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Qianhai Health Holdings Limited

前海健康控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 911)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The Board (the “**Board**”) of Directors (the “**Directors**”) of Qianhai Health Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2020 (“the **Year**”), together with the comparative figures for the corresponding year ended 31 December 2019 (the “**Prior Year**”) as follows:

HIGHLIGHTS

- Total revenue increased by 29.4% to HK\$760.7 million for the year ended 31 December 2020.
- The gross profit amounted to approximately HK\$45.1 million, representing an increase of 38.1% compared to that corresponding period in 2019.
- Profit from operations for the year amounting to HK\$0.8 million for the year ended 31 December 2020, representing a decrease of 97% compared to that corresponding period in 2019.
- The Group recorded a loss of approximately HK\$0.8 million attributable to the shareholders for the year ended 31 December 2020, as compared to the profit of approximately HK\$26.7 million of the year ended 31 December 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	3	760,721	587,808
Cost of sales	6	<u>(715,593)</u>	<u>(555,125)</u>
Gross profit		45,128	32,683
Other income	4	947	17,777
Other (losses)/gains, net	5	(18,153)	1,159
Selling and distribution expenses	6	(1,438)	(933)
Administrative expenses	6	(23,875)	(21,141)
Finance costs	7	<u>(1,774)</u>	<u>(1,442)</u>
Operation profit		835	28,103
Share of loss of a joint venture accounted for using the equity method		<u>(1,639)</u>	<u>(1,388)</u>
(Loss)/profit before income tax		(804)	26,715
Income tax	8	<u>—</u>	<u>—</u>
(Loss)/profit for the year		(804)	26,715
Other comprehensive income/(loss) for the year:			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences arising from translation of foreign operation, net of nil tax		<u>8,697</u>	<u>(923)</u>
Total comprehensive income for the year attributable to owners of the Company		<u>7,893</u>	<u>25,792</u>
		<i>HK cents</i>	<i>HK cents</i>
(Loss)/earnings per share			
Basic and diluted	10	<u>(0.05)</u>	<u>1.58</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		32,513	35,368
Investment property	<i>11</i>	–	94,800
Interests in a joint venture		118,477	113,423
Loan to a joint venture		29,675	33,600
		<hr/>	<hr/>
Total non-current assets		180,665	277,191
		<hr/>	<hr/>
Current assets			
Inventories		326,381	196,241
Trade and other receivables	<i>12</i>	212,060	264,113
Loans and interest receivables		–	28,546
Cash and cash equivalents		16,365	19,999
		<hr/>	<hr/>
Total current assets		554,806	508,899
		<hr/>	<hr/>
Total assets		735,471	786,090
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the Company			
Share capital	<i>15</i>	67,710	67,710
Reserves		605,476	594,703
		<hr/>	<hr/>
Total equity		673,186	662,413
		<hr/>	<hr/>

