting Period increased by RMB10.6 million. This was mainly due to the fact that we had higher trade payables during the Reporting Period caused by an increase in purchases.

Accruals, Other Payables and Provisions

Our accruals and other payables increased from RMB90.1 million as at 31 December 2020 to RMB92.3 million as at 31 December 2021, primarily due to a growth in consultation fees prepaid by patients and a rise in payroll payables.

Contingent Liabilities

As at 31 December 2021, we had no significant contingent liabilities that would have a material impact on the financial position or operation of the Group.

Lease Liabilities

As at 31 December 2021, our lease liabilities in respect of our leased properties amounted to approximately RMB1.5 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 | |
|---|------------------------|----------------|
| | 2021 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Net cash generated from operating activities | 91,444 | 74,614 |
| Net cash used in investing activities | (50,461) | (80,062) |
| Net cash (used in)/generated from financing activities | (76,872) | 215,156 |
| Net (decrease)/increase in balance of cash and cash equivalents | <u>(35,889)</u> | <u>209,708</u> |

Net Cash Generated from Operating Activities

Our net cash generated from operating activities rose from RMB74.6 million for the year ended 31 December 2020 to RMB91.4 million for the year ended 31 December 2021, which was primarily attributed to an increase in cash flows from operating activities due to a growth in the operating profit for the current period.

Net Cash Used in Investing Activities

Our net cash used in investing activities dropped from RMB80.1 million for the year ended 31 December 2020 to RMB50.5 million for the year ended 31 December 2021, which was primarily attributed to a decrease in payments for purchases of properties, plants and equipment.

Net Cash (Used in)/Generated from Financing Activities

Our net cash used in financing activities for the year ended 31 December 2021 was RMB76.9 million, versus net cash generated from financing activities of RMB215.2 million for the year ended 31 December 2020. The cash used in financing activities in 2021 was mainly due to the repayment of borrowings of RMB246.8 million. The cash generated from financing activities during the year ended 31 December 2020 was mainly due to the issuance of shares from global offering.

Financial Instruments

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

Exposure to Fluctuation in Exchange Rates 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. We are exposed to foreign exchange risks accordingly.

We did not use any derivative financial instruments to hedge against our exposure to currency risks during the year ended 31 December 2021. The management of the Company manages the currency risks by closely monitoring the movement of the foreign currency rates, and will consider hedging against significant foreign currency exposures should such need arise.

Liability-to-Asset Ratio

As at 31 December 2021, our liability-to-asset ratio (total liabilities divided by total assets) was 41.1% (as at 31 December 2020: 45.5%).

Use of Proceeds

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

The table below sets forth the utilisation of the net proceeds from the Global Offering and the unused amount as at 31 December 2021:

| Business objective as stated in the Prospectus | Percentage to total amount | Net proceeds (HK\$ million) | Utilised proceeds as at 31 December 2021 (HK\$ million) | Unutilised proceeds as at 31 December 2021 (HK\$ million) | Expected timeline for unutilized amount^(Note) |
|---|-----------------------------------|--|--|--|---|
| Finance the ramp up of the Company's first-phase building | 29.5% | 78.0 | 78.0 | 0.0 | By the end of 2021 |
| Expand the Company's business by acquiring hospitals | 26.1% | 69.2 | 0.0 | 69.2 | By the end of 2023 |
| Repay the Company's general borrowings, particularly the outstanding loans from two banks with an aggregate principal amount of RMB63.0 million | 15.0% | 39.8 | 12.2 | 27.6 | By the end of 2023 |

| Business objective as stated in the Prospectus | Percentage to total amount | Net proceeds (HK\$ million) | Utilised proceeds as at 31 December 2021 (HK\$ million) | Unutilised proceeds as at 31 December 2021 (HK\$ million) | Expected timeline for unutilized amount^(Note) |
|---|-----------------------------------|--|--|--|---|
| Working capital and other general corporate purposes | 10.0% | 26.5 | 26.5 | 0.0 | By June 2021 |
| Purchase medical equipment and improve and upgrade the Company's information technology systems | 8.0% | 21.3 | 21.3 | 0.0 | By June 2023 |
| Develop the Company's pharmaceutical supply chain business | 6.3% | 16.7 | 0.0 | 16.7 | By the end of 2023 |
| Employee recruitment and training | 5.0% | 13.3 | 13.3 | 0.0 | By June 2023 |
| | 100% | 264.8 | 151.3 | 113.5 | |

Note:

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

As at 31 December 2021, the net proceeds from the Global Offering not yet utilized were deposited into demand deposits in the Company's account at one of the receiving banks as disclosed in the Prospectus.

PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public at the date of this announcement as required under the Listing Rules.

