



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

2023





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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
Floor 4, Willow House
Cricket Square
Grand Cayman KY1-9010
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Henan Province
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Qin Yan (秦岩)

Ms. Hui Yin Shan (許燕珊)

JOINT COMPANY SECRETARY

Ms. Wang Xiaoyang (王曉陽)

Ms. Hui Yin Shan (許燕珊)

AUDITOR

PricewaterhouseCoopers
*Certified Public Accountants and
Registered Public Interest Entity Auditor*
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LEGAL ADVISER

As to Hong Kong law:
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Campbells Corporate Services Limited
Floor 4, Willow House
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Grand Cayman KY1-9010
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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Hong Kong

CORPORATE INFORMATION

PRINCIPAL BANKERS

In Hong Kong:

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

In the PRC:

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

COMPANY WEBSITE

www.honlivhp.com

STOCK CODE

9906

LISTING DATE

13 July 2020

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of Honliv Healthcare Management Group Company Limited, I have the honour to present to you the annual report of the Company for the year ended 31 December 2023.

In 2023, the Hong Kong stock market was inevitably affected by the frequent occurrence of major international political events and the volatility of the international financial markets. Benefiting from the full support of our shareholders as in the past, the strict and efficient corporate governance of the management and the hard work of all staff, the Group's operating results had steadily increased, our social responsibilities had been strengthened and we had been recognized in the capital market. On behalf of the Board of Directors of the Group, I would like to extend our sincerest greetings and best wishes to the shareholders, all staff and all investors.

In 2023, the Group, in line with the attitude of being responsible for shareholders, investors, the community and staff, expanded the scope of its main business services to build an elderly-friendly hospital; enhanced the ability of nursing care services to align with international nursing care services, and achieved honours in international academic conferences for its nursing care scientific research work; and carried out medical scientific publicity in a variety of forms, contributing to the realization of the goal of a healthy China; spared no effort to carry out medical scientific research, forming a good situation in which scientific research empowered medical treatment and medical treatment boosted scientific research; comprehensively practiced the ESG development concept and realized high-quality green development.

The Group strictly complies with the relevant laws and regulations for listed companies, diligently performs its duties, has statutory rights and responsibilities, transparent rights and responsibilities, co-ordinated operation, effective controls and balances, and the corporate governance mechanism has been continuously improved. It has laid a solid institutional foundation for ensuring the legitimate rights and interests of investors.

Based on strict and efficient corporate governance, the Group achieved promising results in 2023. Consolidated revenue for the year ended 31 December 2023 amounted to RMB760.5 million, representing an increase of 4.5% as compared with the corresponding period, with inpatient visits totalling 54,795, representing a year-on-year increase of 7.6%, and outpatient visits totalling 1,400,791, representing a year-on-year increase of 8.9%.

Looking ahead, there are both opportunities and challenges for the healthcare services industry.

The State has issued opinions on promoting the development and growth of the private economy, affirming that the private economy is an important force in promoting Chinese-style modernization, accelerating the cultivation of new-quality productive forces, and vigorously developing new types of consumption such as health consumption. At present, China's per capita GDP has exceeded 12,000 US dollars, and the middle-income group has more than 400 million people, which is the largest in the world and still increasing, forming a super-large and growing domestic market, which provide strong support for the high-quality development of healthcare services; Meanwhile, the market access of the healthcare services will be further expanded and opened up, and the competition in the market of the healthcare services will be more active.

The Group will follow the trend of the times, grasp the favourable time for development, ride on the momentum, continue to strive for further remarkable success.

The tide is flat and the wind is blowing. May we join hands to create a bright future.

Honliv Healthcare Management Group Company Limited

Mr Qin Yan

President and Chairman

28 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW AND PROSPECTS

China's population health data shows that the number of sub-healthy groups is huge, the incidence of various diseases is on the rise. The strong demand for health has created new requirements for the technical level, service environment, process, capacity and convenience of medical and health service institutions, and county medical institutions will take on more and more health service tasks.

Socially-run medical institutions are an important parts of the health care system, and the government has successively issued a number of policies to support and encourage the development of socially-run medical institutions. These policies point out the direction for the development and growth of socially-run medical institutions in terms of the setting up of medical institutions, training and use of talents, the content of medical services and healthcare insurance payment, etc.

For example, in January 2022, the National Health Commission issued the "Guidelines for the Planning of the Setting Up of Medical Institutions" (2021–2025), which clearly states that: to expand the space for socially-run medical care, the total number of areas and space for socially-run medical care will not be restricted by planning. Medical institutions run by social forces are encouraged to take the lead in establishing or joining medical consortia. Social forces are encouraged to hold medical laboratory laboratories, pathology diagnostic centres, medical imaging diagnostic centres, haemodialysis centres, rehabilitation medical centres and other independently established medical institutions.

The state has also put forward higher requirements for medical quality and safety, taken a high-pressure stance against unethical practices in the medical industry, and put forward practical opinions on the further improvement of the medical and healthcare service system, and issued normative documents one after another, such as the "Opinions on Further Improving the Medical and Healthcare Service System" jointly issued by the General Office of the Central Committee of the Communist Party of China and the State Council, and the "Action Plan for Comprehensively Improving the Quality of Medical Care (2023–2025)", jointly issued by the National Health Commission and the National Administration of Traditional Chinese Medicine. These policies and measures will have a far-reaching impact on the healthy development of the medical industry in the future.

The Group believes that with the support of various state and government policies, socially-run medical care will continue to develop and grow. The Group will keep pace with the times, seize the opportunities and continue to expand its scale of operation and business network in order to meet the growing demand for medical services from the people.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2023, the Group's consolidated revenue for the year ended 31 December 2023 was RMB760.5 million, representing an increase of RMB32.7 million or 4.5% from the consolidated revenue of RMB727.8 million for the year ended 31 December 2022. This was mainly due to the increase in revenue generated from treatment and general medical services and the sale of pharmaceutical products.

The main driving factor is that on the basis of the existing relatively well-established medical system, with the help of efficient Internet + technology, from the depth and breadth of the two aspects of the force, the Group not only uses the high-precision to build a brand, but also continues to expand the scope of services, the breadth of services to lay a solid foundation for the integration of various disciplines to embark on the fast track to steady development.

Hospital Services

Henan Honliv Hospital provides hospital services on behalf of the Group. During the Reporting Period: (i) the total number of inpatient visits amounted to 54,795 (for the year ended 31 December 2022: 50,920), representing a year-on-year increase of 7.6%; (ii) the average cost of inpatient visits amounted to RMB6,394.4 (for the year ended 31 December 2022: RMB6,385.2), representing a year-on-year increase of 0.1%; (iii) the average cost of outpatient visits amounted to RMB287.4 (for the year ended 31 December 2022: RMB312.7), representing a year-on-year decrease of 8.1%; and (iv) the total number of outpatient visits amounted to 1,400,791 (for the year ended 31 December 2022: 1,286,815), representing year-on-year increase of 8.9%.

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

	For the year ended		
	31 December 2023	2022	Changes%
Outpatient visits	1,400,791	1,286,815	8.9
Average spending per outpatient visit (RMB)	287.4	312.7	(8.1)
Inpatient visits	54,795	50,920	7.6
Average spending per inpatient visit (RMB)	6,394.4	6,385.2	0.1
Number of beds in operation at the end of the relevant period	1,500	1,500	0.0
Average length of stay per inpatient visit (days)	9.3	9.6	(3.5)
Number of surgeries	13,159	12,588	4.5

Pharmaceutical Sales

Revenue from sales of pharmaceutical for the reporting period was RMB294.9 million (RMB264.6 million for the year ended 31 December 2022), representing a year-on-year increase of 11.5%. Such increase was mainly attributable to the growth in outpatient sales of pharmaceutical, of which the outpatient pharmaceutical sales revenue increased significantly in the outpatient department, paediatrics, emergency department, haematology, obstetrics and gynaecology, dermatology, neurology, nails and breasts and preventive healthcare.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Development

The Group's operating efficiency improved steadily in 2023 as compared with the corresponding period of last year, and the key revenue-driving strategies for the Group's hospital services were:

- (i) The Group has been continuously upgrading the overall level of medical services. Through the passing on of skills by the old, middle-aged and young technicians, a group of young and highly educated technicians have grown to become the backbone of the Group and have achieved remarkable results in professional development, medical science and service model.
- (ii) The Group endeavours to create an elderly-friendly hospital to improve and enhance the medical experience of the elderly through various measures such as setting up outpatient clinics for chronic diseases and providing home nursing services.
- (iii) The Group has continued to explore the potential of quality nursing services and has made efforts in optimizing clinical nursing services and nursing scientific research. The Group has made efforts in the smallest details and taken various measures to create a warm and comfortable medical environment for patients; it has continuously learnt from advanced international and domestic nursing experiences and refined them in the light of actual practice, and its nursing scientific research has gained a higher honor in the international arena and has continuously fed into the clinical nursing services, thus forming a benign circle of development in which the nursing scientific research and the clinical nursing services have promoted each other and improved together.
- (iv) The Group has continued to leverage on its strengths in medical information technology by continuously upgrading and optimizing its software systems in conjunction with clinical practice and responding quickly to clinical needs, and has completed the development and application of dozens of software applications.
- (v) The Group actively participates in various medical competitions at the national level to demonstrate to the society the positive energy of being positive, helping the dying and healing the injured, and contributing to the society.
- (vi) The Group is actively practising the ESG development concept to achieve high-quality green development.
- (vii) The Group has fully adapted to various policies, such as the reform of healthcare insurance payment methods, to increase revenue and reduce expenditure.

MANAGEMENT DISCUSSION AND ANALYSIS

Continuous improvement of academic research

As a medical institution dedicated to ensuring human health, the Group has been exploring the field of medical scientific research and hospital management. In 2023, the medical research activities of the Group's hospital achieved a favourable situation in which research empowers medical treatment and medical treatment promotes research:

- (i) "Development and Application of Intelligent Nursing Information System for Extended Home Nursing Based on Clinical Nursing Classification System" was approved as a joint project of Henan Provincial Health Commission;
- (ii) The Group participated as a sub-centre in the Xinxiang Medical University's project "Single-arm multicentre clinical study on the application and management of the simple mode of hydromorphone PCA pump in patients with severe or critical cancer pain";
- (iii) "Clinical efficacy of capecitabine maintenance therapy after first-line XP regimen chemotherapy for advanced esophageal squamous carcinoma" won the Second Prize of Xinxiang Natural Science Academic Achievement Award;
- (iv) The CCC project team has consistently published SCI articles in the international nursing informatics journal CIN;
- (v) Ten information systems, including "Settlement Management System Bedside Ward V1.0", "Trauma Centre Management System V1.0" and "Research and Development of Fully Intelligent Nursing Information System Based on International Standard Nursing Terminology CCC", were confirmed as scientific and technological achievements by the Science and Technology Department of Henan Province;
- (vi) Obtained 6 software copyright certificates.

The Group's hospital also invites renowned experts in the medical field to conduct case discussions and special lectures. This not only allows patients to enjoy quality medical resources, but also gives technical staff from the Group's hospitals a good opportunity to learn and further enhance the hospital's precise treatment capabilities. The Group will provide better services to patients by improving its research capabilities.

Actively taking social responsibility to warm the hearts of people with medical care

Adhering to the ideology of green development, the Group regards sustainable management and the fulfilment of social responsibility as an integral part of its corporate culture, and is committed to becoming an enterprise that is loved by its employees, praised by the society and developed in the long run. In order to detect the increasingly high incidence of lung lesions at an early stage, the Group has been going to villages and households to continuously carry out free screening activities for lung nodules; it has adopted a variety of technical measures to achieve energy conservation, emission reduction and green development, and was awarded the "Advanced Collective in Energy Conservation, Emission Reduction and Green Development Competition for Key Industries in Henan Province" by the Henan Provincial Federation of Trade Unions, the Development and Reform Commission of Henan Province, and the Department of Ecology and Environment of Henan Province in August 2023. In order to improve the health literacy of the public, the Group adopts an easy-to-understand and lively form to carry out popular science education on medical knowledge, and many people have won awards in various medical knowledge competitions at provincial and national levels.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE OUTLOOK

The Group will continue its efforts in the following areas in the future:

1. The Group will continue to focus on its main business, adhere to the work policy of “promoting reform through evaluation, promoting construction through evaluation and combining evaluation and construction”, further strengthen the internal construction of hospitals, actively prepare for the accreditation of hospital grades and realize the high quality and sustainable development of the hospital;
2. The Group will continue to intensify its efforts in talent cultivation and strengthen the mechanism of joint cultivation of talents by the hospital and universities, so as to create a medical team with reasonable composition of talents, high professionalism and strong sense of service, to better serve the ever-growing number of patient groups, and to lay a good foundation for the sustained and healthy development of the hospital;
3. Relying on the information technology team, the Group will continue to deepen the analysis and application of data across the hospital and steadily improve the level of application of electronic medical records in the hospital;
4. The Group will continue to improve the three-tier medical quality management system, continuously strengthen the management of medical quality and safety, and focus on fostering awareness of scientific research and improving scientific research output;
5. The Group will respond to the requirements of the times and continue to do a good job in analysing medical record data under the reform of the DIP payment method. We will study the characteristics of the demand for medical services in an ageing society, expand our business scope and improve our service chain;
6. The Group will enhance its compliance awareness, comply with various regulatory regimes in the industry, comply with the code of conduct for listed companies, optimize corporate governance and ensure medical quality and safety;
7. The Group will actively seek investment targets to expand the scale of the Group’s business through various means, such as exogenous growth and export of management, in order to achieve the goal of group development.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and Cost

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

	Year ended 31 December			
	2023		2022	
	(RMB'000)	% of revenue	(RMB'000)	% of revenue
Treatment and general healthcare services	465,598	61.2%	463,225	63.6%
Pharmaceutical sales	294,929	38.8%	264,564	36.4%
Total	760,527	100.0%	727,789	100.0%

Revenue generated from the operation of Henan Honliv Hospital accounts for a large majority of our revenue. Revenue from our hospital can also be further classified by source into revenue from the provision of medical 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			
	2023		2022	
	(RMB'000)	% of revenue	(RMB'000)	% of revenue
Outpatient healthcare services	402,643	52.9%	402,418	55.3%
Inpatient healthcare services	357,884	47.1%	325,371	44.7%
Total	760,527	100.0%	727,789	100.0%

The following table sets forth a breakdown of the number of patient visits and the average spending per patient visit by segment in the Group's own hospitals for the periods indicated:

	Year ended 31 December	
	2023	2022
Outpatient visits	1,400,791	1,286,815
Average spending per outpatient visit (RMB)	287.4	312.7
Inpatient visits	54,795	50,920
Average spending per inpatient visit (RMB)	6,394.4	6,385.2
Number of beds in operation at the end of the relevant period	1,500	1,500

MANAGEMENT DISCUSSION AND ANALYSIS

Our combined revenue from treatment and general hospital services and pharmaceutical sales increased by 4.5% from RMB727.8 million for the year ended 31 December 2022 to RMB760.5 million for the year ended 31 December 2023. This was mainly due to the increase in revenue as a result of the increase in the number of outpatient and inpatient visits.