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Lease liabilities		<u>666</u>	<u>859</u>
Total non-current liabilities		<u>666</u>	<u>859</u>
Current liabilities			
Trade and other payables	<i>13</i>	38,220	15,970
Contract liabilities		–	31,246
Lease liabilities		694	964
Bank borrowings	<i>14</i>	<u>22,705</u>	<u>74,638</u>
Total current liabilities		<u>61,619</u>	<u>122,818</u>
Total liabilities		<u>62,285</u>	<u>123,677</u>
Total equity and liabilities		<u>735,471</u>	<u>786,090</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2020	<u>67,710</u>	<u>8,249</u>	<u>(5,622)</u>	<u>1,064</u>	<u>591,012</u>	<u>662,413</u>
Comprehensive income						
Loss for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(804)</u>	<u>(804)</u>
Other comprehensive income						
Exchange differences arising from translation of foreign operations, net of nil tax	<u>-</u>	<u>-</u>	<u>8,697</u>	<u>-</u>	<u>-</u>	<u>8,697</u>
Other comprehensive income for the year	<u>-</u>	<u>-</u>	<u>8,697</u>	<u>-</u>	<u>-</u>	<u>8,697</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>8,697</u>	<u>-</u>	<u>(804)</u>	<u>7,893</u>
Transactions with owners in their capacity as owners						
Equity-settled share-based payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,880</u>	<u>-</u>	<u>2,880</u>
Total transactions with owners in their capacity as owners	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,880</u>	<u>-</u>	<u>2,880</u>
At 31 December 2020	<u><u>67,710</u></u>	<u><u>8,249</u></u>	<u><u>3,075</u></u>	<u><u>3,944</u></u>	<u><u>590,208</u></u>	<u><u>673,186</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2019	67,710	8,249	(4,699)	–	564,297	635,557
Comprehensive income						
Profit for the year	–	–	–	–	26,715	26,715
Other comprehensive income						
Exchange differences arising from translation of foreign operations, net of nil tax	–	–	(923)	–	–	(923)
Other comprehensive loss for the year	–	–	(923)	–	–	(923)
Total comprehensive income for the year	–	–	(923)	–	26,715	25,792
Transactions with owners in their capacity as owners						
Equity-settled share-based payments	–	–	–	1,064	–	1,064
Total transactions with owners in their capacity as owners	–	–	–	1,064	–	1,064
At 31 December 2019	67,710	8,249	(5,622)	1,064	591,012	662,413

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cash flows from operating activities		
(Loss)/profit before income tax	(804)	26,715
Adjustments for:		
Depreciation of property, plant and equipment	3,024	2,408
Interest expense	1,774	1,442
Changes in fair value of investment property	–	(2,300)
Loss on disposal of property, plant and equipment	349	1,836
Loss on disposal of an investment property	1,044	–
Interest income	(141)	(17,777)
Equity-settled share-based payment expenses	2,880	1,064
Loss allowance for expected credit losses on trade receivables, net	14,000	3,099
Realised loss on disposal of financial assets at fair value through profit or loss	–	445
Share of loss of a joint venture accounted for using the equity method	1,639	1,388
Gain on derecognition of right-of-use assets and liabilities arising from early termination of lease	(19)	(535)
Reversal of provision of variable lease expense	–	(3,277)
Provision for inventory write-down	3,500	–
Operating cash inflow before changes in working capital	27,246	14,508
Decrease/(increase) in trade and other receivables	43,988	(231,311)
Increase in inventories	(133,640)	(155,110)
Increase/(decrease) in trade and other payables	22,766	(31,139)
(Decrease)/increase in contract liabilities	(31,246)	24,246
Net cash used in operating activities	(70,886)	(378,806)

	2020	2019
	HK\$'000	HK\$'000
Cash flows from investing activities		
Interest received from banks	28	755
Interest received from a joint venture	113	115
Interest received from loan receivables	4,327	25,746
Purchases of property, plant and equipment	(10)	(33,128)
Loans to third parties	–	(171,000)
Repayments of loans by third parties	24,219	317,281
Proceeds from disposal of property, plant and equipment	–	157
Proceeds from disposal of an investment property, net of direct costs	93,756	–
Proceeds from disposal of financial assets at fair value through profit or loss	–	6,845
Proceeds in relation to the disposal of subsidiaries	–	40,000
	<u>–</u>	<u>40,000</u>
Net cash generated from investing activities	122,433	186,771
	<u>122,433</u>	<u>186,771</u>
Cash flows from financing activities		
Interest paid on bank borrowings	(2,251)	(628)
Proceeds from bank borrowings	146,371	102,177
Repayments of bank borrowings	(198,304)	(27,539)
Principal element of lease payments paid	(950)	(431)
Interest element of lease payments paid	(60)	(244)
	<u>(60)</u>	<u>(244)</u>
Net cash (used in)/generated from financing activities	(55,194)	73,335
	<u>(55,194)</u>	<u>73,335</u>
Net decrease in cash and cash equivalents	(3,647)	(118,700)
Cash and cash equivalents at beginning of the year	19,999	138,304
Effect of change of foreign exchange rate	13	395
	<u>13</u>	<u>395</u>
Cash and cash equivalents at end of the year	16,365	19,999
	<u>16,365</u>	<u>19,999</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Qianhai Health Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) are principally engaged in sale of health-care products and sale of electronic components products.