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

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

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

CORPORATE GOVERNANCE PRACTICE

The Company has adopted the CG Code (version up to 31 December 2021) contained in Appendix 14 to the Listing Rules as its own code of corporate governance. During the year ended 31 December 2021, save as provisions addressed below, the Company has complied with all the applicable code provisions as set out in the CG Code.

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

The chairman and chief executive officer of the Company are held by Mr. Qin Yan who has extensive experience in the industry. The Board believes that Mr. Qin Yan can provide the Company with strong and consistent leadership that allows for effective and efficient planning and implementation of business decisions and strategies.

The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangement when the Board considers appropriate.

The Company will adopt the new CG Code (version with effect from 1 January 2022), the requirement under which shall apply to the Company's corporate governance report in the forthcoming financial year ending 31 December 2022.

COMPLIANCE WITH THE MODEL CODE OF FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive Directors, Mr. Sun Jigang (Chairman), Mr. Zhao Chun and Mr. Jiang Tianfan. Our consolidated financial statements for the year ended 31 December 2021 have been reviewed by all members of the Audit Committee. The Audit Committee has also discussed our auditing, internal control and financial reporting matters. Based on such a review, the Audit Committee was of the opinion that our consolidated financial statements were prepared in accordance with applicable accounting standards.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of our consolidated balance sheet, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in this announcement have been agreed by our auditor, PricewaterhouseCoopers, to the amounts set out in our audited consolidated financial statements for the year.

The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2021.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the website of the Company at www.honlivhp.com and the Hong Kong Exchanges and Clearing Limited at <http://www.hkexnews.hk>. The 2021 annual report of the Company will be despatched to the Company's shareholders in due course and will also be available at the websites above.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on Friday, 17 June 2022. Shareholders of the Company should refer to the details regarding the AGM in the circular to be despatched by the Company and the notice of meeting and form of proxy accompanying therewith.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 14 June 2022 to Friday, 17 June 2022, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 13 June 2022 (Hong Kong time), being the last registration date.

APPRECIATION

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

DEFINITIONS

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

| | |
|---------------------------------|--|
| “AGM” | the 2021 annual general meeting of the Company to be held on 17 June 2022 |
| “Audit Committee” | the audit committee of the Board |
| “Board” or “Board of Directors” | the board of Directors |
| “CG Code” | the “Corporate Governance Code” as contained in Appendix 14 to the Listing Rules |
| “Chairman” | the chairman of our Board |

| | |
|--|--|
| “China” or “PRC” | the People’s Republic of China, which, for the purpose of this interim results announcement and for geographical reference only, excludes Hong Kong, Macau and Taiwan |
| “Company” or “our Company” | Honliv Healthcare Management Group Company Limited (宏力醫療管理集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 6 January 2016 |
| “Director(s)” | the director(s) of the Company or any one of them |
| “Global Offering” | the global offering of the Shares, details of which are set forth in the Prospectus |
| “Group”, “our Group”, “our”, “we”, or “us” | our Company and its subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors |
| “Henan Honliv Hospital” or “our hospital” | Henan Honliv Hospital Co., Ltd.* (河南宏力醫院有限公司), a limited liability company established in the PRC on 24 May 2004 |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Hong Kong dollars” or “HK dollars” or “HK\$” | Hong Kong dollars and cents respectively, the lawful currency of Hong Kong |
| “Independent Third Party” or “Independent Third Parties” | a person or entity who is not a connected person of the Company under the Listing Rules |
| “Jutan Hospital” | Neixiang Jutan Hospital* (內鄉菊潭醫院) |
| “Management Agreement” | the management agreement for a term of ten year entered into among Henan Honliv Hospital, the Jutan Hospital and its organizer dated 14 June 2016 |
| “Listing” | the listing of the Shares on the Main Board of the Stock Exchange |

| | |
|--------------------|---|
| “Listing Date” | 13 July 2020, on which the Shares were listed and from which dealings therein were permitted to take place on the Stock Exchange |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time) |
| “Model Code” | the “Model Code for Securities Transactions by Directors of Listed Issuers” set out in Appendix 10 to the Listing Rules |
| “Reporting Period” | the year ended 31 December 2021 |
| “Prospectus” | the prospectus of the Company dated 24 June 2020 |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Share(s)” | share(s) with par value of HK\$0.0001 each in the capital of our Company |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| % | per cent |

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

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

Hong Kong, 28 March 2022

As at the date of this announcement, the Board comprises Mr. Qin Yan, Dr. Teng Qingxiao and Mr. Wang Zhongtao as the executive Directors, Mr. Qin Hongchao as the non-executive Director and Mr. Zhao Chun, Mr. Sun Jigang and Mr. Jiang Tianfan as the independent non-executive Directors.