Our revenue from outpatient medical services increased from RMB402.4 million for the year ended 31 December 2022 to RMB402.6 million for the year ended 31 December 2023. This was mainly due to the slight increase in outpatient medical services revenue as a result of the increase in the number of outpatient visits while a decrease was recorded in the average spending per visit.

Our revenue from inpatient medical services increased by 10.0% from RMB325.4 million for the year ended 31 December 2022 to RMB357.9 million for the year ended 31 December 2023. This was mainly due to the increase in inpatient medical services revenue as a result of the increase in the number of inpatient visits while a decrease was recorded in the average spending per visit.

Cost of sales

Our cost of sales consists primarily of employee benefit expenses for doctors and other medical professionals, the cost of pharmaceuticals, the cost of medical consumables, depreciation and amortization, utility fees, maintenance costs, office expenses and other costs.

Our cost of sales increased by 4.5% to RMB615.7 million for the year ended 31 December 2023 from RMB589.4 million for the year ended 31 December 2022, primarily due to (i) an increase in pharmaceutical costs of RMB18.9 million for the year ended 31 December 2023 as compared with the year ended 31 December 2022; (ii) an increase in employee benefit expenses of RMB20.0 million for the year ended 31 December 2023 as compared with the year ended 31 December 2022; (iii) an increase in depreciation and amortisation of RMB5.2 million for the year ended 31 December 2023 as compared with the year ended 31 December 2022; and (iv) a decrease in medical consumables costs of RMB14.7 million for the year ended 31 December 2023 as compared with the year ended 31 December 2022.

Gross profit and gross profit margin

Our gross profit increased by 4.6% from RMB138.4 million for the year ended 31 December 2022 to RMB144.8 million for the year ended 31 December 2023 and our gross profit margin for the year ended 31 December 2023 is the same as for the year ended 31 December 2022, both at 19.0%.

Other expenses

Our other expenses include depreciation of our investment properties. Our other expenses remained stable during the Reporting Period.

Administrative expenses

Our administrative expenses consist primarily of employee benefit expenses for administrative personnel, depreciation and amortization, utility fees, maintenance and office expenses and other costs.

Our administrative expenses decreased by 1.3% from RMB73.3 million for the year ended 31 December 2022 to RMB72.4 million for the year ended 31 December 2023, primarily due to an increase in employee benefit expenses of RMB4.5 million, a decrease in office expenses of RMB3.0 million and a decrease in other costs of RMB2.4 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Net finance costs

Our net finance costs decreased from a gain of RMB1.5 million for the year ended 31 December 2022 to an expense of RMB6.0 million for the year ended 31 December 2023, due to a decrease in foreign exchange gain during the Reporting Period.

Income tax expense

Our income tax expense decreased by 7.0% to RMB12.7 million for the year ended 31 December 2023 from RMB13.7 million for the year ended 31 December 2022, mainly due to a decrease in our profit before tax.

Profit for the year and net profit margin

For the foregoing reasons, our profit for the period decreased by 21.6% from RMB49.3 million for the year ended 31 December 2022 to RMB38.7 million for the year ended 31 December 2023. Our net profit margin stood at 6.8% and 5.1% for the year ended 31 December 2022 and the year ended 31 December 2023, 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 and interest payments.

As at 31 December 2023, the Group's consolidated cash and cash equivalents totalled approximately RMB239.8 million (31 December 2022: RMB255.2 million) which were denominated mainly in RMB. The Company had bank loan of RMB138.0 million as at 31 December 2023 and obtained a loan facility from one of its existing banks with an amount of RMB60.0 million on 5 March 2024. Application of one year loan drawdown can be made under this facility until 5 March 2025 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.

Net current liabilities

Our net current liabilities increased from RMB44.2 million as at 31 December 2022 to RMB59.7 million as at 31 December 2023. The increase was mainly due to the decrease of RMB15.7 million in trade receivables during the Reporting Period.

Inventories

Our inventories increased by 8.0% from RMB29.5 million as at 31 December 2022 to RMB31.9 million as at 31 December 2023. This was mainly due to the changes in the amount of Chinese New Year reserve inventories.

Trade receivables

Our trade receivables decreased by 33.2% from RMB47.4 million as at 31 December 2022 to RMB31.6 million as at 31 December 2023. This was mainly due to the settlement of receivables from the Healthcare Security Administration and provision for bad and doubtful debt.

Other receivables and prepayments

Our other receivables and prepayments increased from RMB1.2 million as at 31 December 2022 to RMB2.1 million as at 31 December 2023, representing an increase of RMB0.9 million in the balance for the Reporting Period. This was mainly due to an increase in tax to be deducted.

MANAGEMENT DISCUSSION AND ANALYSIS

Indebtedness

Our borrowings increased from RMB141.0 million as at 31 December 2022 to RMB176.5 million as at 31 December 2023, representing an increase of RMB35.5 million in the balance for the Reporting Period. This was mainly due to new loans raised during the Reporting Period.

Trade and notes payable

Our trade payables increased from RMB101.9 million as at 31 December 2022 to RMB124.5 million as at 31 December 2023, representing an increase of RMB22.6 million in the balance for the Reporting Period. This was mainly due to the increase in notes payable of RMB30.0 million during the Reporting Period.

Accrued expenses, other payables and provisions

Our accrued expenses and other payables decreased from RMB122.3 million as at 31 December 2022 to RMB99.8 million as at 31 December 2023. This was mainly due to the decrease in advance receipts for medical insurance.

Contingent liabilities

As at 31 December 2023, we had no contingent liabilities or guarantees that would have a material impact on the financial position or operations of the Group.

Lease liabilities

As of 31 December 2023, our lease liabilities in respect of our leased properties amounted to approximately RMB4.2 million.

Liquidity and capital resources

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Net cash generated from operating activities	91,559	118,472
Net cash used in investing activities	(88,762)	(19,161)
Net cash used in financing activities	(19,116)	(117,848)
Net decrease in the balance of cash and cash equivalents	(16,319)	(18,537)

Net cash generated from operating activities

Our net cash generated from operating activities decreased from RMB118.5 million for the year ended 31 December 2022 to RMB91.6 million for the year ended 31 December 2023, mainly due to the decrease in operating profit during the Reporting Period.

Net cash used in investing activities

Our net cash used in investing activities surged from RMB19.2 million for the year ended 31 December 2022 to RMB88.8 million for the year ended 31 December 2023, which was primarily attributed to an increase of RMB89.3 million in payments for renovation of factory and purchases of equipment.

MANAGEMENT DISCUSSION AND ANALYSIS

Net cash used in financing activities

Our net cash used in financing activities decreased to RMB19.1 million for the year ended 31 December 2023 from RMB117.8 million for the year ended 31 December 2022. The decrease was mainly due to (i) the new borrowings of RMB183.0 million during the Reporting Period; (ii) the repayment of borrowings and the related interest of RMB147.5 million during the Reporting Period; (iii) the expenditure of RMB45.9 million for purchasing existing shares in light of the 2023 Restricted Share Unit Scheme.

Financial instruments

Our financial instruments include trade receivables, other receivables, cash and cash equivalents, bank borrowings, trade and notes payables and other payables. The Company's management manages and monitors these risks to ensure that effective measures are taken in a timely manner.

Exchange rate fluctuation risk and other risks

We hold certain financial assets in foreign currencies, which primarily involve exposure to exchange rate fluctuations between the HKD and the USD against the RMB, and the Group is therefore exposed to foreign exchange risk.

During the year ended 31 December 2023, we did not use any derivative financial instruments to hedge our exchange rate risk. Our management manages exchange rate risk by closely monitoring movements in foreign exchange rates and considers hedging significant foreign exchange exposure should the need arise.

Gearing ratio

As of 31 December 2023, our gearing ratio (total liabilities divided by total assets) was 43.5% (as of 31 December 2022: 40.7%).

PLEDGE OF ASSETS

As of 31 December 2023, details of the pledge of assets to secure bank loans granted to the Group are set out in note 12 to the consolidated financial statements in this annual report.

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 2023.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus, the interim report of the Company dated 25 August 2023, this annual report 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 material events subsequent to the year ended 31 December 2023.

LITIGATION

The Group was not involved in any material legal proceeding during the year ended 31 December 2023.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2023, the Group had a total of 1,969 full-time employees (31 December 2022: 1,847). For FY2023, the staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately RMB217.5 million (FY2022: RMB193.0 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.

ADOPTION OF 2023 RSU SCHEME

The Company has adopted the 2023 RSU Scheme on 9 May 2023 (further details of which are set forth in the Company's announcements dated 9 May 2023). During the Reporting Period, no restricted share units had been awarded under the 2023 RSU Scheme.

USE OF PROCEEDS

In connection with the Company's Global Offering ("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. Such proceeds were allocated and used in accordance with the use of proceeds set out in the prospectus dated June 24, 2020 and the announcement on the change of use of proceeds from the Global Offering dated August 25, 2023 (the "Announcement") of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth the utilisation of the net proceeds from the Global Offering and the unused amount as at 31 December 2023 and as at the date of this report:

Business objective	Revised use of proceeds as described in the Announcement %	Revised use of proceeds as described in the Announcement HK\$ million	Utilised net proceeds as at 31 December 2023 HK\$ million	Unutilised Net Proceeds as at 31 December 2023 HK\$ million	Expected timeline for Unutilised Net Proceeds
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 2025
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	39.8	0.0	By the end of 2023
Working capital and other general corporate purposes	10.0	26.5	26.5	0.0	By June 2021
Purchase medical equipment and improve and upgrade the Company's information technology systems	8.0	21.3	21.3	0.0	By June 2023
Develop the Company's employee recruitment and training	5.0	13.3	13.3	0.0	By June 2023
Construct a postnatal care centre	6.3	16.7	16.7	0.0	By the end of 2023
Total	100	264.8	195.6	69.2	

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. Except for the change above, there is no other change in use of the net proceeds.

As at 31 December 2023, the net proceeds from the Global Offering not yet utilised 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 of Directors is pleased to present this Annual Report and the audited consolidated financial statements of the Group for the year ended 31 December 2023.

PRINCIPAL BUSINESS

The Group is mainly engaged in providing integrated medical services and pharmaceutical services to the society in Mainland China.

BUSINESS REVIEW

A fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, and the future prospects of the Group's business are provided in the "Management Discussion and Analysis" section of this Annual Report and the relevant discussions form part of this Report of Directors.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Directors are satisfied that, during the period under review, the Group has complied with the relevant laws and regulations, which have a significant impact on the business and operations of the Group. During the reporting period, no non-compliance with laws and regulations occurred.

ENVIRONMENT, SOCIETY AND GOVERNANCE

The Group is committed to a high level ESG performance, and strives to improve the Group's ability of sustainable development, and complies with national, provincial and local laws and regulations relating to ecological and environmental protection. The emissions and waste generated by the Group in the course of its operations mainly include medical waste, medical wastewater exhaust gas and domestic waste. The Group has established a compliant pollutant control system to meet the requirements of relevant laws and regulations, and has taken various measures to reduce the waste generated during its operation and the pollutants discharged into the environment. Compliant and harmless treatment methods are adopted for different types of waste, and qualified suppliers are entrusted to handle medical waste. During the year under review, the Group was not subject to any administrative penalties or litigation arising from environmental pollution.

The Group is committed to fulfilling its social responsibility and giving back to the society. We provide high quality medical care services and a comfortable environment for patients, make full use of internet technology to improve the medical treatment experience of patients and strictly obey government regulation of medical service prices. The Group strictly enforces the relevant pandemic prevention policies, optimizes medical procedure, improves the medical environment and cuts off the transmission, thus effectively safeguarding the medical safety of patients.

For information on the Group's environmental policies and performance disclosures, please see the ESG Report.

RELATIONSHIP WITH STAKEHOLDERS

The Group values the relationships and interests of its shareholders, employees, customers (patients, suppliers, etc.) and stakeholders such as the community and regulatory agencies.