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 August 2011 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of Cayman Islands. The Company’s immediate and ultimate holding company is Explorer Rosy Limited (“**Explorer Rosy**”), a company incorporated in the British Virgin Islands (the “**BVI**”). The ultimate beneficial owners of Explorer Rosy are Mr. Huang Guanchao and Mr. Lim Tzea. The address of the Company’s registered office is P.O. Box 2681, Cricket Square, Hutchins Drive, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is Room 301-3, 3/F., Wing Tuck Commercial Centre, 177-183 Wing Lok Street, Hong Kong. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), unless otherwise stated. The consolidated financial statements have been approved for issue by the board of directors of the Company on 22 March 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Compliance with HKFRS and HKCO

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622 (“**HKCO**”).

(b) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for the financial assets at fair value through profit or loss and investment properties, which are measured at fair value.

(c) New and amended standards adopted by the Group

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

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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

(d) New standards, amendments to standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations that are relevant to the Group but not yet effective for the financial year beginning at 1 January 2020 and have not been early adopted by the Group are as follows:

Standards	Key requirements	Effective for annual periods beginning on or after
Amendments to HKFRS 16	COVID-19 Related Rent Concessions	1 June 2020
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group has already commenced an assessment of the impact of the new or revised standards that have been issued but either not yet effective for the financial period beginning 1 January 2020 or not been early adopted by the Group which are relevant to the Group's operation. The Group believes that the application of amendments to HKFRSs, amendments to HKASs and the new interpretations is unlikely to have a material impact on the Group's statement of financial position and performance as well as disclosure in the future.

3. SEGMENT INFORMATION

The Group determines its operating segments based on internal reports reviewed by the chief operating decision makers, which are the executive Directors, for the purpose of allocating resources to the segments and to assess their performance which focus on the sale of different types of products from different business lines.

Specifically, the Group's reportable and operating segments have been identified as follows:

- (i) Health-care products: sale of health-care products (including Chinese herbal medicines, skin-care and other health-care products); and
- (ii) Electronic component products: sale of information technology components products (including central processing unit and semi-conductors).

The following is an analysis of the Group's revenue from contracts with customers, net of rebates and discounts and results by segment:

	Health-care products	Electronic components products	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2020			
Segment revenue	443,810	316,911	760,721
Cost of sales	(415,660)	(299,933)	(715,593)
Segment result	<u>28,150</u>	<u>16,978</u>	<u>45,128</u>
Year ended 31 December 2019			
Segment revenue	420,689	167,119	587,808
Cost of sales	(395,889)	(159,236)	(555,125)
Segment result	<u>24,800</u>	<u>7,883</u>	<u>32,683</u>

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Segment result	45,128	32,683
Unallocated		
Other income	947	17,777
Other (losses)/gains, net	(18,153)	1,159
Selling and distribution expenses	(1,438)	(933)
Administrative expenses	(23,875)	(21,141)
Finance costs	(1,774)	(1,442)
Share of loss of a joint venture accounted for using the equity method	(1,639)	(1,388)
	<u>(804)</u>	<u>26,715</u>
(Loss)/profit before income tax	<u>(804)</u>	<u>26,715</u>

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year ended 31 December 2019 and 2020.

Segment result during the year represents the gross profit of each segment without allocation of other income, other (losses)/gains, net, selling and distribution expenses, administrative expenses, finance costs and share of results of a joint venture accounted for using the equity method. This is the measure reported to the Group's chief operating decision makers, for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

No segment assets and segment liabilities and other segment information are presented as such amounts are not reviewed by the Group's chief operating decision makers for the purpose of resource allocation and performance assessment or otherwise regularly provided to the Group's chief operating decision makers.

