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China Health Group Limited
中國衛生集團有限公司

(Carrying on business in Hong Kong as CHG HS Limited)
(Incorporated in Bermuda with limited liability)
(Stock Code: 673)

FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2019

The board (the "Board") of directors (the "Directors") of China Health Group Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2019 together with the comparative figures for the corresponding year ended 31 March 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the year ended 31 March	
		2019	2018
	Notes	***HK$'000***	*HK$'000*
Revenue	*5*	**32,183**	24,247
Cost of services		**(16,059)**	(10,489)
Gross profit		**16,124**	13,758
Other income	*6*	**8,470**	7,008
Impairment of financial asset, net	*6*	**(3,416)**	–
Selling and distribution expenses		**–**	(609)
Administrative expenses		**(37,728)**	(46,817)
Finance costs	*7*	**–**	(188)
Fair value gain on investment property		**129**	137
Impairment of other receivables		**(3,504)**	(10,005)

		For the year ended 31 March	
		2019	2018
	Notes	***HK$'000***	*HK$'000*
LOSS BEFORE TAX	*8*	**(19,925)**	(36,716)
Income tax	*9*	**(3,088)**	(2,530)
LOSS FOR THE YEAR		**(23,013)**	(39,246)
LOSS PER SHARE	*10*		
Basic		**(HK0.57 cents)**	(HK0.99 cents)
Diluted		**(HK0.57 cents)**	(HK0.99 cents)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 March	
	2019	2018
	HK$'000	*HK$'000*
LOSS FOR THE YEAR	**(23,013)**	(39,246)
Other comprehensive (expense)/income:		
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**(9,689)**	14,904
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(32,702)**	(24,342)
Loss/(profit) for the year attributable to:		
Owners of the Company	**(23,081)**	(39,246)
Non-controlling interest	**68**	–
	(23,013)	(39,246)
Total comprehensive (expense)/income for the year attributable to:		
Owners of the Company	**(32,770)**	(24,342)
Non-controlling interest	**68**	–
	(32,702)	(24,342)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2019

	Notes	2019 *HK$'000*	2018 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**331**	1,250
Intangible assets		**14,692**	17,098
Investment properties		**17,800**	18,875
Loan receivables		**25,362**	82,041
		58,185	119,264
CURRENT ASSETS			
Inventories		**164**	201
Trade and factoring loan receivables	*11*	**32,796**	19,708
Prepayments, deposits and other receivables		**26,073**	35,244
Loan and interest receivables		**68,089**	11,867
Cash and bank balances		**29,934**	38,997
		157,056	106,017
CURRENT LIABILITIES			
Trade payables	*12*	**4,363**	80
Other payables and accrued expenses		**73,168**	61,461
Tax payable		**5,665**	2,680
		83,196	64,221
NET CURRENT ASSETS		**73,860**	41,796
TOTAL ASSETS LESS CURRENT LIABILITIES		**132,045**	161,060
NET ASSETS		**132,045**	161,060
EQUITY			
Equity attributable to owners of the Company			
Share capital	*13*	**409,395**	363,995
Reserves		**(278,978)**	(202,935)
		130,417	161,060
Non-controlling interests		**1,628**	–
TOTAL EQUITY		**132,045**	161,060

Notes:

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and principal place of business is located at Unit 801, 8/F., China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.

The principal activity of the Company is investment holding, the principal activities of its subsidiaries are engaged in hospital management service, trading of medical equipment and consumables, business factoring service and property investment during the year.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

The consolidated financial statements are presented in Hong Kong dollar ("HK$") which is also the functional currency of the Company. The majority of the Company's subsidiaries are operating in the People's Republic of China (the "PRC") with RMB as their functional currency.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiaries and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired, disposed or de-consolidation of during the year are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Group has applied the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("HKAS(s)"), amendments and Interpretations ("Int(s)"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRS 9	Financial instruments
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions
Amendments to HKFRS 4	Applying HKFRS 9 "Financial instruments" with HKFRS 4 "Insurance contracts"
HKFRS 15	Revenue from contracts with customers and the related amendments
Amendments to HKAS 40	Transfers of investment property
HK(lFRIC)-Int 22	Foreign currency transactions and advance consideration
Annual improvements 2014-2016 cycle	Amendments to HKFRS 1 and HKAS 28

Except as described below, the application of the new and revised standards has had no material impact on the consolidated financial statements.

Application of HKFRS 9

HKFRS 9 and the amendments to HKFRS 9 have replaced HKAS 39 *Financial Instruments Recognition and Measurement*. HKFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. In accordance with the specific transitional provisions set out in HKFRS 9, the Group has applied the classification and measurement requirements (including requirements relating to impairment) to items that existed as of the date of initial application (i.e. 1 April 2018) on a retrospective basis based on the facts and circumstances and business models that existed as at 1 April 2018. However, the Group has decided not to restate the comparative figures. Accordingly, the comparative information continues to be presented based on the requirements of HKAS 39 and hence may not be comparable with the current year information. The cumulative effect of initial application of HKFRS 9 has been recognised as adjustments to the opening equity as of April 2018.

(i) Classification and measurement of financial assets

In general, HKFRS 9 categories financial assets into the following three classification categories:

- amortised cost;
- fair value through other comprehensive income (FVTOCI); and
- fair value through profit or loss (FVTPL).