For the Group's relationship with its major shareholders, please see the relevant section.

REPORT OF DIRECTORS

The Group considers its employees to be the most important and valuable assets of the Group. The Group regularly reviews the performance of its employees so as to provide them with reasonable remuneration and access to various benefits, including medical check-ups, housing, various types of insurance, etc. The Group provides different forms of professional training for its employees to enhance their skills and social values and to give them a sense of belonging; and increases the employees' understanding of different professions within the Group to improve productivity. The Group attaches importance to the production safety and personal safety of its employees, and all employees are required to receive the necessary safety training and education to equip them with the necessary safety knowledge and safety skills; the Group regularly educates its employees on compliance to ensure the healthy and compliant development of its business.

The Group's customers include patients and suppliers. The Group attaches importance to the legitimate rights of patients and provides them with quality and accessible services in all aspects such as medical technology, medical environment, medical prices, service processes and safety and security, and regularly seeks the views of patients to improve our services. The Group adopts the strictest professional ethics and professional conduct in working with suppliers, conducts regular assessments of suppliers, eliminates unqualified suppliers and enters into anti-corruption and anti-commercial bribery agreements.

The Group values the interests of the community and regards the community as our key stakeholder and community responsibility as our obligation. The Group often reaches out to the community to conduct voluntary medical consultations, health education and medical check-ups, to guide the community to correct incorrect lifestyles, and to provide financial assistance to the underprivileged.

The Group attaches importance to the views of the regulatory authorities, implements relevant regulatory requirements, adheres to legal compliance, and continues to strengthen internal control and compliance management to promote healthy and sustainable development of its business operations.

RESULTS AND FINAL DIVIDEND

The results of the Group for the year ended 31 December 2023 are set out in the consolidated statement of comprehensive income on page 55 of this annual report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2023.

There is no arrangement that a shareholder has waived or agreed to waive any dividend.

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.

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 can 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 2023 are set out in note 24 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 2023 are set out in the consolidated statement of changes in equity on page 58 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 2023 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 116 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 2023 are set out in note 29 to the consolidated financial statements in the annual report.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme, the 2022 RSU Scheme and the 2023 RSU 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 2023.

MAJOR CUSTOMERS AND SUPPLIERS

Revenue from the Group's five largest customers in aggregate accounted for less than 1.0% (2022: less than 1.0%) of the total revenue for the year ended 31 December 2023.

REPORT OF DIRECTORS

Purchases from the Group's five largest suppliers in aggregate accounted for approximately 60.6% (2022: 55.9%) of the total purchases for the year ended 31 December 2023, and purchases from the largest supplier accounted for approximately 32.2% (2022: 30.8%) of the total purchases for the year ended 31 December 2023.

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 2023.

PERMITTED INDEMNITY PROVISION

Pursuant to the Memorandum and Articles of Association and subject to the applicable laws and regulations, every Director and 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 and 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 2023. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

DIRECTORS

The Directors of the Company during the year ended 31 December 2023 and up to the date of this annual report were:

Executive Directors

Mr. Qin Yan (*President and Chairman*)

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

BIOGRAPHICAL DETAILS OF THE 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 36 to 39 of this annual report.

REPORT OF DIRECTORS

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 an unexpired service contract which is not determinable by the Company or any of its subsidiaries 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 annual report.

Details of the remuneration of the Directors and the five highest paid individuals in the Group are set out in notes 36 and 8 to the consolidated financial statements in this annual report.

For the year ended 31 December 2023, 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 2023.

Except as disclosed above, no other payments have been made or are payable, for the year ended 31 December 2023, 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 8 to the consolidated financial statements in this annual report.

REPORT OF DIRECTORS

INDEPENDENCE CONFIRMATIONS FROM 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 BUSINESSES

As of 31 December 2023, 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.

RE-ELECTION OF DIRECTORS

Pursuant to the Articles of Association, any Director appointed by the Board to fill a casual vacancy or as an addition to the existing Directors shall hold office until the first general meeting of the Company after his appointment and be subject to re-election at such meeting.

At every annual general meeting of our Company one-third of our Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. Our Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

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 2023, 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:

REPORT OF DIRECTORS

(i) The Company

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

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

Name of Director	Name of Associated Corporation	Nature/Capacity of Interest	Class of shares in which interested	Number of shares held	Percentage of Shareholding ⁽⁵⁾
Mr. Qin Yan	Sunny Rock Capital Limited	Beneficial Owner ⁽²⁾	Ordinary	1	100%

Notes:

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

Save as disclosed above, as of 31 December 2023, 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.

REPORT OF DIRECTORS

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

To the best knowledge of Directors, as of 31 December 2023, the following persons (other than Directors or chief executives of the Company), are directly or indirectly, interested in 5% or more of the shares or short positions in the shares and the underlying shares of the Company, which were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name of Shareholder	Long/Short Positions	Nature/Capacity of Interest	Number of Shares	Percentage of Shareholding ⁽¹⁾
Cao Jinming	Long Position	Interest of spouse ⁽²⁾	443,983,500	74.00%
Rubrical Investment	Long Position	Beneficial owner	133,195,050	22.20%
	Long Position	Parties acting in concert/Interest in controlled corporations ⁽⁴⁾	310,788,450	51.80%
Sun Mingyan	Long Position	Interest of spouse ⁽³⁾	443,983,500	74.00%
Sunny Rock	Long Position	Beneficial owner	310,788,450	51.80%
	Long Position	Parties acting in concert/Interest in controlled corporations	133,195,050	22.20%
HWABAO TRUST CO., LTD	Long Position	Trustee	50,888,000	8.48%
HWABAO OVERSEAS INVESTMENT SERIES 2 NO 42-16 QDII SINGLE MONEY TRUST	Long Position	Trustee	50,888,000	8.48%
Changyuan City Investment Group Co., Ltd.*	Long Position	Beneficial owner	50,888,000	8.48%
TCT (BVI) Limited	Long Position	Nominee to the Trustee ⁽⁵⁾	48,874,000	8.14%
THE CORE TRUST COMPANY LIMITED	Long Position	Trustee ⁽⁶⁾	48,874,000	8.14%

Notes:

- (1) As at the date of this annual report, the Company issued 600,000,000 Shares.
- (2) Ms. Cao Jinming is the spouse of Mr. Qin Hongchao, and is deemed to be interested in the same number of Shares by virtue of the SFO.
- (3) Ms. Sun Mingyan is the spouse of Mr. Qin Yan, and is deemed to be interested in the same number of Shares by virtue of the SFO.
- (4) Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock, and Rubrical Investment are concert parties under the Concert Party Agreement. Therefore, under the SFO, each of Mr. Qin Yan, Mr. Qin Hongchao, Sunny Rock, and Rubrical Investment is deemed to be interested in the aggregate equity interests of all the concert parties.
- (5) Vita Boost Limited and Planet Hive Limited (the nominees to the trustee of the share incentive scheme of the Company) are wholly owned by TCT (BVI) Limited which hold 29,998,000 Shares and 18,876,000 Shares respectively.
- (6) TCT (BVI) Limited is wholly owned by THE CORE TRUST COMPANY LIMITED (the trustee of the share incentive scheme of the Company).

* 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.

REPORT OF DIRECTORS

SHARE INCENTIVE SCHEMES

Share Option Scheme

The Company has conditionally approved and adopted a share option scheme on 17 June 2020 (the “Share Option Scheme”), and the Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted. The following is a summary of the principal terms of the Share Option Scheme”.

(a) Purpose

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. Given that the Directors are entitled to determine the performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the Directors, 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.

(b) Who may join

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, who the Board considers, in its sole discretion, have contributed or will contribute to the Group, to take up options to subscribe for Shares:

- (i) any directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of any member of the Group; and
- (ii) any advisers, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners, service providers of any member of the Group.

For the purposes of the Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of these classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who falls within any of these classes of participants shall not, by itself, unless the Directors otherwise so determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of these class of participants to the grant of any option shall be determined by the Directors from time to time on the basis of the Directors’ opinion as to the participant’s contribution to the development and growth of the Group.

(c) Maximum number of Shares

- (i) 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.
- (ii) 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 representing 60,000,000 Shares (the “General Scheme Limit”), but excluding any Shares which may be issued upon the exercise of the Over-allotment Option.

REPORT OF DIRECTORS

- (iii) Subject to paragraph (i) above and without prejudice to paragraph (iv) below, the Company may issue a circular to its Shareholders and seek approval of its 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 and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of the Group) previously granted under the Share Option Scheme and any other share option scheme of the Group will not be counted. The circular sent by the Company to its Shareholders shall contain, among other information, the 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.
- (iv) Subject to paragraph (i) above and without prejudice to paragraph (iii) above, 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 in paragraph (iii) 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.

(d) Maximum entitlement of each participant

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.

(e) Grant of options to connected persons

Any 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:

- (i) 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
- (ii) 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);

REPORT OF DIRECTORS

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.

(f) Subscription price for Shares and consideration for the option

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.

A nominal consideration of HK\$1.00 is payable upon acceptance of the grant of an option.

As of 31 December 2023, no options had been granted or agreed to be granted, exercised, cancelled or lapsed by the Company under the Share Option Scheme. As at 1 January 2022, 31 December 2023, and as at the date of this annual report, 60,000,000 Shares are available for grant under the Share Option Scheme, being 10% of the Company's total issued share capital as of the date of this annual report. As of 31 December 2023, the remaining life of the scheme is 6.46 years.

2022 RSU Scheme

The Company has adopted the 2022 RSU Scheme by a board resolution on 22 August 2022. The following is a summary of the principal terms of the 2022 RSU Scheme. Defined terms herein is only applicable to this "2022 RSU Scheme" section of this annual report.

(a) Purpose of the 2022 RSU Scheme

The purposes of the 2022 RSU Scheme are to recognize and motivate the contributions made by Participants of the 2022 RSU Scheme (as defined below) and give incentives thereto in order to retain them, as well as to attract suitable personnel for further development of the Group.

(b) Participants

Participants of the 2022 RSU Scheme includes employees or officers (including executive, non-executive and independent non-executive Directors) of the Group, including any prospective employees (who receives the Grant as an inducement to join the Group) (collectively, the "Participant(s)").

REPORT OF DIRECTORS

(c) Awards

The 2022 RSU Scheme is subject to the administration of the 2022 ESOP scheme management committee (the “Committee”) as appointed by the Board. The Committee may at any time during the term of the 2022 RSU Scheme make an offer of the grant (the “Grant(s)”) of an award (the “Award(s)”) of conditional rights to either Shares or equivalent value of cash (the “RSU(s)”) to any selected Participant at its absolute discretion. A Grant shall be made to a Participant by a notice of Grant setting out, among other things, the terms and conditions of such Grant. Any Grant to any Director, chief executive or substantial shareholder of the Group must first be approved by the independent non-executive Directors of the Company. If a Participant accepts the Grant, he/she is required to sign the acceptance notice and return it to the Company within the period specified and in a manner prescribed in the notice of Grant. Each Participant shall pay RMB1.00 as the award price to accept the Awards granted to such Participant.

(d) Term

The 2022 RSU Scheme shall remain valid and effective until the termination date, which shall be on the earlier of (i) the expiry of the period of 10 years from 22 August 2022; or (ii) such date of early termination as determined by the Board or Committee provided that no further RSUs will be offered after such termination but in all other respects the provisions of the 2022 RSU Scheme shall remain in full force and effect in respect of RSUs which are granted during the life of the 2022 RSU Scheme and which remain unvested immediately prior to the termination of the operation of the 2022 RSU Scheme. As of 31 December 2023, the remaining life of the scheme is 8.64 years.

(e) Vesting

Subject to compliance with the requirements of the Listing Rules, the Committee has the sole discretion to determine, adjust and re-determine if deemed necessary or desirable by the Committee, the vesting period and vesting conditions for any grant of Award(s) to a Participant who accepts a Grant (the “Grantee”) in accordance with the terms of the 2022 RSU Scheme. All of such vesting conditions (including payment of any exercise price) and periods (including the vesting date) shall be set out in the relevant notice of Grant issued to each Grantee. The Committee may determine at its sole discretion, the exercise price as may be applicable to each RSU.

For the purposes of vesting of the RSU(s), the Committee may direct and procure the trustee (the “Trustee”) of the 2022 RSU Scheme to release from the underlying trust (the “Trust”) of the 2022 RSU Scheme the RSU(s) to the Grantee by transferring the number of the RSUs to the Grantee in such manner as determined by it from time to time, subject to the restrictions disclosed below. The Committee will send a vesting notice to the relevant Grantee and upon receiving such notice, the Grantee must execute certain documents set out in such notice for the purposes of vesting of the RSU(s). The Committee shall thereafter inform the Trustee of the number of the RSU(s) or the amount of cash equivalent being transferred, paid and/or released to the Grantee in the manner as determined by the Committee.

An unvested RSU shall lapse and be cancelled automatically upon certain events, including the termination of the Grantee’s employment or service with the Company. The Committee may in its absolute discretion decide that any RSU shall not be cancelled or determined subject to such conditions or limitations as the Committee may decide. In certain circumstances such as when the Grantee’s employment or services with the Group is terminated for cause, the Company shall have a right to instruct the Trustee to repurchase the Shares from the Grantee at the higher of (1) the par value of the Shares on the date the RSUs were granted; and (2) the exercise price (if any) paid by the Grantee for vesting of the relevant RSUs.