Geographical information

No geographical segment information is presented as the Group's revenue is all derived from Hong Kong based on the location of goods delivered.

The Group's non-current assets other than financial instruments by geographical locations, which are determined by the geographical locations in which the asset is located in the case of property, plant and equipment, and the operation is located in the case of interests in a joint venture, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current assets		
The People's Republic of China (the "PRC")	118,477	114,104
Hong Kong	<u>32,513</u>	<u>129,487</u>
	<u>150,990</u>	<u>243,591</u>

4. OTHER INCOME

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Government grants (<i>Note</i>)	806	–
Interest income from loan receivables	–	16,907
Interest income from bank deposits	28	755
Interest income from a joint venture	<u>113</u>	<u>115</u>
	<u>947</u>	<u>17,777</u>

Note: In 2020, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the HKSAR Government. The purpose of the funding is to provide financial support to enterprise to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

5. OTHER (LOSSES)/GAINS, NET

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss on disposal of property, plant and equipment	(349)	(1,836)
Loss on disposal of investment property	(1,044)	–
Fair value gain of investment property	–	2,300
Inventory write-down	(3,500)	–
Gain on derecognition of right-of-use assets and lease liabilities arising from early termination of lease	19	535
Realised loss on disposal of financial assets at fair value through profit or loss	–	(445)
Exchange gain, net	721	427
Reversal of provision of variable lease expense	–	3,277
Loss allowance for expected credit losses on trade receivables, net	(14,000)	(3,099)
	<u>(18,153)</u>	<u>1,159</u>

6. EXPENSES BY NATURE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Auditor's remuneration	880	880
Cost of inventories sold	715,593	555,125
Employee benefit expense	13,714	8,582
Depreciation of property, plant and equipment	3,024	2,408
Expenses relating to short-term leases and other leases with remaining lease term ending within one year	724	2,712
Transportation expenses	130	242
Legal and professional fee	1,438	2,470
Insurance expense	576	448
Office expense	667	606
Consultancy fee	600	621
Others	3,560	3,105
	<u>740,906</u>	<u>577,199</u>
Total cost of sales, selling and distribution expenses and administrative expenses	<u>740,906</u>	<u>577,199</u>

7. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest expense on:		
– Bank loans	1,714	1,198
– Lease liabilities	<u>60</u>	<u>244</u>
	<u><u>1,774</u></u>	<u><u>1,442</u></u>

8. INCOME TAX

Hong Kong Profits Tax

Hong Kong Profits Tax is calculated at 16.5% (2019: 16.5%) on the estimated assessable profit.

No provision for Hong Kong Profits Tax has been made for the Company and the subsidiaries incorporated in Hong Kong as they have no assessable profits or sufficient tax losses brought forward to set off against the estimated assessable profits for the current and prior year.

PRC Enterprise Income Tax

The subsidiaries established in the PRC are subject to PRC Enterprise Income Tax (“EIT”) rate of 25% (2019: 25%) during the year.

No provision for PRC EIT has been made as the subsidiaries established in the PRC have estimated tax losses for both current and prior year.

Income tax from other tax jurisdictions

Pursuant to the income tax rules and regulations, the Group is not subject to income tax in the jurisdictions of the Cayman Islands and the BVI.

9. DIVIDEND

The board of directors of the Company does not recommend the payment of any dividend in respect of the year ended 31 December 2020 and 2019.

10. (LOSS)/EARNINGS PER SHARE

(a) Basic

The calculation of basic (loss)/earnings per share is based on the (loss)/profit for the year attributable to owners of the Company and the weighted average number of ordinary shares in issue during the year.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
(Loss)/profit for the year attributable to owners of the Company	<u>(804)</u>	<u>26,715</u>
Weighted average number of ordinary shares for the purpose of basic loss/earnings per share (in thousands)	<u>1,692,760</u>	<u>1,692,760</u>

(b) Diluted

Diluted (loss)/earnings per share is the same amount as the basic (loss)/earnings per share for both years ended 31 December 2020 and 2019 because the exercise of the outstanding share options would be anti-dilutive.