These classification categories are different from those set out in HKAS 39 which included held to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Details about the Group's accounting policies for its financial assets and financial liabilities are disclosed in the consolidated financial statements. The Group did not designate or de-designate any financial asset at FVTPL at 1 April 2018.

The following table shows a reconciliation from how the Group's financial assets existed as of 1 April 2018 were classified and measured under HKAS 39 to how they are classified and measured under HKFRS 9:

	Old classification under HKAS 39	New classification under HKFRS 9	Carry amount under HKAS 39 *HK'000*	Remeasurement *HK'000*	Carrying amount under HKFRS 9 *HK'000*
Trade and factoring loan receivables	Loan and receivables	Amortised cost	19,708	(592)	19,116
Loan and interest receivables	Loan and receivables	Amortised cost	93,908	(2,817)	91,091

Notes:

The amount represented additional impairment loss based on the new expected loss model under HKFRS 9.

(ii) Impairment

HKFRS 9 has introduced the "expected credit loss model" to replace the "incurred loss" model under HKAS 39. The "expected credit loss model" requires an ongoing measurement of credit risk associated with a financial asset. The Group has applied the "expected credit loss model" to the following types of financial assets:

- financial assets that are subsequently measured at amortised cost (including cash and cash equivalents, account receivables and loans receivables); and
- contract assets as defined in HKFRS 15.

The following table is a reconciliation that shows how the closing loss allowance as at 31 March 2018 determined in accordance with HKAS 39 can be reconciled to the opening loss allowance as at 1 April 2018 determined in accordance with HKFRS 9:

	HK$'000
Additional loss allowance as a result of the application of "expected credit loss model" under HKFRS 9	
– Trade and factoring loan receivables	592
– Loan and interest receivables	2,817
Loss allowance recognised as at 1 April 2018	3,409

(iii) Effect on the Group's retained earnings as of 1 April 2018

The following table shows the impact of the application of HKFRS 9 on the Group's retained earnings and other equity components as of 1 April 2018:

	Decrease in the Group's retained profit
	HK$'000
Recognition of additional expected credit loss recognised	
– Trade and factoring receivables	592
– Loan and interest receivables	2,817
	3,409

Application of HKFRS 15

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 April 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 April 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Hospital management service;
- Trading of medical equipment and consumables;
- Business factoring; and
- Property investment.

4. OPERATING SEGMENT INFORMATION

The Group's operating segments, based on information reported to the Directors being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focus on types of goods or services delivered or provided.

For management purposes the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- Hospital management service;
- Trading of medical equipment and consumables;
- Business factoring; and
- Property investment.

Segment assets excluded available-for-sale financial assets and other corporate assets as these assets are managed on a group basis.

Segment liabilities excluded amounts due to de-consolidated subsidiaries and other corporate liabilities as these liabilities are managed on a group basis.

The following is an analysis of the Group's revenue and results by operating segments for the year ended 31 March 2019 and 2018:

For the year ended 31 March 2019	**Hospital management service**	**Trading of medical equipment and consumables**	**Business factoring**	**Property investment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue					
Revenue from external customers	**9,882**	**16,928**	**4,203**	**1,170**	**32,183**
Segment results	**2,644**	**(1,262)**	**2,139**	**(142)**	**3,379**
Reconciliation:					
Interest income and unallocated income					**91**
Corporate and other unallocated expenses					**(23,395)**
Loss before tax					**(19,925)**
Depreciation and amortisation	**1,347**	**52**	**–**	**–**	**1,399**
Reconciliation:					
Unallocated depreciation and amortisation					**637**
					2,036

For the year ended 31 March 2018	Hospital management service *HK$'000*	Trading of medical equipment *HK$'000*	Business factoring *HK$'000*	Total *HK$'000*
Segment revenue				
Revenue from external customers	8,669	13,786	1,792	24,247
Segment results	2,340	701	10	3,051
Reconciliation:				
Interest income and unallocated income				888
Corporate and other unallocated expenses				(40,655)
Loss before tax				(36,716)
Depreciation and amortisation	892	58	–	950
Reconciliation:				
Unallocated depreciation and amortisation				483
				1,433

The following table is an analysis of the Group's assets and liabilities and other segment information as at 31 March 2019 and 2018:

For the year ended 31 March 2019

	Hospital management service *HK$'000*	**Trade of medical equipment and consumables** *HK$'000*	**Business factoring** *HK$'000*	**Property investment** *HK$'000*	**Total** *HK$'000*
Segment assets	**91,369**	**85,982**	**13,547**	**17,800**	**208,698**
Corporate and other unallocated assets					**6,543**
Total assets					**215,241**
Segment liabilities	**9,875**	**8,313**	**4,449**	**4,455**	**27,092**
Corporate and other unallocated liabilities					**56,104**
Total liabilities					**83,196**

For the year ended 31 March 2018

	Hospital management service *HK$'000*	Trade of medical equipment *HK$'000*	Business factoring *HK$'000*	Total *HK$'000*
Segment assets	94,024	67,177	18,606	179,807
Corporate and other unallocated assets				45,474
Total assets				225,281
Segment liabilities	4,121	1,326	1,577	7,024
Corporate and other unallocated liabilities				57,197
Total liabilities				64,221

Geographical information

For the years ended 31 March 2019 and 2018, the Group's operations and its non-current assets are principally located in the PRC, accordingly no geographical segment information is presented.