REPORT OF DIRECTORS

(f) *Restriction on Grant of Awards*

A Grant must not be made after inside information has come to the Company's knowledge until such inside information has been announced in accordance with the requirements of the Listing Rules. In particular, no Award may be granted during the period commencing one month immediately preceding the earlier of:

- (a) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (b) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement. Such period will cover any period of delay in the publication of a results announcement.

Where any Award is proposed to be granted to a Director of any members of the Group, it shall not be granted on any day on which the financial results of the Company are published and during the period of:

- (a) sixty (60) days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (b) thirty (30) days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

In the course of administering the 2022 RSU Scheme, the Committee will also comply with the applicable provisions of the Model Code and applicable rules on insider dealing. The Committee who is in possession of unpublished inside information shall not give instructions to the Trustee to acquire any Shares for the Scheme.

(g) *Maximum Limit*

The aggregate amount of existing Shares to be purchased by the Trustee under the Scheme shall not exceed 5% of the Company's total issued share capital as of 22 August 2022 (being no more than 30,000,000 Shares). The Shares acquired for the share pool will be funded out of the Company's resources. The maximum number of Shares which may be subject to an Award or Awards to a selected Participant shall not in aggregate exceed 1% of the total issued share capital of the Company as of 22 August 2022.

At no time shall the Trustee be holding more than 10% of the total number of Shares in issue from time to time. The Shares held by the Trustee will be regarded as public float unless the Trustee becomes a core connected person of the Company or would otherwise cease to be regarded as member of the public under the Listing Rules.

As of 31 December 2023, no RSUs had been granted under the 2022 RSU Scheme.

REPORT OF DIRECTORS

2023 RSU Scheme

The Company has adopted the 2023 RSU Scheme by a board resolution on 9 May 2023. The following is a summary of the principal terms of the 2023 RSU Scheme. Defined terms herein is only applicable to this “2023 RSU Scheme” section of this annual report.

(a) Purpose of the 2023 RSU Scheme

The purposes of the 2023 RSU Scheme are to recognize and motivate the contributions made by employees of any Acquired Entity and give incentives thereto in order to retain them, as well as to attract suitable personnel that promotes the growth of any Acquired Entity. “Acquired Entity” refers to any entity or hospital to be acquired by the Group since the adoption of the 2023 RSU Scheme until the expiry of term of the 2023 RSU Scheme.

(b) Participants

Participants of the 2023 RSU Scheme includes employees or prospective employees of any Acquired Entity (who receives Grant as an inducement to join the Acquired Entity) (collectively, the “Participant(s)”).

(c) Awards

The 2023 RSU Scheme is subject to the administration of the 2023 ESOP scheme management committee (the “Committee”) as appointed by the Board. The Committee may at any time during the term of the 2023 RSU Scheme make an offer of the grant (the “Grant(s)”) of an award (the “Award(s)”) of conditional rights to either Shares or equivalent value of cash (the “RSU(s)”) to any selected Participant at its absolute discretion. A Grant shall be made to a Participant by a notice of Grant setting out, among other things, the terms and conditions of such Grant. Any Grant to any Director, chief executive or substantial shareholder of the Group must first be approved by the independent non-executive Directors of the Company. If a Participant accepts the Grant, he/she is required to sign the acceptance notice and return it to the Company within the period specified and in a manner prescribed in the notice of Grant. Each Participant shall pay RMB1.00 as the award price to accept the Awards granted to such Participant.

(d) Term

The 2023 RSU Scheme shall remain valid and effective until the termination date, which shall be on the earlier of (i) the expiry of the period of 10 years from 9 May 2023; or (ii) such date of early termination as determined by the Board or Committee provided that no further RSUs will be offered after such termination but in all other respects the provisions of the 2023 RSU Scheme shall remain in full force and effect in respect of RSUs which are granted during the life of the 2023 RSU Scheme and which remain unvested immediately prior to the termination of the operation of the 2023 RSU Scheme. As of 31 December 2023, the remaining life of the scheme is 9.35 years.

(e) Vesting

Subject to compliance with the requirements of the Listing Rules, the Committee has the sole discretion to determine, adjust and re-determine if deemed necessary or desirable by the Committee, the vesting period and vesting conditions for any grant of Award(s) to a Participant who accepts a Grant (the “Grantee”) in accordance with the terms of the 2023 RSU Scheme. All of such vesting conditions (including payment of any exercise price) and periods (including the vesting date) shall be set out in the relevant notice of Grant issued to each Grantee. The Committee may determine at its sole discretion, the exercise price as may be applicable to each RSU.

REPORT OF DIRECTORS

For the purposes of vesting of the RSU(s), the Committee may direct and procure the trustee (the “Trustee”) of the 2023 RSU Scheme to release from the underlying trust (the “Trust”) of the 2023 RSU Scheme the RSU(s) to the Grantee by transferring the number of the RSUs to the Grantee in such manner as determined by it from time to time, subject to the restrictions disclosed below. The Committee will send a vesting notice to the relevant Grantee and upon receiving such notice, the Grantee must execute certain documents set out in such notice for the purposes of vesting of the RSU(s). The Committee shall thereafter inform the Trustee of the number of the RSU(s) or the amount of cash equivalent being transferred, paid and/or released to the Grantee in the manner as determined by the Committee.

An unvested RSU shall lapse and be cancelled automatically upon certain events, including the termination of the Grantee’s employment or service with the Company. The Committee may in its absolute discretion decide that any RSU shall not be cancelled or determined subject to such conditions or limitations as the Committee may decide. In certain circumstances such as when the Grantee’s employment or services with the Group is terminated for cause, the Company shall have a right to instruct the Trustee to repurchase the Shares from the Grantee at the higher of (1) the par value of the Shares on the date the RSUs were granted; and (2) the exercise price (if any) paid by the Grantee for vesting of the relevant RSUs.

(f) Restriction on Grant of Awards

A Grant must not be made after inside information has come to the Company’s knowledge until such inside information has been announced in accordance with the requirements of the Listing Rules. In particular, no Award may be granted during the period commencing one month immediately preceding the earlier of:

- (a) the date of the meeting of the Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (b) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement. Such period will cover any period of delay in the publication of a results announcement.

Where any Award is proposed to be granted to a Director of any members of the Group, it shall not be granted on any day on which the financial results of the Company are published and during the period of:

- (a) sixty (60) days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (b) thirty (30) days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

In the course of administering the 2023 RSU Scheme, the Committee will also comply with the applicable provisions of the Model Code and applicable rules on insider dealing. The Committee who is in possession of unpublished inside information shall not give instructions to the Trustee to acquire any Shares for the Scheme.

REPORT OF DIRECTORS

(g) *Maximum Limit*

The aggregate amount of existing Shares to be purchased by the Trustee under the Scheme shall not exceed 5% of the Company's total issued share capital as of 9 May 2023 (being no more than 30,000,000 Shares). The Shares acquired for the share pool will be funded out of the Company's resources. The maximum number of Shares which may be subject to an Award or Awards to a selected Participant shall not in aggregate exceed 1% of the total issued share capital of the Company as of 9 May 2023.

At no time shall the Trustee be holding more than 10% of the total number of Shares in issue from time to time. The Shares held by the Trustee will be regarded as public float unless the Trustee becomes a core connected person of the Company or would otherwise cease to be regarded as member of the public under the Listing Rules.

As of 31 December 2023, no RSUs had been granted under the 2023 RSU Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As of the year ended 31 December 2023, 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 CONTRACTS 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 2023.

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 2023.

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 2023.

BOARD COMMITTEES

Audit Committee

The Company established the Audit Committee in accordance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix C1 to the Listing Rules (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.

REPORT OF DIRECTORS

As at 31 December 2023 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 2023 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 3.27A 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 2023 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 C3 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 2023.

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.

REPORT OF DIRECTORS

During the year ended 31 December 2023, 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 2023 (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 OF 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, 14 June 2024. Share-holders 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, 11 June 2024 to Friday, 14 June 2024, 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 Sunday, 9 June 2024 (Hong Kong time), being the last registration date.

CODE ON CORPORATE GOVERNANCE PRACTICES

The full text of the corporate governance report is set out on pages 40 to 49 of this annual report.

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

During the year ended 31 December 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

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.

REPORT OF DIRECTORS

RELATED PARTY TRANSACTIONS

The Group has no non-exempt continuing connected transactions for the year ended 31 December 2023. Details of related party transactions of the Group undertaken in the ordinary course of business are set out in Note 33 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 2023 is PricewaterhouseCoopers. The total fees for the Company's external auditor are RMB2.06 million, including audit related services fees RMB1.95 million and non-audit services fees RMB0.11 million.

By Order of the Board,

Mr. Qin Yan

Chairman

Hong Kong, 28 March 2024

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 36, 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 58, 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 45, 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 38, 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 71, 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.

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

DIRECTORS AND SENIOR MANAGEMENT

Mr. Sun Jigang (孫冀剛), aged 56, 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.

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

Mr. Jiang Tianfan (江天帆), aged 43, 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 55, 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 54, 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 37, 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 19 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 Chartered Governance Institute (formerly known as 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.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE CULTURE AND/PURPOSE/VALUE/STRATEGY

The Company is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, the Company believes that Shareholder wealth will be maximised in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

- satisfactory and sustainable returns to Shareholders;
- that the interests of those who deal with the Company are safeguarded;
- that overall business risk is understood and managed appropriately;
- the delivery of high-quality products and services to the satisfaction of customers; and
- that high standards of ethics are maintained.

CORPORATE GOVERNANCE PRACTICES

The Company confirms that it has complied with all code provisions of the CG Code for the year ended 31 December 2023, save and except for the provision addressed below.

Code provision C.2.1 of Part 2 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 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.

CORPORATE GOVERNANCE REPORT

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 C3 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 2023. The Company confirmed that there was no incident of non-compliance of the Model Code by any Directors during the year ended 31 December 2023.

BOARD OF DIRECTORS

The Directors are accountable to all Shareholders for their leadership and supervision over the Group's operation and are confirmed 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, the joint company secretary.

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 36 to 39 of this annual report.

Independent Non-executive Directors

During the year ended 31 December 2023, 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-third 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.

CORPORATE GOVERNANCE REPORT

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 has renewed their service contract or letter of appointment in June 2023 for a term of 3 years, 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.

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 coordinating the daily operation and management of the Company are delegated to the management.

Board Diversity and Workforce Diversity

The Company has adopted a board diversity policy (the "Board Diversity Policy") pursuant to which the Company aims to build and maintain a Board with a diversity of Directors. The Nomination Committee will review at least annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy. In relation to reviewing and assessing the Board composition, the Nomination Committee will consider a number of aspects, including but not limited to skills, professional experience, educational background, knowledge, expertise, culture, independence, age and gender.

As at the date of this annual report, our Board consists of seven male members and no female members with two Directors of age 31 to 40 years old, two Directors of age 41 to 50 years old, two Directors of age 51 to 60 years old and one Director of age 71 years old. The Company has reviewed the membership, structure and composition of the Board, and is of the opinion that the structure of the Board is reasonable, and the experiences and skills of the Directors in various aspects and fields can enable the Company to maintain a high standard of operation. The Company will appoint a female Director no later than 31 December 2024.

CORPORATE GOVERNANCE REPORT

The total gender diversity of the Group is balanced at 67.5%, representing 1,329 female out of 1,969 employees (including senior management) as at 31 December 2023. To support diversity across all facets, the Group is enhancing diversity and inclusion efforts through employee networks, mentoring programmes, equitable hiring practices, policies and awareness raising events and training for all employees to support inclusive behaviors.

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 is 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 2023 are summarized as follows:

Directors	Type of Training <small>Note</small>
<i>Executive Directors</i>	
Mr. Qin Yan (秦岩) (President and Chairman)	A
Dr. Teng Qingxiao (滕清曉)	B
Mr. Wang Zhongtao (王忠濤)	A
<i>Non-Executive Director</i>	
Mr. Qin Hongchao (秦紅超)	B
<i>Independent Non-Executive Directors</i>	
Mr. Zhao Chun (趙淳)	B
Mr. Sun Jigang (孫冀剛)	A
Mr. Jiang Tianfan (江天帆)	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 C.5.1 of Part 2 of the CG Code, regular Board meetings should be held at least four times a year at approximately quarterly intervals. During the year ended 31 December 2023, four Board meetings were held, two of which were to approve the Company's annual report for the year ended 31 December 2022 and interim report for the six months ended 30 June 2023 respectively, and one annual general meeting on 16 June 2023.

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)	Attendance at 2023 AGM
<i>Executive Directors</i>		
Mr. Qin Yan (秦岩) (President and Chairman)	4/4	✓
Dr. Teng Qingxiao (滕清曉)	4/4	✓
Mr. Wang Zhongtao (王忠濤)	4/4	✓
<i>Non-executive Director</i>		
Mr. Qin Hongchao (秦紅超)	4/4	✓
<i>Independent Non-executive Directors</i>		
Mr. Zhao Chun (趙淳)	4/4	✓
Mr. Sun Jigang (孫冀剛)	4/4	✓
Mr. Jiang Tianfan (江天帆)	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 three meetings to review, in respect of the year ended 31 December 2023, 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. Zhao Chun (Chairman)	3/3
Mr. Sun Jigang	3/3
Mr. Jiang Tianfan	3/3

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.

CORPORATE GOVERNANCE REPORT

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 has adopted the second model described in code provision E.1.2(c) of Part 2 of the CG Code.

The Remuneration Committee held one 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.