11. INVESTMENT PROPERTY

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At fair value		
At 1 January	94,800	92,500
Disposal	(94,800)	–
Change in fair value	<u>–</u>	<u>2,300</u>
At 31 December	<u>–</u>	<u>94,800</u>

On 21 March 2020, the investment property was disposed to an independent third party at the consideration of HK\$94,800,000 and loss on disposal of HK\$1,044,000, net of direct costs, was recognised in profit or loss, and was included in “other (losses)/gains”.

12. TRADE AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables, net of loss allowance	<u>193,416</u>	<u>254,002</u>
Loan to a joint venture	35,610	33,600
Prepayment for inventory purchase	12,000	9,202
Other prepayments	462	383
Deposits	247	437
Others	<u>–</u>	<u>89</u>
	<u>48,319</u>	<u>43,711</u>
Total trade and other receivables	241,735	297,713
Less: Non-current loan	<u>(29,675)</u>	<u>(33,600)</u>
Current portion	<u>212,060</u>	<u>264,113</u>

The Group generally grants credit periods ranging from 60 days to 120 days (2019: 30 to 90 days) to its customers. Before accepting any new customer upon receipt of partial prepayment in advance, the Group internally assesses the potential customer's credit quality and define an appropriate credit limit. Management closely monitors the credit quality and follow-up action is taken if overdue debts are noted.

The following is an aging analysis of trade receivables based on the invoice date and net of loss allowance at the end of each reporting period:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 30 days	88,259	212,301
31 to 90 days	52,319	33,495
91 to 180 days	39,941	5,990
181 to 365 days	<u>12,897</u>	<u>2,216</u>
	<u>193,416</u>	<u>254,002</u>

13. TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	<u>34,865</u>	<u>13,971</u>
Other payables		
– Accrued expenses	3,144	1,797
– Others	<u>211</u>	<u>202</u>
	<u>3,355</u>	<u>1,999</u>
Total trade and other payables	<u><u>38,220</u></u>	<u><u>15,970</u></u>

The Group normally receives credit terms of 90 to 150 days from its suppliers.

The following is an aging analysis of trade payables based on the invoice date at the end of each reporting period:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 30 days	18,560	13,971
31 to 90 days	<u>16,305</u>	<u>–</u>
	<u><u>34,865</u></u>	<u><u>13,971</u></u>

14. BANK BORROWINGS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Secured bank borrowings		
– Trade loans	22,705	53,188
– Revolving term loan	<u>–</u>	<u>21,450</u>
	<u><u>22,705</u></u>	<u><u>74,638</u></u>

All the bank borrowings are secured by the banking facilities as mentioned below and bear variable interest rate at Hong Kong Interbank Offered Rate (“**HIBOR**”) or London Interbank Offered Rate (“**LIBOR**”) plus a margin ranging from 2% to 2.4% (2019: 2% to 3%) per annum. As at 31 December 2020, all the Group’s bank borrowings were repayable within 3 months (2019: 3 months to 1 year).

15. SHARE CAPITAL

	Number of shares (thousands)	Nominal value HK\$'000
Ordinary shares		
Authorised:		
As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	<u>5,000,000</u>	<u>200,000</u>
	Number of shares (thousands)	Share capital HK\$'000
Issued and fully paid:		
As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	<u>1,692,760</u>	<u>67,710</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2020, the global economy was deeply dampened by the outbreak of the coronavirus disease (the “**COVID-19**”). Different levels of lockdown and quarantine measures have been taken due to the outbreak of the COVID-19 around the world, which have significantly reduced the human flows, social activities, transportation and trading activities worldwide and directly led to sharp fall in economies and increment of unemployment. This also severely and adversely affected the health-care products business line of the Group. In addition, the general slowdown in the growth of the global economy and international trade, and the gradual escalation of Sino-American trade friction have affected China’s economic growth. In light of that, during the Year, the Group kept on further diversifying its existing product portfolio in different aspects in order to achieve a better and sustainable long-term development.