Information about major customers

During the year ended 31 March 2019, the Group had transactions with 2 (2018: 2) customers who contributed over 10% of the Group's total net revenue, which is summarised below:

	2019 ***HK$'000***	2018 *HK$'000*
Customer 1	**8,440**	16,615
Customer 2	**N/A***	4,794
Customer 3	**5,472**	–
	13,912	21,409

* The corresponding revenue did not contribute over 10% of the total sales of the Group during the year ended 31 March 2019.

5. REVENUE

Revenue from the Group's principal activities, which is also the Group's revenue, represented the net invoiced value of goods sold and services provided, net of allowances for returns, trade discounts and value-added tax. An analysis of the Group's revenue is as follows:

	2019	2018
	HK$'000	*HK$'000*
Revenue:		
Income from provision of hospital management services *(note)*	**9,883**	8,669
Trading of medical equipment and consumables	**16,929**	13,786
Business factoring	**4,201**	1,792
Rental income	**1,170**	–
	32,183	24,247

Note: The amount comprises (a) the management fee income from Shuangluan Hospital of approximately HK$8,249,000 (2018: approximately HK$6,661,000); (b) the management fee income from Anping Bo'ai Hospital of approximately HK$1,278,000 (2018: HK$962,000); and (c) the management fee income from the Red Cross Hospital of Luanping County of approximately HK$356,000 (2018: HK$793,000). There was no operating right income from Dingnan Chinese Medicine Hospital during the year (2018: HK$253,000).

6. OTHER INCOME/IMPAIRMENT OF FINANCIAL ASSETS, NET

	2019	2018
	HK$'000	*HK$'000*
(i) Other income		
Exchange gain	**–**	59
Loan interest income	**7,232**	5,676
Interest income	**534**	93
Rental income	**–**	1,179
Sundry income	**704**	1
	8,470	7,008
(ii) Impairment of financial assets, net		
Impairment loss of loan and interest receivables	**(134)**	–
Impairment loss of trade and factoring loan receivables	**(3,282)**	–
	(3,416)	–

7. FINANCE COST

	2019	2018
	HK$'000	*HK$'000*
Interest on other borrowing	**–**	188

8. LOSS BEFORE TAX

Loss before tax is arrived at after charging the following:

	2019	2018
	HK$'000	*HK$'000*
Auditors' remuneration	**780**	700
Depreciation of property, plant and equipment	**361**	549
Loss on disposal of property, plant and equipment	**532**	–
Amortisation of intangible assets	**1,675**	884
Rental expenses in respect of office premises	**2,496**	6,119
Staff costs (including directors' emoluments)		
– Salaries, wages, and other benefits	**14,478**	18,424
– Contributions to defined contribution retirement plans	**278**	400

9. INCOME TAX

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not generate any assessable profit arising from Hong Kong for both years.

Subsidiaries established in PRC are subject to the PRC enterprise income tax at the standard rate of 25% (2018: 25%).

	2019	2018
	HK$'000	*HK$'000*
Current tax- PRC		
Provision for the year	**3,088**	2,530

10. LOSS PER SHARE

	2019	2018
	HK$'000	*HK$'000*
Loss attributable to owners of the Company, used in the basis loss per share calculation:	**(23,081)**	(39,246)

	2019	2018
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares in issue during the year	**4,055,334**	3,565,153
Effect of convertible bonds	**–**	400,000
Weighted average number of ordinary shares for the purpose of calculating loss per share	**4,055,334**	3,965,153

(a) Basic loss per share

For the year ended 31 March 2019, the calculation of basic loss per share amount is based on the net loss for the year of approximately HK$23,081,000 (2018: approximately HK$39,246,000) attributable to the equity holders of the Company, and weighted average of approximately 4,055,334,000 (2018: approximately 3,965,153,000) ordinary shares in issue during the year.

(b) Diluted loss per share

The computation of diluted loss per share does not assume the exercise of the Company's share options for both years because their assumed exercise would result in an increase in loss per share. Accordingly, no diluted loss per share has been presented.

11. TRADE AND FACTORING LOAN RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade and factoring loan receivables:		
Commercial business factoring	**819**	1,645
Trade of medical equipment and consumables	**12,708**	7,165
Hospital management	**17,253**	10,898
Property investment	**2,016**	–
	32,796	19,708

The Group's credit policies for each of its principal activities are as follow:

(i) Provision of hospital management service is with credit terms of 90 days.

(ii) Trading of medical equipment and consumables business is with credit terms of 90 days.

(iii) Provision of business factoring services is with credit terms of 30 days.