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

Name of Members of the Remuneration Committee	Attendance
Mr. Jiang Tianfan (<i>Chairman</i>)	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, more details of which are set out in "Board Diversity and Workforce Diversity" on page 42 of this annual report. 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. Prior to appointments of individuals for directorship by the Board, the Nomination Committee evaluates the balance of skills, knowledge and experience on the Board, and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Nomination Committee considers candidates from a wide range of backgrounds, and assess whether the individual would be able to devote sufficient time to the Board, the perspectives, skills and experience the proposed individual can bring to the Board, and how the proposed individual contributes to the diversity of the Board.

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.

CORPORATE GOVERNANCE REPORT

The Nomination Committee held one meeting to review the structure, size and composition of the Board and the independence of the independence 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 (<i>Chairman</i>)	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 2023, the Board has performed the functions set out in the code provision A.2 of Part 2 of the CG Code.

During the year, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

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 2023, 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 2023, 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.

CORPORATE GOVERNANCE REPORT

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 STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2023, which give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended.

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'S REMUNERATION

The auditor of the Company for the financial year under audit is PricewaterhouseCoopers. During the year ended 31 December 2023, remuneration of audit related services provided by the auditor of the Company to the Group was approximately RMB1.95 million and for non-audit services was RMB0.11 million.

The Audit Committee is responsible for making recommendations to the Board as to the appointment, reappointment 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 50 to 54 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 36 to 39 of this annual report, for the year ended 31 December 2023 are set out below:

Remuneration band (RMB'000)	Number of individuals
Nil to 200	4
201 to 400	3
401 to 600	1
Above 601	2

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 Yin Shan has been appointed as a joint company secretary. The Company's primary contact person is Ms. Wang Xiaoyang.

For the year ended 31 December 2023, 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.

CORPORATE GOVERNANCE REPORT

CONSTITUTIONAL DOCUMENTS

The Memorandum and Articles of Association of the Company were amended and restated with effect from 16 June 2023.

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

SHAREHOLDERS' RIGHTS

To safeguard shareholder 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 one 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 to be held within a further 21 days, 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.

COMMUNICATIONS WITH SHAREHOLDERS

The Company has established a shareholders' communication policy and continuously attaches great importance to maintaining and developing investor relations for a long time, enhances transparency of the corporate information by promptly and effectively releasing the corporate information to the public, which has established effective channels for the Company to communicate with investors.

The Board welcomes Shareholders' views and encourages them to attend general meetings to convey any concerns they might have to the Board or the management. The Chairman of the Board and the chairmen of all committees (or their proxies) will attend the annual general meeting and other general meetings. At the general meetings, all Shareholders attending the meetings may make enquiries to the Directors and other management in respect of matters relevant to the resolutions. The Company has published detailed contact methods through its website, notices of the general meeting, circulars to the Shareholders and annual reports for Shareholders to express their views or make enquiries.

The Board has reviewed the implementation of the shareholders' communication policy of the Company. Taking into account the variety of existing channels for communication and participation, the Company is of the view that its shareholders' communication policy was effective during the year ended 31 December 2023.

The procedures for shareholders to convene and put forward proposals at an AGM or EGM (including election of a person other than a Director of the Company as a director) are available on the Company's website or on request to Ms. Wang Xiaoyang.

CORPORATE GOVERNANCE REPORT

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, proposals 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"), which are set out on pages 55 to 115, comprise:

- the consolidated balance sheet as at 31 December 2023;
- 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, comprising material accounting policy information and other explanatory information.

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 2023, 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 ("HKSA") 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.

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

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Expected credit losses assessment of trade receivables</p> <p>Refer to note 3.1.2, note 4 (a) and note 20 to the consolidated financial statements.</p> <p>As at 31 December 2023, the net carrying amount of the Group's trade receivables amounted to RMB31.6 million, among which, a loss allowance of RMB22.0 million was recognised as at the same date.</p> <p>The Group applies the simplified approach under HKFRS 9 to measure expected credit losses, which requires expected lifetime losses to be recognised from initial recognition of the trade receivables.</p> <p>Loss allowance of trade receivables reflected management's best estimate on the expected credit losses. The estimates require significant management judgments in making assumptions about the expected credit loss rates based on historical credit records and external credit rating information of customers and adjusted by forward-looking adjustment factors taking into consideration of macroeconomic parameters. 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 probabilities of default based on expected changes in these factors.</p>	<p>Our procedures in relation to management's assessment on the expected credit losses of trade receivables include:</p> <p>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 factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud.</p> <p>We evaluated and tested the key controls over management's expected credit losses assessment of trade receivables.</p> <p>We evaluated the outcome of prior period assessment of expected credit losses of trade receivables to assess the effectiveness of management's estimation process.</p> <p>With the support of internal experts, we assessed the reasonableness of assumptions used and judgments made by management by (1) analysing the historical payment pattern, actual credit losses of customers and the external credit rating information, (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 credit risk characteristics of respective customer, and (3) evaluating the reasonableness of management's forward-looking adjustment factors by comparing with the relevant macroeconomic parameters and comparable industry information.</p> <p>We tested the aging of trade receivables, on a sample basis, by checking to underlying accounting records and supporting documents.</p>

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

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.

How our audit addressed the Key Audit Matter

We checked the accuracy, on a sample basis, of the key data inputs including trade receivables balances as at 31 December 2023 by requesting external 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 note 3.1.2, note 4 (a) 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 evidences 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.

INDEPENDENT AUDITOR'S REPORT

- 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 NG Tsun.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2024

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Revenue	6	760,527	727,789
Cost of sales	7	(615,683)	(589,394)
Gross profit		144,844	138,395
Administrative expenses	7	(72,393)	(73,345)
Net impairment losses on financial assets	3.1.2	(15,294)	(1,963)
Other income		644	617
Other expenses		(159)	(196)
Other losses — net		(197)	(1,947)
Operating profit		57,445	61,561
Finance income		1,625	10,812
Finance costs		(7,648)	(9,352)
Finance (costs)/income — net	9	(6,023)	1,460
Profit before income tax		51,422	63,021
Income tax expense	10	(12,724)	(13,678)
Profit for the year		38,698	49,343
Other comprehensive income		—	—
Total comprehensive income		38,698	49,343
Profit and total comprehensive income attributable to:			
Owners of the Company		38,310	48,947
Non-controlling interests		388	396
		38,698	49,343
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	0.07	0.08

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

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December	
		2023	2022
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	534,487	507,754
Right-of-use assets	13(a)	78,469	79,098
Investment properties	14	1,688	2,678
Intangible assets	15	430	648
Deferred income tax assets	16	7,599	6,878
Prepayments	21	10,306	4,690
Total non-current assets		632,979	601,746
Current assets			
Inventories	19	31,851	29,500
Trade receivables	20	31,645	47,358
Other receivables and prepayments	21	2,126	1,196
Amounts due from related parties	33(e)	353	–
Restricted deposits	22	30,000	–
Cash and cash equivalents	23	239,755	255,238
Total current assets		335,730	333,292
Total assets		968,709	935,038
EQUITY			
Equity attributable to the owners of the Company			
Share capital	24	52	52
Reserves	25	339,921	382,004
Retained earnings		201,881	167,410
Subtotal		541,854	549,466
Non-controlling interests		5,593	5,205
Total equity		547,447	554,671

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December	
		2023	2022
		RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	29	22,503	–
Lease liabilities	13(b)	1,433	983
Deferred income		1,861	1,928
Total non-current liabilities		25,797	2,911
Current liabilities			
Trade and notes payables	27	124,461	101,907
Accruals, other payables and provisions	28	99,802	122,335
Current income tax liabilities		14,375	11,074
Borrowings	29	154,027	141,000
Lease liabilities	13(b)	2,800	1,140
Total current liabilities		395,465	377,456
Total liabilities		421,262	380,367
Total equity and liabilities		968,709	935,038

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 55 to 115 were approved by the Board of Directors on 28 March 2024 and were signed on its behalf.

Qin Yan

Wang Zhongtao

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the owners of the Company					Non-controlling interests	Total equity
	Note	Share Capital	Reserves	Retained earnings	Sub-total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2022		52	439,389	122,385	561,826	4,809	566,635
Comprehensive income							
— Profit for the year		—	—	48,947	48,947	396	49,343
Transactions with owners							
— Appropriation to statutory surplus reserves	25(a)	—	3,922	(3,922)	—	—	—
— Acquisition of shares for the Employee Share Scheme	25(b)	—	(61,307)	—	(61,307)	—	(61,307)
Balance at 31 December 2022		52	382,004	167,410	549,466	5,205	554,671
Balance at 1 January 2023		52	382,004	167,410	549,466	5,205	554,671
Comprehensive income							
— Profit for the year		—	—	38,310	38,310	388	38,698
Transactions with owners							
— Appropriation to statutory surplus reserves	25(a)	—	3,839	(3,839)	—	—	—
— Acquisition of shares for the Employee Share Scheme	25(b)	—	(45,922)	—	(45,922)	—	(45,922)
Balance at 31 December 2023		52	339,921	201,881	541,854	5,593	547,447

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Cash flows from operating activities			
Cash generated from operations	30(a)	101,703	133,008
Income taxes paid		(10,144)	(14,536)
Net cash generated from operating activities		91,559	118,472
Cash flows from investing activities			
Payments for purchase of property, plant and equipment		(89,253)	(18,912)
Payments for purchase of intangible assets		(298)	(896)
Interest received		789	647
Net cash used in investing activities		(88,762)	(19,161)
Cash flows from financing activities			
Borrowings from banks and other financial institutions		182,982	164,000
Repayments of borrowings from banks and other financial institutions		(147,452)	(210,000)
Acquisition of shares for the Employee Share Scheme		(45,922)	(61,307)
Principal elements of lease payments		(1,076)	(1,189)
Interest paid		(7,648)	(9,352)
Net cash used in financing activities		(19,116)	(117,848)
Net decrease in cash and cash equivalents		(16,319)	(18,537)
Cash and cash equivalents at beginning of year		255,238	263,610
Effects of exchange rate changes on cash and cash equivalents		836	10,165
Cash and cash equivalents at end of year	23	239,755	255,238

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

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 Act, Cap.22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Campbells Corporate Services Limited, Floor 4, Willow House, Cricket Square, Grand Cayman KY1-9010, Cayman Islands.

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

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

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

2 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

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”) as issued by the Hong Kong Institute of Certified Public Accountants and requirements of the Hong Kong Companies Ordinance Cap. 622.

HKFRS comprise the following authoritative literature:

- Hong Kong Financial Reporting Standards
- Hong Kong Accounting Standards
- Interpretations developed by the Hong Kong Institute of Certified Public Accountants.

2.1.2 Historical cost convention

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

2.1.3 New and amended standards adopted by the Group

The group has applied the following new and amended standards for its annual reporting period commencing 1 January 2023:

- | | |
|---|--|
| • Amendments to HKFRS 17 | Insurance Contracts |
| • Amendments to HKAS 8 | Definition of Accounting Estimates |
| • Amendments to HKAS 12 | International Tax Reform — Pillar Two Model Rules |
| • Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction |
| • Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.4 New standards and interpretations not yet adopted

		Effective for annual periods beginning on or after
<ul style="list-style-type: none"> • Amendments to HKAS 1 	<ul style="list-style-type: none"> • Classification of Liabilities as Current or Non-current 	1 January 2024
<ul style="list-style-type: none"> • Amendments to HKFRS 16 	<ul style="list-style-type: none"> • Non-current Liabilities with Covenants 	1 January 2024
<ul style="list-style-type: none"> • Amendments to HKAS 7 and HKFRS 7 	<ul style="list-style-type: none"> Lease Liability in a Sale and Leaseback 	1 January 2024
<ul style="list-style-type: none"> • HK Int 5 (Revised) 	<ul style="list-style-type: none"> Supplier finance arrangements 	1 January 2024
<ul style="list-style-type: none"> • HK Int 5 (Revised) 	<ul style="list-style-type: none"> Hong Kong Interpretation 5 (Revised) 	1 January 2024
<ul style="list-style-type: none"> • Amendments to HKAS 21 	<ul style="list-style-type: none"> Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause 	1 January 2025
<ul style="list-style-type: none"> • Amendments to HKFRS 10 and HKAS 28 	<ul style="list-style-type: none"> Lack of Exchangeability 	To be determined
<ul style="list-style-type: none"> • Amendments to HKFRS 10 and HKAS 28 	<ul style="list-style-type: none"> Sale or Contribution of Assets between an Investor and its Associate or Joint Venture 	To be determined

Certain amendments to accounting standards and interpretation have been published that are not mandatory for 31 December 2023 reporting periods and have not been early adopted by the Group. These amendments 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 2023, the Group's current liabilities exceeded its current assets by RMB59,735,000. The Group had cash and cash equivalents of RMB239,755,000 as at 31 December 2023.

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. Subsequent to 2023 year end date, Henan Honliv Hospital Co., Ltd. ("Honliv Hospital"), a subsidiary of the Group, had renewed RMB29 million bank borrowings upon maturity as of the date of this report; and
- On 5 March 2024, Honliv Hospital further obtained an additional loan facility of RMB60 million from one of its existing banks. Application of one-year loan drawdowns can be made under this facility until 5 March 2025 subject to the approval and conditions imposed by the bank. As at the reporting date, the Group has not utilized this additional loan facility.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

2.1.5 Going concern *(Continued)*

Management has prepared cash flow projections of the Group covering a period of not less than twelve months from 31 December 2023. 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 2023.