The Group continues maintaining its main business of sale of health-care products (the “**Health-care Business**”), while at the same time diversifying its businesses to expand the sale of electronic component products (the “**Electronic Component Business**”). The Group recorded an increase in the revenue by approximately 29.4% to approximately HK\$760.7 million for the Year, as compared to approximately HK\$587.8 million for the Prior Year.

During the Year, the sale of health-care products contributed the revenue of approximately HK\$443.8 million, while the sale of the electronic component products contributed revenue of approximately HK\$316.9 million in the Year. Around 58.3% and 41.7% of the Group’s revenue was generated from the Health-care Business and the Electronic Component Business respectively in the Year.

The Electronic Component Business helped the Group mitigate the risk exposure under the uncertainty of the global economy.

FINANCIAL REVIEW

	Revenue for the year 31 December				Gross profit margin for the year 31 December	
	2020		2019		2020	2019
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	%	%
Health-care Business	443,810	58.3	420,689	71.6	6.3	5.9
Electronic Component Business	316,911	41.7	167,119	28.4	5.4	4.7
TOTAL	760,721	100.0	587,808	100.0	5.9	5.6

Health-care Business

During the Year, the revenue generated from sale of health-care products, which includes Chinese herbal medicine, skin-care and other health-care products, of approximately HK\$443.8 million, representing an increase of approximately 5.5%, as compared to that of the Prior Year. The increase was mainly due to the diversification of product portfolio. During the Year, segment profit of approximately HK\$28.2 million was generated from the Health-care Business, representing an increase of approximately 13.5%, as compared to that of the Prior Year.

Electronic Component Business

The electronic component products that the Group sells are mainly central processing unit and semi-conductor. During the Year, the segment revenue and profit generated from the Electronic Component Business amounted to approximately HK\$316.9 million and HK\$17.0 million respectively, representing an increase of approximately 89.6% and 115.4% respectively. The Group diversifies its product mix into Electronic Component Business and enables the Group to broaden its income stream which will bring positive results to the Group.

Gross profit

Gross profit increased by approximately 38.1% from approximately HK\$32.7 million in the Prior Year to approximately HK\$45.1 million in the Year, while the gross profit margin gently increased from approximately 5.6% in the Prior Year to approximately 5.9% in the Year which maintaining at a relatively stable level between these two years.

Other income

The Group's other income mainly represented the Government grants from the Employment Support Scheme under the Anti-epidemic Fund. In the Prior Year, the Group's other income mainly represented the interest income from the money lending business of approximately HK\$16.9 million. The decrease was in line with the Group's strategy to reduce its money lending activities and allocate more fund for its core the business operations. Subsequent to the settlement of the outstanding balance of the loan receivables as at 31 December 2019, no new loans had been granted after the Year and up to the date of this announcement.

Other (losses)/gains, net

The Group recorded other net losses of approximately HK\$18.2 million in the Year, while other net gains of approximately HK\$1.2 million for the Prior Year. The turnaround was mainly due to (i) provision for inventory of approximately HK\$3.5 million being recognised during the Year due to long inventory turnover period (2019: Nil); and (ii) provision of expected credit losses allowance on trade receivable of approximately HK\$14.0 million (2019: HK\$3.1 million) was recognised during the Year.

Results

Overall, the Group recorded a loss attributable to owners of the Company of approximately HK\$0.8 million, as compared to the profit attributable to owners of the Company of approximately HK\$26.7 million of the year ended 31 December 2019.

FUTURE PROSPECTS

The COVID-19 pandemic has not yet been under control and there are still uncertainties in the worldwide economy, the Group foresees that 2021 will continue to be a very challenging year.