(iv) Income from investment property is with credit terms of 90 days.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**9,128**	13,048
1 – 3 month	**4,965**	654
Over 3 month	**18,703**	6,006
	32,796	19,708

Aging of trade receivables which are past due but not impaired:

	2019	2018
	HK$'000	*HK$'000*
Within 90 days	**4,724**	–
91 – 180 days	**1,422**	3,269
Over 180 days	**13,297**	2,737
	19,443	6,006

Trade receivables that were past due but not impaired were related to the customers for whom there is no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

12. TRADE PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**4,363**	80

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date is as follow:

Within 1 months	**4,342**	59
1-3 months	**–**	–
Over 3 months	**21**	21
	4,363	80

13. SHARE CAPITAL

	Notes	**No of shares**	**Share capital** *HK$'000*
Authorised:			
Ordinary shares of HK$0.1 each At 1 April 2017, 31 March 2018, 1 April 2018 and 31 March 2019		100,000,000,000	10,000,000
Issued and fully paid:			
At 1 April 2017		3,219,947,634	321,995
Subscription of shares	*(i)*	420,000,000	42,000
At 31 March 2018 and 1 April 2018		**3,639,947,634**	**363,995**
Issue of share upon conversion of the convertible bonds	*(ii)*	**400,000,000**	**40,000**
Subscription of shares	*(iii)*	**54,000,000**	**5,400**
At 31 March 2019		**4,093,947,634**	**409,395**

Notes:

(i) On 5 June 2017, pursuant to the placing and subscription agreement dated 10 May 2017, 420,000,000 ordinary shares of HK$0.1 each were allotted and issued at the market price of HK$0.17 per share. The net proceeds from the placing are approximately HK$71,300,000. The Company intends to apply approximately HK$40,000,000 for the development of finance leasing business of the Group and the balance for general working capital purpose.

(ii) In November 2015, convertible notes ("CN") with an aggregate principal amount of HK$225,000,000 which can be converted into 1,500,000,000 shares at a conversion price of HK$0.15 per share (subject to adjustments) were issued to Zheng Hua Investment Limited ("Zheng Hua") and Pacas Worldwide Limited ("Pacas"), both Zheng Hua and Pacas are independent third party to the Company. The maturity date of the CN is on the third anniversary of the date of issue. At the maturity date, any outstanding principal amount of the CN will be compulsorily converted into ordinary shares at HK$0.15 per share. The issuance of CB raising net proceeds of HK$224.4 million.

On 2 November 2018 and 25 March 2019, convertible notes with principal amount of HK$39,000,000 and HK$21,000,000 were converted into 260,000,000 and 140,000,000 shares by Pacas and Zheng Hua respectively. There was no outstanding CN as at 31 March 2019.

(iii) On 11 September 2018, the Company and the Trustee entered into the subscription agreement in relation to subscription of 100,000,000 ordinary shares of HK$0.10 per share. The gross proceeds from the placing are approximately HK$10,000,000.

On 17 December 2018, an aggregate of 54,000,000 subscription shares were successfully allotted and issued to subscriber. The net proceeds of approximately HK$5,000,000 will be used for future business development, investment and general working capital purposes.

EXTRACT FROM INDEPENDENT AUDITOR'S REPORT

The following is an extract of the report from the independent auditors, Elite Partners CPA Limited, on the Group's annual audited financial statements for the year ended 31 March 2019.

QUALIFIED OPINION

We have audited the consolidated financial statements of China Health Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") which comprise the consolidated statement of financial position as at 31 March 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effect of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group at 31 March 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Standards on Auditing ("HKSAs") 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 QUALIFIED OPINION

Opening balance and corresponding figures

As detailed in the auditor's report dated 29 June 2018, our auditor's opinion on the consolidated financial statements for the year ended 31 March 2018 (the "2018 Financial Statements"), which forms the basis for the corresponding figures presented in the current year's consolidated financial statements, was disclaimed because of the significance of the possible effects of limitations in the scope of the audit. We were unable to carry out audit procedures to satisfy ourselves whether the 2018 Financial Statements gave a true and fair view. Any adjustments found to be necessary in respect of the matters which were the subject of the limitation of scope may have a significant effect on the state of affairs of the Group as at 31 March 2018 and 1 April 2018 and hence of the Group's financial performance and cash flows for the year ended 31 March 2019. Furthermore, such adjustments may have significant effect on the comparability of the current period's figures and corresponding figures in the consolidated financial statements.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

FINAL DIVIDEND

The Directors do not recommend the payment of any final dividend to the shareholders (2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

For the year ended 31 March 2019, the Group reported a revenue of approximately HK$32.2 million, representing an increase of 33% as compared to HK$24.2 million for the previous financial year. The revenue comprises (a) trading income of medical equipment and consumables of HK$16.9 million (2018: HK$13.8 million); (b) management fee income from hospital management of approximately HK$9.9 million (2018: HK$8.4 million); (c) income from business factoring business of approximately HK$4.2 million (2018: HK$1.8 million); and (d) income from property investment of HK$1.2 million (2018: nil), during the year.

The Group's loss attributable to shareholders for the year was approximately HK$23 million as compared to a net loss of approximately HK$39.2 million for the previous financial year. The decrease in net loss was mainly attributable to decrease in administrative expenses as a result of cost saving measures taken by the Group during the year. Basic loss per share for the year was HK0.57 cents (2018: HK0.99 cents).

REVIEW OF BUSINESS OPERATION

For the year ended 31 March 2019, the existing business segments of the Group comprise (a) hospital management business; (b) medical equipment and consumables trading business; (c) business factoring business; and (d) property investment.