The directors have reviewed the Group's cash flow projections 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 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 2023, the Group's assets and liabilities are primarily denominated in RMB, except for certain cash and cash equivalents denominated in USD or HKD (note 23).

The Group is primarily exposed to change in RMB/HKD exchange rate. As at 31 December 2023, 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 approximately RMB175,000 (2022: RMB1,959,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD denominated cash and cash equivalents at banks or financial institutions.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.1 Market risk *(Continued)*

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from short-term borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. 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 2023, the Group's interest-bearing borrowings at variable rates was RMB79,000,000 (2022: RMB56,000,000) (note 29(b)).

For the year ended 31 December 2023, 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 RMB593,000 (2022: RMB420,000), mainly as a result of higher/lower interest expense on floating rate borrowings.

3.1.2 Credit risk

Credit risk mainly arises from cash and cash equivalents 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 amounts of each financial asset in the consolidated balance sheet.

(i) Risk management

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

The Group, being a provider of healthcare services to customers, has a highly diversified customer base, without any single customer contributing material revenue. However, the Group has concentrated debtors' portfolio, as majority customers will claim their medical bills from governments' social insurance schemes. The reimbursement from these organisations mainly take within one year. The Group has policies in place to ensure the treatments and medicines prescribed and provided to such insured customers are in line with respective organisations' policies, provided those treatments and medicines fulfilling all ethics and moral responsibilities as healthcare provider. The Group also has controls to closely monitor the organisations' reimbursements schedule to minimize the credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

3.1.2 Credit risk (Continued)

(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
- trade receivables, and
- other financial assets at amortised cost.

Cash and cash equivalents

While cash and cash equivalents 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 probabilities of default based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2023 and 2022 was determined as follows for trade receivables:

31 December 2023	Lifetime expected credit loss rate	Gross carrying amount <i>RMB'000</i>	Lifetime expected credit loss <i>RMB'000</i>	Net carrying Amount <i>RMB'000</i>
Provision on individual basis	100.00%	22,003	(22,003)	–
Provision on collective basis	0.09%	31,673	(28)	31,645
		53,676	(22,031)	31,645

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)**3.1 Financial risk factors** (Continued)**3.1.2 Credit risk** (Continued)(ii) *Impairment of financial assets* (Continued)*Trade receivables* (Continued)

31 December 2022	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%	6,412	(6,412)	–
Provision on collective basis	0.68%	47,683	(325)	47,358
		54,095	(6,737)	47,358

The closing loss allowances for trade receivables as at 31 December 2023 and 2022 as follows:

	As at 31 December 2023 RMB'000	2022 RMB'000
Opening loss allowance as at 1 January	(6,737)	(4,774)
Increase in loss allowance recognised in the consolidated statement of comprehensive income during the year	(15,294)	(1,963)
	(22,031)	(6,737)

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.

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 mainly 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

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 and lease 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 2023					
Borrowings	158,160	18,378	5,638	182,176	176,530
Trade and notes payables (note 27)	124,461	–	–	124,461	124,461
Accruals, other payables and provision (excluding accrued employee benefits and duty and other tax payable) (note 28)	71,511	–	–	71,511	71,511
Lease liabilities	2,933	1,466	–	4,399	4,233
	357,065	19,844	5,638	382,547	376,735
At 31 December 2022					
Borrowings	142,800	–	–	142,800	141,000
Trade payables (note 27)	101,907	–	–	101,907	101,907
Accruals, other payables and provision (excluding accrued employee benefits and duty and other tax payable) (note 28)	89,425	–	–	89,425	89,425
Lease liabilities	1,272	692	346	2,310	2,123
	335,404	692	346	336,442	334,455

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital 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.

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 2023 and 2022 was as follows:

	As at 31 December	
	2023	2022
The liability-to-asset ratio	43.49%	40.68%

3.3 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet where the Group currently has 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.

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) Impairment of trade receivables

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses accounting estimates and judgements in making these assumptions and selecting the inputs to the impairment calculation, based on the Group'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Useful lives of property, plant and equipment

The estimate of useful lives of property, plant and equipment is 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 the 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.

(c) Estimation of variable consideration

The estimation of variable consideration made by the management is the most likely amount that the Group will be entitled from medical service, and which is the best estimation based on all reasonably available information (historical, current and forecast). The Group includes the portion of variable consideration that will not result in a significant revenue reversal in the transaction price when the uncertainty associated with the variable consideration is subsequently resolved. At the end of each reporting period, the Group reevaluates the estimation of variable consideration by reference to the changes in circumstances during the reporting period and reflects changes. Management exercises judgement when interpreting the relevant policies or regulations to apply the variable consideration constraints.

5 SEGMENT INFORMATION

The Group has only one operating segment for the year ended 31 December 2023 and 2022, so no segment information was presented.

6 REVENUE

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Nature of revenue recognition		
Treatments and general healthcare services	465,598	463,225
Pharmaceutical sales	294,929	264,564
	760,527	727,789
Timing of revenue recognition		
At a point in time	512,954	509,102
Over time	247,573	218,687
	760,527	727,789

During the year ended 31 December 2023, the Group performed a reassessment on the estimation of revenue in relation to variable consideration. As of 31 December 2023, The Group recognised the net amount of deduction of approximately RMB7,851,000 (2022: RMB20,852,000) as a reduction of revenue on a cumulative basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 REVENUE *(Continued)*

(i) Accounting policies of revenue recognition

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

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.

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.

Treatments and General healthcare service

Revenue from provision of treatments and general hospital services is recognised when related services have been rendered to customers. Majority customers of the Group has entered into governments' social insurance schemes which are run by government organisations. The Group claims the consideration in relation to treatments and general healthcare services provided by the Group with relevant government organisations. The subsequent agreement on the government approved annual quota for the medical fees to be recovered from the relevant government's social insurance scheme has been treated as changes in variable considerations. The Group estimates the variable considerations based on the most likely amount, which is based on historical practice and all reasonably available information and adjusts to the actual amount for the satisfied medical services in the period when the annual quota is agreed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 REVENUE *(Continued)*

(i) Accounting policies of revenue recognition *(Continued)*

Treatments and General healthcare service (Continued)

(a) *Outpatient services*

For outpatient services, the customers mainly receive consultation services. For provision of consultation services for which the control of services is transferred at a point in time, revenue is recognised when the customers obtain the control of the completed services and the Group has satisfied its performance obligations with present right to payment and the collection of the consideration is probable.

(b) *Inpatient services*

For inpatient services, the customers mainly receive the inpatient healthcare services. The corresponding revenue is recognised over the services period when customers simultaneously receive the services and consume the benefits provided by the Group to the customers.

The Group usually receives the payment from governments' social insurance schemes 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 consolidated balance sheet within "Accruals, other payables and provisions".

Pharmaceutical Sales

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

7 EXPENSES BY NATURE

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of pharmaceuticals	246,246	227,320
Employee benefits expenses <i>(note 8)</i>	217,524	193,036
Cost of medical consumables	88,934	103,638
Depreciation and amortisation	60,077	54,559
Utilities, maintenance fee and office expenses	47,697	53,481
Auditor's remuneration		
— Audit related services	1,950	2,230
— Non-audit services	105	110
Impairment of property, plant and equipment	—	4,452
Other expenses	25,543	23,913
	688,076	662,739

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Wages and salaries	188,952	178,936
Contributions to pension plans (a)	13,247	6,867
Welfare and other expenses	15,325	7,233
	217,524	193,036

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of sales	187,047	167,078
Administrative expenses	30,477	25,958
	217,524	193,036

(a) Contributions to pension plans

The Group's companies incorporated in the PRC contribute based on certain percentage of the wages and 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 2023 and 2022 in connection with the defined contribution scheme. The Group did not have defined benefit plan for the years ended 31 December 2023 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 EMPLOYEE BENEFIT EXPENSES (Continued)**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group include one (2022: two) directors, whose emoluments are reflected in analysis presented in note 36. The emoluments payable to the remaining individuals were as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Basic salaries, other allowances and benefits in kind	3,769	2,447
Contribution to pension plans	11	–
	3,780	2,447

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	
	2023	2022
Emolument bands		
Nil to HK\$1,000,000	3	2
HK\$1,000,001 to HK\$1,500,000	1	1
	4	3

9 FINANCE (COSTS)/INCOME — NET

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Finance cost:		
Interest expense on bank borrowings	(6,201)	(9,169)
Interest expense on other borrowings	(1,290)	–
Interest expense on lease liabilities	(157)	(183)
Total finance costs	(7,648)	(9,352)
Finance income:		
Interest income	789	647
Net foreign exchange gains	836	10,165
Total finance income	1,625	10,812
Net finance (costs)/income	(6,023)	1,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 INCOME TAX EXPENSE

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Current income tax		
— the PRC corporate income tax	13,445	19,382
Deferred income tax	(721)	(5,704)
	12,724	13,678

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	
	2023	2022
	RMB'000	RMB'000
Profit before income tax	51,422	63,021
Calculated at a tax rate of 25%	12,856	15,755
Income not subject to tax	(226)	(2,511)
Expenses not tax deductible	167	355
Tax effect of tax losses not recognised as deferred income tax assets (<i>note 16</i>)	73	79
Additional tax deductible expense	(146)	—
Income tax expense	12,724	13,678

(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 2023 and 2022. 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 2023 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 INCOME TAX EXPENSE *(Continued)*

(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 2023, deferred income tax liabilities of RMB19,727,000 (2022: RMB16,284,000) 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 as at 31 December 2023 amounted to RMB197,266,000 (2022: RMB162,844,000).

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 outstanding ordinary shares in issue during the year. Treasury shares held for the Employee Share Scheme (note 25) are excluded from the weighted average number of outstanding ordinary shares in issue for purposes of calculating basic earnings per share.

	Year ended 31 December	
	2023	2022
Profit attributable to owners of the Company <i>(RMB'000)</i>	38,310	48,947
Weighted average number of ordinary shares deemed to be in issue <i>(in thousands)</i>	584,321	592,061
Basic earnings per share <i>(in RMB)</i>	0.07	0.08

(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 2023 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Office equipment and furniture fixtures <i>RMB'000</i>	Vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2022						
Cost	532,933	251,469	39,072	22,570	37,722	883,766
Accumulated depreciation	(126,144)	(163,600)	(32,474)	(21,201)	-	(343,419)
Net book amount	406,789	87,869	6,598	1,369	37,722	540,347
Year ended 31 December 2022						
Opening net book amount	406,789	87,869	6,598	1,369	37,722	540,347
Additions	-	13,033	845	227	7,943	22,048
Disposals	-	(16)	(3)	-	-	(19)
Transfer	38,659	1,250	-	-	(39,909)	-
Impairment charge	-	-	-	-	(4,452)	(4,452)
Depreciation charge	(26,623)	(20,885)	(2,394)	(268)	-	(50,170)
Closing net book amount	418,825	81,251	5,046	1,328	1,304	507,754
At 31 December 2022						
Cost	571,592	263,942	39,167	21,257	1,304	897,262
Accumulated depreciation	(152,767)	(182,691)	(34,121)	(19,929)	-	(389,508)
Net book amount	418,825	81,251	5,046	1,328	1,304	507,754
Year ended 31 December 2023						
Opening net book amount	418,825	81,251	5,046	1,328	1,304	507,754
Additions	-	58,327	7,887	170	15,282	81,666
Disposals	-	(14)	(3)	-	-	(17)
Transfers (a)	831	1,022	-	-	(1,022)	831
Depreciation charge	(28,930)	(23,874)	(2,672)	(271)	-	(55,747)
Closing net book amount	390,726	116,712	10,258	1,227	15,564	534,487
At 31 December 2023						
Cost	573,473	320,499	46,663	21,390	15,564	977,589
Accumulated depreciation	(182,747)	(203,787)	(36,405)	(20,163)	-	(443,102)
Net book amount	390,726	116,712	10,258	1,227	15,564	534,487

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) Part of investment properties of RMB831,000 has been changed to internal use since 1 June 2023. Accordingly, these properties have been reclassified as the Group's property, plant and equipment since then.

(b) Buildings pledged for the Group's bank borrowings are as follows (note 29):

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Cost	40,771	58,059
Accumulated depreciation	(22,043)	(4,214)
Net book amount	18,728	53,845

(c) Machinery and equipment pledged for the Group's other borrowings are as follows (note 29):

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Cost	67,220	—
Accumulated depreciation	(24,468)	—
Net book amount	42,752	—

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of sales	49,721	44,405
Administrative expenses	6,026	5,765
Total	55,747	50,170

(e) Depreciation methods and useful lives

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost, net of 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

See note 37.4 for the other accounting policies relevant to property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 LEASES

(a) Right-of-use assets

	Office RMB'000	Land use rights RMB'000	Total RMB'000
At 1 January 2022			
Cost	6,312	119,146	125,458
Accumulated depreciation and amortisation	(4,773)	(39,551)	(44,324)
Net book amount	1,539	79,595	81,134
Year ended 31 December 2022			
Opening net book amount	1,539	79,595	81,134
Additions	1,830	–	1,830
Depreciation and amortisation	(1,483)	(2,383)	(3,866)
Closing net book amount	1,886	77,212	79,098
At 31 December 2022			
Cost	3,338	119,146	122,484
Accumulated depreciation and amortisation	(1,452)	(41,934)	(43,386)
Net book amount	1,886	77,212	79,098
Year ended 31 December 2023			
Opening net book amount	1,886	77,212	79,098
Additions	3,185	–	3,185
Depreciation and amortisation	(1,431)	(2,383)	(3,814)
Closing net book amount	3,640	74,829	78,469
At 31 December 2023			
Cost	5,015	119,146	124,161
Accumulated depreciation and amortisation	(1,375)	(44,317)	(45,692)
Net book amount	3,640	74,829	78,469

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 LEASES (Continued)**(b) Lease liabilities**

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Lease liabilities		
Current	2,800	1,140
Non-current	1,433	983
Total	4,233	2,123

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Depreciation charge of right of use assets		
Office	1,431	1,483
Land use rights	2,383	2,383
Total	3,814	3,866
Interest expense (included in finance costs)	157	183
Expense relating to short-term leases (included in administrative expenses)	440	660
	597	843

The Group leases certain office premises from third parties. Rental contracts are typically made for one year to three years. The total cash outflow for leases was RMB1,673,000 for the year ended 31 December 2023 (2022: RMB2,032,000).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 LEASES *(Continued)*

(b) Lease liabilities *(Continued)*

(i) ***The group's leasing activities and how these are accounted for***

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.