With population growth, ageing trends and people's increasing awareness of health, the Directors believe that there will be a steady growth in the health-care products industry in the coming future. Meanwhile, the Group has been actively exploring opportunities to expand its product mix from time to time so to broaden the Group's income sources, which is expected to have a positive future impact on the Group's performance given the positive outlook of the health-care business.

The Group will continue to conduct its review on the business activities and assets of the Group for the purpose of formulating business plan and strategies for the future business development of the Group. The strategies of the Group are to achieve the best use of its resources, achieve portfolio diversification and improve its overall performance. The Group has been actively looking to diversify its revenue sources in order to bring valuable returns to the shareholders of the Company (the "**Shareholders**") through making investments and/or acquiring business or projects that have promising outlooks and prospects, and may also consider the possibility of disposing of business, investment or assets in respect of its non-core business currently held by the Group.

WORKING CAPITAL AND INVENTORY MANAGEMENT

As at 31 December 2020, the non-current assets decreased by approximately 34.8% to approximately HK\$180.7 million, as compared with approximately HK\$277.2 million as at 31 December 2019. The decrease in non-current assets was mainly due to the disposal of investment property during the Year.

As at 31 December 2020, the Group recorded total current assets of approximately HK\$554.8 million (2019: approximately HK\$508.9 million) and total current liabilities of approximately HK\$61.6 million (2019: approximately HK\$122.8 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 9.0 times as at 31 December 2020 (2019: approximately 4.1 times).

The increase in inventories by approximately 66.3% to approximately HK\$326.4 million as at 31 December 2020, as compared to that of approximately HK\$196.2 million as at 31 December 2019. Such increase was in line with the growing business during the Year.

The trade receivables, net of loss allowances decreased by approximately 23.9% to approximately HK\$193.4 million as at 31 December 2020, as compared with approximately HK\$254.0 million as at 31 December 2019. During the Year, a loss allowance for expected credit losses on trade receivables of approximately HK\$14.0 million (2019: approximately HK\$3.1 million) was recognised, which were estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. The management of the Group regularly evaluates the Group's customers, assesses their known financial position and the credit risks.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2020, cash and cash equivalents of the Group amounted to approximately HK\$16.4 million (2019: approximately HK\$20.0 million).

As at 31 December 2020, the Group's borrowings amounted to approximately HK\$22.7 million (2019: approximately HK\$74.6 million). The net debt to total asset ratio, calculated as borrowings less cash and cash equivalents divided by total assets, was approximately 0.01 (2019: 0.07).

FOREIGN CURRENCY EXPOSURE

The Group faces foreign exchange risk as certain cash and cash equivalents are denominated in foreign currencies. The reporting currency is Hong Kong dollars (“**HKD**”) and the purchases of health-care products and electronic component products are mainly made in United States dollars (“**USD**”) and Canadian dollars (“**CAD**”). As a result, the Group incurred transactional and translational foreign currency gains or losses from its operations. For the Year, the Group incurred a gain of foreign exchange differences amounted to approximately HK\$0.7 million (2019: approximately HK\$0.4 million). The Board will continuously monitor the foreign exchange exposure and will consider hedging of foreign currency risk should the need arise.

CONTINGENT LIABILITIES AND CHARGE OF ASSETS

As at 31 December 2020, the Group continued to provide corporate guarantees on banking facilities granted to the Group’s subsidiaries. The amount of bank borrowings utilised by the subsidiaries as at 31 December 2020 amounted to approximately HK\$22.7 million (2019: HK\$74.6 million).

As at 31 December 2020, certain land and buildings (2019: certain land and buildings and investment property) of the Group, with a total carrying value of approximately HK\$28.6 million (2019: HK\$124.5 million) were pledged to banks as securities for bank loans of approximately HK\$22.7 million (2019: HK\$74.6 million) granted to the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, we had a total of 22 employees. The Company determines employee salaries based on each employee’s qualifications, position and seniority. Our Group has established an annual review system to assess the performance of our employees, which forms the basis of our decisions with respect to salary raises, bonuses and promotions.