Hospital management business

(1) Shuangluan Hospital

The Group took over the operation of 承德市雙灤區人民醫院暨承德市精神病醫院 (Shuangluan District, Chengde City Hospital (Chengde City Psychiatric Hospital)*) ("Shuangluan Hospital") in September 2015 and introduced a new management model to the hospital. Through the introduction of information technology system, the reorganization of management structure, and the implementation of full cost performance appraisal and meticulous management, the hospital has achieved significant improvement. Shuangluan Hospital was relocated to a new site in August 2016. The new hospital covers an area of 46 acres, with completed construction area of 37,000 square meters and 400 beds in the first phase. The second phase construction of "Psychiatry Building" has been completed and the "Psychiatry Building" provides 400 beds. From April 2018 to March 2019, Shuangluan Hospital recorded revenue of approximately RMB120 million, representing an increase of 24% compared with last corresponding period.

Currently, the Group is entitled management fee equivalent to 6% of the revenue of Shuangluan Hospital and recorded management fee of approximately HK$8.2 million during the year. With the expansion of hospital scale, the revenue of the hospital is expected to grow significantly and therefore the Group can also capture satisfactory revenue from expansion of the hospital.

(2) Anping Bo'ai Hospital

The Group took over the operation of 安平博愛醫院 ("Anping Bo'ai Hospital*") in October 2016. Currently, the Group is entitled management fee equivalent to 6% of the revenue of Anping Bo'ai Hospital and recorded management fee of approximately HK$1.3 million during the year.

(3) Red Cross Hospital of Luanping County and the Hong Fu Eldercare and Nursing Home of Luanping County

The Group took over the operation of 灤平縣紅十字醫院 ("Red Cross Hospital of Luanping County*") and 灤平縣鴻福養老護理院 ("Hong Fu Eldercare and Nursing Home of Luanping County*") in April 2017. Currently, the Group is entitled management fee equivalent to 3% of the revenue of Red Cross Hospital of Luanping County and recorded management fee of approximately HK$0.4 million during the year.

(4) Yueyang City Baling Hospital Company Limited

The Group took over the operation of 岳陽市巴陵醫院有限公司 ("Yueyang City Baling Hospital Company Limited*") in January 2018. The right to management of the Yueyang City Bailang Hospital Company Limited discontinued since 31 December 2018 (one year since 1 January 2018). The Group did not entitle any management fee during the year.

Medical equipment and consumables trading

The Group carried out medical equipment trading business for hospitals through a trading company with medical equipment procurement and supply licenses in Beijing during the year. This business facilitates the sourcing and supplying of high quality equipment to the hospitals managed by the Group, which in turn streamlines the hospital operations, maintains quality of services provided by the Group, and improves performance of the hospital management business accordingly.

The Group established 馬格瑞茲(武漢)醫療技術發展有限公司 (Mareguizi (Wuhan) Medical Technology Development Co., Ltd.*) with certain independent third parties in August 2018, in which the Company indirectly holds 51% equity interest, to further develop the trading of medical consumables.

Business factoring business

During the year, the Group conducted business factoring business for hospitals which also brings in steady revenue and profits to the Group as well as provides the necessary funding to hospitals for improving quality of services by these hospitals.

Property investment

The Group completed acquisition of properties of Anping Bo'ai Hospital at a consideration of RMB15 million in November 2017 and generate stable rental income to the Group during the year.

FUTURE PROSPECT

With the continuous social and economic development, urbanization and huge ageing population in Mainland China, the medical and healthcare industry has shown a diversified and rapid growth in recent years. The PRC government has implemented a series of reform measures to, while strengthening public hospitals, relieve the restrictions on access by private capital and encourage foreign capital to invest in establishing and operating hospitals, which has provided enormous business opportunities for the development of the Group.

By leveraging its competitiveness strengths in successfully managing hospitals, the Group started to seek opportunities to invest in and acquire hospitals for its own operation during the year. In the coming year, the Group aims to invest in setting up central hospitals in certain main cities in Mainland China, which will lay a foundation for the Group to build a hospital group. While establishing central hospitals, the Group will also focus on the development of the relevant supply chain services and medical information technology. The Board believes that such correct development strategy will enable the Group to achieve satisfactory results for its shareholders.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

On 1 November 2018, the Company entered into the strategic cooperation agreement with Hunan Junlin Private Equity Fund Management Co., Ltd., which is a fund management company specializing in investments in different industries and is a well known enterprise in Hunan Province, in relation to the formation of a fund. The Group intends to invest not more than RMB25 million (equivalent to approximately HK$28 million) to the fund, representing approximately 33.3% of the fund size, and the Group will become a limited partner of the fund which will be established for the investment medical and healthcare industry by way of mergers and acquisitions in the PRC. Further details of the strategic cooperation agreement were set out in the announcement dated 1 November 2018.

On 28 December, 2018, the Group and the vendors entered into the share purchase agreement (as supplemented by certain supplemental agreements) for acquisition of 70% equity interest of Anping Bo'ai Hospital (which will be transformed to a for-profit hospital and will become the target company to be acquired) at the consideration of RMB4.2 million (equivalent to approximately HK$4.79 million), which shall be satisfied by cash. A deposit in the total sum of RMB1.8 million (equivalent to approximately HK$2.05 million) will also be paid by the Group in respect of the possible acquisition of the remaining 30% equity interests of the target company. The long stop date of the proposed acquisition has been extended to 31 July 2019 and the proposed acquisition is not yet completed as at date of this announcement. Further details of the proposed acquisition were set out in the announcements of the Company dated 28 December 2018, 1 February 2019, 28 February 2019, 10 May 2019 and 20 June 2019.