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.

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 without a purchase option.

See note 37.20 for the other accounting policies relevant to leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 INVESTMENT PROPERTIES

	As at and for the year ended	
	31 December	
	2023	2022
	RMB'000	RMB'000
At beginning of the year		
Cost	5,878	5,878
Accumulated depreciation	(3,200)	(3,004)
Net book mount	2,678	2,874
For the year		
Opening net book amount	2,678	2,874
Transfers to property, plant and equipment	(831)	–
Depreciation charge	(159)	(196)
Closing net book amount	1,688	2,678
At end of the year		
Cost	5,047	5,878
Accumulated depreciation	(3,359)	(3,200)
Net book mount	1,688	2,678
Fair value at the end of year (a)	5,420	6,580

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 INVESTMENT PROPERTIES (Continued)

- (a) Investment properties pledged for the Group's bank borrowings are as follows (note 29):

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Cost	3,997	—
Accumulated depreciation	(2,309)	—
Net book amount	1,688	—

- (b) As at 31 December 2023, 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 is 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.
- (c) Rental income of the Group's investment properties of RMB336,000 for the year ended 31 December 2023 (2022: RMB419,000) was recognised as "other income" and depreciation of the Group's investment properties of RMB159,000 for the year ended 31 December 2023 (2022: RMB196,000) was recognised as "other expense" in the consolidated statement of comprehensive income.
- (d) Measuring investment property at cost model

Investment properties, principally comprising buildings, are held for long-term rental yields or for capital appreciation or both, and those 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 allocate the cost less accumulated impairment losses of the asset over its estimated useful life as follows:

— Buildings 30 years

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INTANGIBLE ASSETS

	Computer software RMB'000
At 1 January 2022	
Cost	3,249
Accumulated amortisation	(2,683)
<hr/>	
Net book amount	566
<hr/>	
Year ended 31 December 2022	
Opening net book amount	566
Additions	605
Amortisation	(523)
<hr/>	
Closing net book amount	648
<hr/>	
At 31 December 2022	
Cost	3,854
Accumulated amortisation	(3,206)
<hr/>	
Net book amount	648
<hr/>	
Year ended 31 December 2023	
Opening net book amount	648
Additions	298
Amortisation	(516)
<hr/>	
Closing net book amount	430
<hr/>	
At 31 December 2023	
Cost	4,152
Accumulated amortisation	(3,722)
<hr/>	
Net book amount	430
<hr/>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 INTANGIBLE ASSETS (Continued)

- (a) Amortisation charges were expensed in the following categories in the consolidated statement of comprehensive income:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of sales	425	510
Administrative expenses	91	13
Total	516	523

16 DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Deferred tax assets:		
— Deferred tax assets to be recovered within 12 months	8,151	6,897
— Deferred tax assets to be recovered after 12 months	358	—
	8,509	6,897
Deferred tax liabilities:		
— Deferred tax liabilities to be recovered within 12 months	(532)	(19)
— Deferred tax liabilities to be recovered after 12 months	(378)	—
	(910)	(19)

The gross movement on the deferred income tax is as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
At beginning of the year	6,878	1,174
Credited to income tax expense	721	5,704
At end of the year	7,599	6,878

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 DEFERRED INCOME TAX (Continued)

The movements in deferred income tax assets and deferred income tax liabilities during the year are as follows:

	Deferred tax assets — Provision for impairment loss <i>RMB'000</i>	Deferred tax assets — Revenue variable consideration <i>RMB'000</i>	Deferred tax assets — Leases liabilities <i>RMB'000</i>	Deferred tax liabilities — Right-of-use assets <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2022	1,174	–	–	–	1,174
Credited/(charged) to income tax expense	510	5,213	–	(19)	5,704
At 31 December 2022	1,684	5,213	–	(19)	6,878
At 1 January 2023	1,684	5,213	–	(19)	6,878
Credited/(charged) to income tax expense	3,824	(3,250)	1,038	(891)	721
At 31 December 2023	5,508	1,963	1,038	(910)	7,599

The expiry date of tax losses is as follows:

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2024	256	256
As at 31 December 2025	2,187	2,187
As at 31 December 2026	287	287
As at 31 December 2027	316	316
As at 31 December 2028	293	–
	3,339	3,046

The Group did not recognise deferred income tax assets of approximately RMB835,000 (2022: RMB814,000) in respect of tax losses amounting to approximately RMB3,339,000 (2022: RMB3,255,000) 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 2023 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	
				2023	2022	2023	2022
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	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	RMB150,000,000	100%	100%	-	-
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	RMB30,000,000	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 Honliv Maternal and Infant Care Co., Ltd. (河南宏力母嬰護理有限公司)	The PRC, limited liability company**	Maternal and infant nursing services in the PRC	RMB5,000,000	100%	-	-	-

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

** Registered as a Sino-Foreign joint enterprise under the PRC law.

(a) Significant restrictions

Cash and cash equivalents of RMB235,131,000 as at 31 December 2023 (2022: RMB205,436,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 FINANCIAL INSTRUMENTS BY CATEGORY

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Financial assets		
Financial assets at amortised cost		
Trade receivables (note 20)	31,645	47,358
Other receivables (excluding prepayments) (note 21)	372	162
Amounts due from related parties (note 33(e))	353	–
Restricted deposits (note 22)	30,000	–
Cash and cash equivalents (note 23)	239,755	255,238
	302,125	302,758
Financial liabilities		
Liabilities at amortised cost		
Borrowings (note 29)	176,530	141,000
Trade and notes payable (note 27)	124,461	101,907
Accruals, other payables and provisions (excluding accrued employee benefits and duty and other tax payable) (note 28)	71,511	89,425
Lease liabilities (note 13(b))	4,233	2,123
	376,735	334,455

The group's exposure to various risks associated with the financial instruments is discussed in note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

19 INVENTORIES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Pharmaceuticals	29,833	26,426
Medical consumables and others	2,018	3,074
	31,851	29,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 INVENTORIES *(Continued)*

(a) Assigning costs to inventories

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. Volume rebates or discounts are taken into account when estimating the cost of inventory if it is probable that they have been earned and will take effect. See note 37.8 for the group's other accounting policies for inventories.

(b) Amounts recognised in profit or loss

The cost of inventories recognised as expense and included in cost of sales amounted to RMB335,180,000 for the year ended 31 December 2023 (2022: RMB330,958,000).

20 TRADE RECEIVABLES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Trade receivables	53,676	54,095
Less: loss allowance for impairment of trade receivables (<i>note 3.1.2</i>)	(22,031)	(6,737)
Trade receivables — net	31,645	47,358

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 relevant government authorities' medical insurance schemes. Details of credit term are set out note 3.1.2.

As at 31 December 2023 and 2022, the ageing analysis of the trade receivables based on demand date was as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Up to 3 months	28,076	33,858
3 to 6 months	2,627	11,014
6 months to 1 year	868	3,492
1 to 2 years	17,484	1,071
2 to 3 years	–	1,632
Over 3 years	4,621	3,028
	53,676	54,095

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 TRADE RECEIVABLES *(Continued)*

(i) Classification as trade receivables

Trade receivables are mainly amounts due from customers and governments' medical insurance schemes for treatments and general healthcare services rendered and pharmaceutical sales in the ordinary course of business. They are generally due for settlement within 1 years and therefore all classified as current. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details of the group's impairment policies and the calculation of the loss allowance are provided in note 3.1.2.

(ii) 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. Note 3.1.2 provides for details about the calculation of the allowance.

The loss allowance increased by a further RMB15,294,000 to RMB22,031,000 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	
	2023	2022
	RMB'000	RMB'000
Current		
Other receivables	372	162
Prepayments of utilities expenses	1,754	1,034
	2,126	1,196
Non-current		
Prepayments for purchase of machinery	9,866	4,660
Prepayments for construction	440	30
	10,306	4,690
	12,432	5,886

Due to the short-term nature of 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 are classified as the financial assets at amortised cost are denominated in RMB. As a result, there is no exposure to foreign currency risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 RESTRICTED DEPOSITS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Secured bank deposits	30,000	–

As of 31 December 2023, the balance was restricted deposits held at bank as margin account for notes payables.

23 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Cash at bank and other financial institution	236,552	252,065
Cash on hand	3,203	3,173
	239,755	255,238

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
RMB	235,131	205,436
HKD	3,508	39,173
USD	1,116	10,629
	239,755	255,238

The cash and cash equivalents held in mainland China and subject to local exchange control regulations disclosed in the note 17(a). These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary share <i>HKD</i>	Equivalent nominal value of ordinary share <i>RMB'000</i>
Authorized:			
As at 1 January 2022	3,900,000,000	390,000	327
As at 31 December 2022 and 2023	3,900,000,000	390,000	327
Issued and fully paid:			
As at 1 January 2022	600,000,000	60,000	52
As at 31 December 2022 and 2023	600,000,000	60,000	52

25 RESERVES

	Note	Share premium <i>RMB'000</i>	Statutory surplus reserves <i>RMB'000</i>	Other reserves <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2022		280,752	42,571	116,066	439,389
Appropriation to statutory surplus reserves	(a)	–	3,922	–	3,922
Shares held for the Employee Share Scheme	(b)	–	–	(61,307)	(61,307)
At 31 December 2022		280,752	46,493	54,759	382,004
At 1 January 2023		280,752	46,493	54,759	382,004
Appropriation to statutory surplus reserves	(a)	–	3,839	–	3,839
Shares held for the Employee Share Scheme	(b)	–	–	(45,922)	(45,922)
At 31 December 2023		280,752	50,332	8,837	339,921

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 RESERVES (Continued)

(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.

(b) Shares held for the Employee Share Scheme

	As at 31 December		As at 31 December	
	2023	2022	2023	2022
	Shares	Shares	RMB'000	RMB'000
Shares held for the Employee Share Scheme	50,786,000	29,998,000	107,229	61,307

An independent trustee (the "Trustee") was appointed by the Company to purchase and hold shares for the purpose of 2022 restricted share unit scheme and 2023 restricted share unit scheme (the "Employee Share Scheme"). Such shares are treated as treasury shares and deducted from reserves of the Company. The Group accounts for treasury shares under the cost method.

During the year ended 31 December 2023, the Trustee purchased 20,788,000 shares for the purpose of the Employee Share Scheme (2022: 29,998,000). As at 31 December 2023, no shares were granted under the Employee Share Scheme.

Details	Number of shares	RMB'000
Opening balance 1 January 2022	–	–
Acquisition of shares by the Trustee	29,998,000	61,307
Balance 31 December 2022	29,998,000	61,307
Opening balance 1 January 2023	29,998,000	61,307
Acquisition of shares by the Trustee	20,788,000	45,922
Balance 31 December 2023	50,786,000	107,229

26 DIVIDENDS

The board of directors of the Company does not resolve to declare a dividend for the year ended 31 December 2023 (Nil for the year ended 31 December 2022).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 TRADE AND NOTES PAYABLES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Trade payables	94,461	101,907
Notes payables	30,000	–
	124,461	101,907

Trade payables are unsecured and are usually paid within a half year of recognition.

Notes payables are secured by bank deposits. Details of which are disclosed in the note 22.

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

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

As at 31 December 2023 and 2022, the ageing analysis of trade and notes payables based on demand date was as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Up to 3 months	78,971	72,960
3 to 6 months	38,539	18,399
6 months to 1 year	2,198	2,899
1 to 2 years	496	2,875
2 to 3 years	684	954
Over 3 years	3,573	3,820
	124,461	101,907

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 ACCRUALS, OTHER PAYABLES AND PROVISIONS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Deposits from customers (a)	48,287	45,554
Accrued employee benefits	24,679	22,644
Advance from Medical Insurance	16,931	38,108
Duty and other tax payables	3,612	10,266
Payables for plant and equipment	2,566	4,537
Others	3,727	1,226
	99,802	122,335

(a) Deposits from customers includes refundable deposits made by the customers through prepaid smart cards issued by Honliv Hospital.

29 BORROWINGS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Non-current		
Other borrowings		
— Secured borrowings (a)	22,503	—
Current		
Short-term bank borrowings		
— Secured borrowings (b)	109,000	112,000
— Guaranteed borrowings (c)	29,000	29,000
	138,000	141,000
Other borrowings		
— Secured borrowings (a)	16,027	—
	154,027	141,000
Total borrowings	176,530	141,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 BORROWINGS *(Continued)*

Secured borrowings for the year ended 31 December 2023 bear weighted average interest rate at 5.40% (2022: 4.91%) annually.

Guaranteed borrowings for the year ended 31 December 2023 bear weighted average interest rate at 4.20% (2022: 5.07%) annually.