The emoluments of the Directors are decided by the Board after recommendation from the remuneration committee of the Company, having considered the factors such as the Group’s financial performance, the achievement of special targets and the individual performance of the Directors, etc..

Apart from mandatory provident fund and medical insurance, the Company has adopted a share option scheme under which share options may also be awarded to the Directors and eligible employees as an incentive with reference to the assessment of individual performance. The Board believes that the Group maintains an admirable relationship with the employees.

CLOSURE OF REGISTER OF MEMBERS

The 2020 annual general meeting of the Company (the “AGM”) will be held on Tuesday, 22 June 2021 and for the purpose of determining the Shareholders’ eligibility to attend and vote at the AGM, the register of members of the Company will be closed from closed from Thursday, 17 June 2021 to Tuesday, 22 June 2021, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all completed transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company’s Hong Kong branch registrar, Tricor Investor Services Limited of Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 16 June 2021.

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

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2020.

CORPORATE GOVERNANCE

The Board is committed to achieving high standards of corporate governance to safeguard the interest of the Company’s shareholders and to enhance corporate value and accountability. For the year ended 31 December 2020, the Company has applied the principles and complied with the applicable code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Rules Governing (the “Listing Rules”) the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), except in relation to CG Code provision A.2.1, as more particularly described below.

CG Code Provision A.2.1

CG Code provision A.2.1 states that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Since 18 July 2019, the position of chief executive officer is vacant and the Company is still indentifying a suitable candidate for the position of the chief executive officer, and the Company has re-complied with the CG Code provision A.2.1.

The Group also has in place an internal control system to perform the checks and balance function. There are also three independent non-executive Directors on the Board offering strong, independent and differing perspectives. The Board is therefore of the view that there are adequate balance-of-power and safeguards in place to enable the Company to make and implement decisions promptly and effectively.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the code of conduct rules (the “**Model Code**”) regarding securities transactions by Directors on terms no less exactly than the required standard set out in the Model Code for Securities Transactions by the Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, and that having made specific enquiry to all Directors, the Company confirms that all Directors have complied with the Model Code.

AUDIT COMMITTEE

The Company has established the audit committee with a specific written terms of reference in accordance with the requirements under Rule 3.21 of the Listing Rules and the CG Code. The audit committee is responsible for, among others, reviewing and supervising the Group’s financial reporting process, assisting the Board to ensure effective risk management and internal control systems and providing advice and comments to the Board.

As at 31 December 2020 and up to the date of this results announcement, the audit committee comprised all three independent non-executive Directors, namely, Mr. Yuen Chee Lap Carl (Chairman of the Audit Committee), Mr. Li Wei and Mr. Wu Wai Leung Danny.

The audited consolidated financial statements of the Group for the year ended 31 December 2020 have been reviewed by the Audit Committee together with the management and the external auditors of the Company. The audit committee is satisfied that such statements comply with the applicable accounting standards and that adequate disclosures have been made.

SCOPE OF WORK OF BAKER TILLY HONG KONG LIMITED

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary results announcement have been agreed by the Group’s auditor, Baker Tilly Hong Kong Limited, to the amounts set out in the Group’s audited consolidated financial statements for the Year. The work performed by Baker Tilly Hong Kong Limited 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 and consequently no assurance has been expressed by Baker Tilly Hong Kong Limited on the preliminary results announcement.

PUBLICATION OF THE FINAL RESULTS AND DESPATCH OF ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange and the Company, and the annual report of the Company for the year ended 31 December 2020 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
Qianhai Health Holdings Limited
Huang Guanchao
Chairman

Hong Kong, 22 March 2021

As at the date of this announcement, the non-executive Directors are Huang Guanchao and Mr. Lim Tzea; the executive Directors are Mr. Xu Keli and Mr. Lam Hin Chi and the independent non-executive Directors are Mr. Li Wei, Mr. Wu Wai Leung Danny and Mr. Yuen Chee Lap Carl.