Save as disclosed above, there were no other significant investments, material acquisitions and disposals during the year.

UPDATE OF USE OF PROCEEDS

On 10 May 2017, the Company and two independent subscribers entered into the subscription agreements (as supplemented on 31 May 2017) in relation to subscription of 420,000,000 shares of the Company at a subscription price of HK$0.17 per share. On 5 June 2017, an aggregate of 420,000,000 subscription shares were successfully allotted and issued to subscribers. The net proceeds of approximately HK$71.3 million, representing a net subscription price per subscription share of approximately HK$0.169. The proceeds were utilized as (i) HK$1.5 million for the business factoring business; (ii) approximately HK$5.5 million for payment of medicine procurement and medical equipment; (iii) approximately HK$28.4 million for office rental, salaries and other operating expenses; and (iv) approximately HK$35.9 million for loan to certain parties including hospitals.

FUND RAISING ACTIVITY

On 11 September 2018, the Company and a trustee, which holds the subscription shares on trust for 25 persons who are employees and/or consultant of the members of the Group, entered into the subscription agreement in respect of 100,000,000 subscription shares at a subscription price of HK$0.10 per subscription share. The gross proceeds and net proceeds from the subscription are HK$10 million and HK$9.6 million (representing HK$0.096 per subscription share) respectively, which will be used for the Group's future business development, investment and general working capital purposes. 54,000,000 subscription shares have been issued and allotted on 17 December 2018 raising net proceeds of HK$5 million. All the net proceeds are not utilised and are kept at banks of the Group as at date of this announcement. Details of the subscription were disclosed in the announcement of the Company dated 11 September 2018. The Company and the Trustee have agreed that completion of the subscription of the remaining 46,000,000 subscription shares shall take place on a date falling on or before 31 December 2019.

Save as disclosed above, there was no other fund raising activity during the year.

LIQUIDITY AND CAPITAL RESOURCES

The Group mainly financed its day to day operations by internally generated cash flow and fund raising activity as stated above during the year. As at 31 March 2019, the Group's cash and cash equivalents amounted to approximately HK$29.9 million (2018: HK$39.0 million).

As at 31 March 2019, the current assets and net current assets of the Group are approximately HK$157.1 million (2018: HK$106.0 million) and HK$73.9 million (2018: HK$41.8 million) respectively, representing a current ratio of 1.89 (2018: 1.65).

As at 31 March 2019, a dividend payable on redeemable convertible cumulative preference shares in the sum of US$4 million (2018: US$4 million) (equivalent to approximately HK$30.9 million), which is in dispute as disclosed in the section headed "Material litigations" below, was included in other payables and accrued expenses.

As at 31 March 2019, the gearing ratio was 0.24 (2018: 0.19), calculated by dividing dividend payable on redeemable convertible cumulative preference shares (representing debt owed by the Company) by shareholders' equity of approximately HK$130.4 million (2018: HK$161.1 million).

The Group conducted its continuing operational business transactions mainly in Renminbi and Hong Kong dollars. The Group did not arrange any forward currency contracts for hedging purposes.

MATERIAL LITIGATIONS

The Group had the following material litigations during the year and up to date of this announcement:

Dividend payable on redeemable convertible cumulative preference shares

On 12 September 2016, the Company has received a statutory demand from Li Hong Holdings Limited ("Li Hong") in respect of repayment of dividend payable on redeemable convertible cumulative preference shares in the sum of US$4,000,000 (equivalent to approximately HK$30,894,000) (the "Alleged Outstanding Sum"). Such amount has been included in other payables and accrued expenses in consolidated balance sheet as at 31 March 2016. An originating summons (the "Originating Summons") has been issued in the Court by the Company against Li Hong on 27 September 2016. Pursuant to the Originating Summons, the Company is seeking, amongst others, the reliefs against Li Hong (1) an order that Li Hong be restrained from presenting any petition for the winding up of the Company based on the Alleged Outstanding Sum; and (2) costs.

A hearing took place on 30 September 2016 at the Court, during which Li Hong has undertaken not to file a winding up petition against the Company based on the Alleged Outstanding Sum and the Company has undertaken (i) to pay the sum of US$4,000,000 or its equivalent into the Court within 21 days from the date of the hearing; and (ii) to comply with any order the Court may make if the Court later finds that Li Hong's undertaking has caused loss to Li Hong or any other party and decides that Li Hong or that other party should be compensated for that loss. On 8 February 2017, another Court hearing took place and it was ordered at the hearing, among other things, that (i) Li Hong be restrained from presenting any petition for the winding up the Company based on the Alleged Outstanding Sum; and (ii) the sum of US$4,000,000 or its equivalent paid into the Court be released to the Company. Pursuant to the reasons for judgement handed down by the Court dated 29 March 2017, it was concluded that the Company has shown that there is bona fide dispute of the Alleged Outstanding Sum on substantial grounds and the presentation of a winding-up petition by Li Hong would be an abuse of process. The Court further commented that new information filed for the Company lend credence to the Company's case that the Promissory Note was in fact issued by the Company pursuant to a backdoor arrangement made or participated in by Dr. Li for his benefit, though not necessarily for his sole or exclusive benefit, and that Li Hong was Dr. Li's nominee for the purpose of receiving the Promissory Note. As stated in the judgment, it follows that it must at least be open to serious argument that the Promissory Note is not enforceable by Li Hong against the Company, because the issue of the Promissory Note by the Company to Dr. Li's nominee (Li Hong) would involve a breach of fiduciary duty on Dr. Li's part of which Li Hong had knowledge. It was also mentioned in the judgment that Li Hong clearly does not have a valid cause of action against the Company based on a letter dated 31 July 2015 issued by Capital Foresight Limited and/or an agreement dated 23 November 2012 between the Company and Capital Foresight Limited being alleged evidence for the Statutory Demand as Li Hong is not a party to either of those documents and neither of those documents give rise to any contract or claim enforceable by Li Hong against the Company.