The borrowings are denominated in RMB. As a result, there is no exposure to foreign currency risk.

At 31 December, the Group's borrowings were repayable as follows:

	Bank borrowings		Other borrowings	
	As at 31 December		As at 31 December	
	2023	2022	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	138,000	141,000	16,027	–
Between 1 and 2 years	–	–	17,103	–
Between 2 and 5 years	–	–	5,400	–
	138,000	141,000	38,530	–

(a) Other borrowings

Other borrowings are secured by machinery and equipment with additional guarantees are as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Guaranteed by the Group, Qin Yan and his close family members	38,530	–

Other borrowings for the year ended 31 December 2023 bear weighted average interest rate ranging from 7.55% to 8.81%. The other borrowings were used for purchase of machinery and equipment amounting to RMB50.0 million. As of 31 December 2023, part of the machinery and equipment of RMB28.4 million was delivered and recognised in property, plant and equipment and the remainder was still in the procurement process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 BORROWINGS (Continued)**(b) Bank borrowings of the Group which are secured by the following:**

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Property, plant and equipment and investment properties of the Group (i)	109,000	112,000

(i) Certain secured borrowings with additional guarantees are as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Guaranteed by the Group, Henan Honliv Group Co., Ltd., Qin Yan and his close family members	79,000	56,000
Guaranteed by Qin Yan and his close family members	–	26,000
	79,000	82,000

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
The Group	29,000	29,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Profit before income tax	51,422	63,021
Adjustments for:		
— Depreciation of property, plant and equipment (<i>note 12</i>)	55,747	50,170
— Depreciation of right-of-use assets (<i>note 13</i>)	3,814	3,866
— Depreciation of investment properties (<i>note 14</i>)	159	196
— Amortisation of intangible assets (<i>note 15</i>)	516	523
— Losses on disposal of property, plant and equipment	17	19
— Deferred income amortisation	(66)	(66)
— Finance costs — net	6,859	8,705
— Provision for receivables impairment (<i>note 3.1.2</i>)	15,294	1,963
— Impairment of property, plant and equipment (<i>note 7</i>)	—	4,452
— Gains on write off of trade payables	(183)	—
— Foreign exchange gains on operating activities	(836)	(10,165)
Changes in working capital		
— Inventories	(2,351)	(2,363)
— Trade receivables	419	(14,822)
— Other receivables	(930)	748
— Amounts due from related parties	(353)	—
— Restricted deposits	(30,000)	—
— Trade and notes payables	22,737	(4,180)
— Accruals and other payables	(20,562)	30,941
Cash generated from operations	101,703	133,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 CASH FLOW INFORMATION (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			
	2023	2022		
	RMB'000	RMB'000		
Cash and cash equivalents	239,755	255,238		
Borrowings — repayable within one year	(154,027)	(141,000)		
Borrowings — repayable after one year	(22,503)	—		
Leases liabilities — repayable within one year	(2,800)	(1,140)		
Leases liabilities — repayable after one year	(1,433)	(983)		
Net debt	58,992	112,115		
Cash	239,755	255,238		
Gross debt — fixed interest rates	(101,763)	(87,123)		
Gross debt — variable interest rates	(79,000)	(56,000)		
Net debt	58,992	112,115		
	Borrowings due within 1 year	Borrowings due after 1 year	Lease liabilities	Total
Net debt as at 1 January 2022	(187,000)	—	(1,482)	(188,482)
Cash flows	55,353	—	1,189	56,542
Other changes	(9,353)	—	(1,830)	(11,183)
Net debt as at 31 December 2022	(141,000)	—	(2,123)	(143,123)
Net debt as at 1 January 2023	(141,000)	—	(2,123)	(143,123)
Cash flows	9,201	(37,240)	1,232	(26,807)
Other changes	(22,228)	14,737	(3,342)	(10,833)
Net debt as at 31 December 2023	(154,027)	(22,503)	(4,233)	(180,763)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 CONTINGENCIES

As at 31 December 2023, the Group had no significant contingent liabilities.

32 COMMITMENTS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Contracted but not provided for:		
— Property, plant and equipment	26,689	19,230

33 RELATED PARTY TRANSACTIONS

(a) Parent entities

The Company is controlled by the following entities:

Name	Type	Place of incorporation	Ownership interest	
			2023	2022
Sunny Rock Capital Limited	Immediate parent entity	British Virgin Islands	51.8%	51.8%
Rubrical Investment Limited	Immediate parent entity	British Virgin Islands	22.2%	22.2%

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 was signed on 10 December 2019.

(b) Subsidiaries

Interest in subsidiaries is 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	
	2023	2022
	RMB'000	RMB'000
Wages and salaries	3,249	3,415
Contributions to pension plans	39	40
Welfare and other expenses	881	687
	4,169	4,142

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 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 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 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
Changyuan Honliv Catering Co., Ltd. (長垣市宏力餐飲有限公司)	Entity controlled by the Controlling Shareholder
Henan Guxiang No.9 Catering Co., Ltd. (河南省谷香九號餐飲有限公司)	Entity's key management is the Controlling Shareholder of the Company
Henan Honliv Yishenghuo Co., Ltd. (河南省宏力一生活有限公司)	Entity controlled by the Controlling Shareholder

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 RELATED PARTY TRANSACTIONS (Continued)**(d) Transactions with related parties** (Continued)

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Medical examination service provided to related parties		
— Henan Hongda Constructions Engineering Co., Ltd.	86	85
— Changyuan Hongli Catering Co., Ltd.	39	—
— Other related parties	47	95
	172	180
Premise rental income provided to related parties		
— Henan Honliv Yishenghuo Co., Ltd.	231	314
— Henan Guxiang No.9 Catering Co. Ltd.	105	105
	336	419
Premise Sales of medical materials provided to		
— Henan Honliv School	50	55
	558	654
Purchase of rental services from related parties		
— Henan Honliv Group Co., Ltd.	580	580
Purchase of goods from related parties		
— Henan Honliv Yishenghuo Co., Ltd.	248	980
— Henan Honliv Advanced Technology Agricultural Development Co., Ltd.	244	598
— Henan Guxiang No.9 Catering Co., Ltd	124	128
	616	1,706
	1,196	2,286

(i) The Group provided parking space to Henan Honliv General Aviation Co., Ltd. on a free basis for the years ended 31 December 2023 and 2022.

(ii) Certain bank and other borrowings of the Group were guaranteed by related parties. Details of which are disclosed in the note 29 above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 RELATED PARTY TRANSACTIONS (Continued)**(e) Balances with related parties**

The following balances are in relation to transactions with related parties:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Amounts due from related parties:		
— Henan Honliv Yishenghuo Co., Ltd.	243	—
— Henan Guxiang No.9 Catering Co., Ltd.	110	—
	353	—

34 EVENTS OCCURRING AFTER THE REPORTING PERIOD

There were no material subsequent events occurred during the period from 31 December 2023 to the approval date of these consolidated financial statements by the board of directors of the Company on 28 March 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	Note	As at 31 December	
		2023 RMB'000	2022 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries		158,573	158,573
Total non-current assets		158,573	158,573
Current assets			
Other receivables and prepayments		3	–
Amounts due from related parties		17,841	17,841
Cash and cash equivalents		1,313	46,558
Total current assets		19,157	64,399
Total assets		177,730	222,972
EQUITY			
Equity attributable to the owners of the Company			
Share capital		52	52
Reserves	35(b)	180,008	225,930
Accumulated deficit	35(b)	(2,560)	(3,238)
Total equity		177,500	222,744
LIABILITIES			
Current liabilities			
Accruals and other payables		117	115
Amounts due to related parties		113	113
Total current liabilities		230	228
Total liabilities		230	228
Total equity and liabilities		177,730	222,972

The balance sheet of the Company was approved by the Board of Directors on 28 March 2024 and signed on its behalf.

Qin Yan

Wang Zhongtao

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)**(b) Reserve movement of the Company**

	Accumulated deficit RMB'000	Share premium RMB'000	Other reserves RMB'000	Total RMB'000
At 1 January 2022	(13,013)	280,752	6,485	274,224
Profit for the year	9,775	–	–	9,775
Shares held for the Employee Share Scheme	–	–	(61,307)	(61,307)
At 31 December 2022	(3,238)	280,752	(54,822)	222,692
At 1 January 2023	(3,238)	280,752	(54,822)	222,692
Profit for the year	678	–	–	678
Shares held for the Employee Share Scheme	–	–	(45,922)	(45,922)
At 31 December 2023	(2,560)	280,752	(100,744)	177,448

36 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 2023	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	11	852	1,663
Mr. Teng Qingxiao	625	11	6	642
Mr. Wang Zhongtao	225	8	5	238
Non-executive director				
Mr. Qin Hongchao	–	–	–	–
Independent non- executive directors				
Mr. Zhao Chun	183	–	–	183
Mr. Sun Jigang	183	–	–	183
Mr. Jiang Tianfan	183	–	–	183
	2,199	30	863	3,092

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 BENEFITS AND INTERESTS OF DIRECTORS (Continued)**(a) Directors and chief executive emoluments** (Continued)

For the year ended 31 December 2022	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	9	665	1,474
Mr. Teng Qingxiao	730	9	5	744
Mr. Wang Zhongtao	326	9	5	340
Non-executive director				
Mr. Qin Hongchao	–	–	–	–
Independent non-executive directors				
Mr. Zhao Chun	172	–	–	172
Mr. Sun Jigang	172	–	–	172
Mr. Jiang Tianfan	172	–	–	172
	2,372	27	675	3,074

Note:

Mr. Qin Yan is also the chief executive officer.

During the years ended 31 December 2023 and 2022, 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 2023 (2022: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES

This note provides a list of other potentially material 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 financial statements are for the Group consisting of the Company and its subsidiaries.

37.1 Principles of consolidation and equity accounting

37.1.1 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.

37.1.2 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.

37.2 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, assessing performance of the operating segment and making strategic decisions. The chief operating decision-maker has been identified as the executive director.

37.3 Foreign currency translation

37.3.1 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES

(Continued)

37.3 Foreign currency translation *(Continued)*

37.3.2 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 losses 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 on a net basis within other losses — net.

37.3.3 Group companies

The results and financial position of foreign operations (none of which has the currency of a hyper inflationary 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.

37.4 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES

(Continued)

37.4 Property, plant and equipment *(Continued)*

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other losses-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 costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

37.5 Intangible assets

Computer software

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

37.6 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.

37.7 Financial assets

37.7.1 Classification

There is only one type of the Group's financial assets which are 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.

The group reclassifies debt investments when and only when its business model for managing those assets changes.

37.7.2 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES

(Continued)

37.7 Financial assets (Continued)

37.7.3 Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

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 as 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 — net" together with foreign exchange gains and losses.

37.7.4 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.

37.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES

(Continued)

37.9 Trade receivables

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 of collecting 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.

37.10 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.

37.11 Share capital and shares held for employee share scheme

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.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

37.12 Trade and other payables

These amounts of trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade payables and other payables are classified as current liabilities if payment is due within one year or less after the reporting period. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES

(Continued)

37.13 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured 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 facilities 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 prepayment 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 the consolidated statement of comprehensive income 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.

37.14 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES

(Continued)

37.15 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.

37.15.1 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period 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.

37.15.2 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 where 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES

(Continued)

37.15 Current and deferred income tax *(Continued)*

37.15.2 Deferred income tax *(Continued)*

Current and deferred income tax is recognised in the consolidated statement of comprehensive income, 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.

37.16 Employee benefits

37.16.1 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.

37.16.2 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.

There were no forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) to offset existing contributions under the defined contribution schemes.

37.17 Share-based payments

Share-based compensation benefits are provided to employees via the Employee Share Scheme. A management committee appointed by the board of directors of the Company will make shares grant to employees with specified cash consideration.

The cost of Employee Share Scheme is recognised in expense, together with a corresponding increase in reserves, over the period in which all of the specified vesting conditions are fulfilled if any. The total amount to be expensed is determined by reference to the number of shares and the fair value of the shares granted as at grant date less the cash consideration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES

(Continued)

37.18 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.

37.19 Earnings per share

37.19.1 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.

37.19.2 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES

(Continued)

37.20 Leases

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 payments 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.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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.

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 consolidated balance sheet based on their nature.

Entity-specific details about the group's leasing policy are provided in note 13(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES

(Continued)

37.21 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.

37.22 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 the purchase of property, plant and equipment are included in non-current liabilities as deferred income and they are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

37.23 Interest income

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

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December 2023

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 2019 <i>RMB'000</i>	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2021 <i>RMB'000</i>	Year ended 31 December 2022 <i>RMB'000</i>	Year ended 31 December 2023 <i>RMB'000</i>
Results					
Revenue	531,108	524,043	606,837	727,789	760,527
Profit/(Loss) before income tax	68,479	30,853	50,542	63,021	51,422
Income tax (expense)/credit	(18,621)	(8,662)	(13,524)	(13,678)	(12,724)
Profit/(Loss) for the period/year	49,858	22,191	37,018	49,343	38,698
Profit/(Loss) attributable to owners of the Company	49,362	21,840	36,615	48,947	38,310
	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>	As at 31 December 2022 <i>RMB'000</i>	As at 31 December 2023 <i>RMB'000</i>
Assets and liabilities					
Total assets	725,324	972,464	961,714	935,038	968,709
Total liabilities	483,696	442,847	395,079	380,367	421,262
Total equity	241,628	529,617	566,635	554,671	547,447