Details of the above have been set out in the announcements of the Company dated 28 September 2016, 3 October 2016 and 30 March 2017 (the "Announcements").

Further to a demand received by the Company (the "Demand") and upon internal investigation, the Company believes that the US$4 million in connection with HCMP2593/2016 as set out in the Announcements belongs to the Company on the following grounds: (1) that the agreement dated 23 November 2012 between the Company and Capital Foresight Limited (the "Agreement") executed by Dr. Li, a then executive director and chairman of the Company and removed on 18 June 2016, was purportedly entered into in breach of Dr. Li's fiduciary duties and without authority, and Capital Foresight Limited was knowingly complicit in this arrangement; (2) that the loan note dated 1 August 2015 and issued by the Company (under its former name China Healthcare Holdings Limited) (the "Loan Note"), executed by Dr. Li purportedly on behalf of the Company in favour of Li Hong was purportedly entered into in breach of Dr. Li's fiduciary duties, without authority and inconsistent with the Company's articles of association; and (3) the Agreement and the Loan Note were and are void or voidable and unenforceable. On 7 November 2017, a writ of summons under action number HCA 2549/2017 has been issued in the High Court of the Hong Kong Special Administrative Region by the Company against Dr. Li as 1st Defendant, Capital Foresight Limited as 2nd Defendant and Li Hong as 3rd Defendant. Pursuant to the writ, the Company is seeking, amongst others, the following reliefs against the defendants: (i) a declaration that the agreement dated 23 November 2012 between the Company and Capital Foresight Limited executed by Dr. Li is void or voidable and unenforceable; and (ii) a declaration that the loan note dated 1 August 2015 and issued by the Company is void or voidable and unenforceable. Please also refer to the announcement of the company dated 8 November 2017. Since the announcement acknowledgement of service is and statement of claim were filed in December 2017. Pursuant to a court order, this action has been consolidated with the action described in below paragraph and is currently in the pleadings stage.

On 24 November 2017 and in connection with the Demand, the Company received a writ of summons dated 9 November 2017 claiming for an order directing the Company to forthwith issue in favour of Capital Foresight Limited or its nominee a promissory note of US$4,000,000 pursuant to the Agreement, or alternatively US$4,000,000, interest and costs. Pursuant to an order, this action has been consolidated with the action described above.

The parties have exchanged witness statements in January 2019. Pursuant to an Order, the Company filed its Amended Writ of Summons and Statement of Claim in this action. The Defendants have filed their respective Defence and Counterclaim (if any). The Company will file its Amended Reply in due course, pending the determination of separate specific discovery application. The next Case Management Summons hearing is scheduled to be heard on 8 July 2019.

Zhongwei Kanghong Investments Limited

On 6 July 2016, Zhongwei Kanghong Investments Limited ("Zhongwei Kanghong"), an indirect wholly-owned subsidiary of the Company, filed a civil lawsuit ("Civil Lawsuit I") at the People's Court of Dongcheng District Beijing Municipality ("Dongcheng District Court") against Beijing Zhongwei Kanghong Hospital Management Co. Ltd. ("Beijing Zhongwei"), a wholly-owned subsidiary of Zhongwei Kanghong, Mr. Jia (former chairman of the Company), Mr. Zhao Kai (former director of the Company and the legal representative of Beijing Zhongwei), Mr. Wang Jingyan and Ms. Zhang Tiantian (collectively, the "Zhongwei Defendants"). Zhongwei Kanghong claimed for ruling that (i) the Zhongwei Defendants shall hand over the original business license and its copies, license for opening accounts, common seal, stamp for financial affairs, stamp of the legal person and stamp for contract of Beijing Zhongwei to Zhongwei Kanghong; (ii) the Zhongwei Defendants shall hand over the accounting books and records, financial information, original vouchers and related contracts of Beijing Zhongwei from its establishment date, being 25 November 2014, to the date when the handover to Zhongwei Kanghong is actually completed; (iii) the Zhongwei Defendants shall hand over the premise leased by Beijing Zhongwei which is located at Unit 1, 15th Floor, Tower E2, Oriental Plaza, No.1 Dong Chang An Avenue, Dong Cheng District, Beijing to Zhongwei Kanghong; and (iv) the Zhongwei Defendants shall be liable for costs of the Civil Lawsuit I. On 15 August 2016, the Dongcheng District Court informed Zhongwei Kanghong that the Civil Lawsuit I met statutory prosecution conditions and was formally registered. Details of the above were set out in the Company's announcement dated 1 September 2016. On 8 November 2016, the Civil Lawsuit I has been discontinued by the Company.

On 31 October 2016, an administrative lawsuit (the "Administrative Lawsuit") was filed with the Dongcheng District Court against the Dongcheng District Beijing Municipality Bureau of Commerce and Administrative Management for the revocation of shareholders' resolutions of Beijing Zhongwei passed on 23 May 2016 which approved the removal and appointment of certain directors and supervisor, and the reinstatement of the previous board of directors and legal representative. The Administrative Lawsuit has since been transferred to the court in Beijing Haidian District ("Haidian Court") for processing. On 31 March 2017, the Administrative Lawsuit has been discontinued by the Company. On 30 November 2016, Zhongwei Kanghong filed another civil lawsuit ("Civil Lawsuit II") with the Dongcheng District Court against Beijing Zhongwei seeking confirmation on the validity and enforcement of certain shareholders' resolution passed in June 2016 in respect of, among others, change in board and legal representative of Beijing Zhongwei. A judgment in respect of the Civil Lawsuit II was obtained on 12 September 2017. Dongcheng District Court supported the request by Zhongwei Kanghong in Civil Lawsuit II. On 22 June 2018, business registration for such changes has been completed and the business licence has been obtained.

Further announcement(s) will be made by the Company as and when appropriate to keep the shareholders informed of the material developments in the above matters.

CONTINGENT LIABILITIES

As at 31 March 2019, there were no material contingent liabilities of the Group (2018: nil).

CHARGE ON GROUP'S ASSETS

As at 31 March 2019, there was no charge on the Group's assets (2018: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2019, the Group employed 32 employees (2018: 35). The total staff cost including Directors' emoluments was approximately HK$14.5 million as compared to approximately HK$18.8 million for the previous period. The Group continues to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Staff benefits include contributions to the Mandatory Provident Fund Schemes and a discretionary bonus payment which is linked to the profit performance of the Group and individual performance. A share option scheme has also been established for employees of the Group. No share option was granted or exercised during the year. There were 50,000,000 outstanding share options as at 31 March 2019.

On 26 April 2019, 321,994,763 share options were granted to Directors and other certain eligible participants.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied with the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year, except for the below deviations:

1. Under paragraph A.1.8 of the Code, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. The Company was unable to find any insurance company to provide insurance cover during the year and will continue to seek insurance companies to comply with the Code.

2. Under the A.4.1 of the Code, the non-executive Directors should be appointed for a specific term, subject to re-election. Currently, none of the non-executive Directors is appointed for a specific term, but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-laws. The Board considers that sufficient measures were taken to ensure the corporate governance practices of the Company are not less than those in the Code.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS (THE "MODEL CODE")

The Company has adopted the Model Code (Appendix 10 to the Listing Rules) as its own code of conduct regarding securities transactions by directors. Having made specific enquiry of all Directors, all Directors declared that they have complied with the Model Code during the year.

NON-COMPLIANCE WITH LISTING RULE 3.10A

The number of independent non-executive Directors falls below the minimum number required under Rule 3.10A of the Listing Rules upon appointment of a non-executive Director on 4 June 2018 and resignation of an independent non-executive Director on 14 December 2018. Following the resignation of Directors on 13 July 2018 and appointment of an independent non-executive Director on 5 March 2019, the Company has fulfilled the requirement under Rule 3.10A of the Listing Rules.

On 4 June 2019, the number of independent non-executive Directors falls below the minimum number required under Rule 3.10A of the Listing Rules upon appointment of two non-executive Directors. The Board will search for and appoint appropriate person(s) to fill the vacancies as soon as possible within three months from the date of this announcement pursuant to the Rule 3.11 of the Listing Rules.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company will be held on 3 September 2019, Tuesday (the "AGM"). A notice convening the AGM will be published and despatched to the shareholders of the Company in due course.

In order to establish entitlements to attend and vote at the AGM, the register of members of the Company will be closed from 29 August 2019, Thursday to 3 September 2019, Tuesday, both days inclusive, during which period no transfer of the shares can be registered. Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 28 August 2019, Wednesday.

REVIEW OF ANNUAL RESULTS

The Group's Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the auditing, internal controls and financial reporting matters including the review of the Group's audited results for the year ended 31 March 2019.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITOR

The figures in respect of the Group's results for the year ended 31 March 2019 as set out in the preliminary results announcement have been agreed by the Company's independent auditor, Elite Partners CPA Limited ("Elite Partners") to the amounts set out in the Group's consolidated financial statements. The work performed by Elite Partners in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Elite Partners on this preliminary results announcement.

By order of the Board
China Health Group Limited
Zhang Fan
Chairman of the Board and Executive Director

Hong Kong, 28 June 2019

As at the date of this announcement, the Board comprises four executive Directors, namely, Mr. Zhang Fan (chairman), Mr. Chung Ho, Mr. Wang Jingming, and Mr. Weng Yu; six non-executive Directors, namely, Mr. Xing Yong, Mr. Wang Yuexiang, Mr. Huang Lianhai, Mr. Qiu Peiyuan, Mr. Zhang Dawei and Mr. Wang Yongming; and four independent non-executive Directors, namely, Mr. Xiao Zuhe, Mr. Jiang Xuejun, Mr. Du Yanhua and Mr. Lai Liangquan.

* *For identification purpose only*