

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2021

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 2021 together with the comparative figures for the corresponding year ended 31 March 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the year ended 31 March	
		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	5	87,889	45,160
Cost of goods sold/services rendered		(61,897)	(27,908)
Gross profit		25,992	17,252
Other income	6	6,476	7,798
Other gain/(loss), net	6	668	(14,937)
Share-based payment	8	(895)	(9,926)
Selling and distribution cost		(9,508)	—
Administrative expenses		(27,770)	(33,121)
Finance costs	7	(294)	(148)
Fair value loss on investment property		—	(1,258)

		For the year ended 31 March	
		2021	2020
	Notes	HK\$'000	HK\$'000
LOSS BEFORE TAX	8	(5,331)	(34,340)
Income tax	9	<u>(1,228)</u>	<u>(1,435)</u>
LOSS FOR THE YEAR		<u>(6,559)</u>	<u>(35,775)</u>
(Loss)/profit for the year attributable to:			
Owners of the Company		(7,744)	(36,679)
Non-controlling interest		<u>1,185</u>	<u>904</u>
		<u>(6,559)</u>	<u>(35,775)</u>
LOSS PER SHARE	10		
Basic		<u>(HK0.19 cents)</u>	<u>(HK0.89 cents)</u>
Diluted		<u>(HK0.19 cents)</u>	<u>(HK0.89 cents)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 March	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
LOSS FOR THE YEAR	<u>(6,559)</u>	<u>(35,775)</u>
Other comprehensive expense:		
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	<u>4,916</u>	<u>(11,157)</u>
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR	<u><u>(1,643)</u></u>	<u><u>(46,932)</u></u>
Total comprehensive (expense)/income for the year attributable to:		
Owners of the Company	(2,828)	(47,971)
Non-controlling interest	<u>1,185</u>	<u>1,039</u>
	<u><u>(1,643)</u></u>	<u><u>(46,932)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2021

	Notes	2021 HK\$'000	2020 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		25,073	24,295
Right-of-use assets		4,023	5,034
Goodwill		22,603	22,603
Intangible asset		–	–
Investment in associate		–	–
Investment properties		–	–
Deposit for property, plant and equipment		1,658	–
		<u>53,357</u>	<u>51,932</u>
CURRENT ASSETS			
Inventories		5,080	6,560
Trade receivables	11	56,317	35,838
Prepayments, deposits and other receivables		18,524	5,013
Loan and interest receivables		79,946	87,243
Cash and bank balances		4,594	10,245
		<u>164,461</u>	<u>144,899</u>
CURRENT LIABILITIES			
Trade payables	12	17,079	14,099
Other payables and accrued expenses	13	86,653	70,063
Amount due to a director		5,758	–
Contract liabilities		651	2,422
Lease liabilities		1,084	1,266
Bank loan		3,553	–
Tax payable		2,327	6,383
		<u>117,105</u>	<u>94,233</u>

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
NET CURRENT ASSETS		47,356	50,666
TOTAL ASSETS LESS CURRENT LIABILITIES		100,713	102,598
NON-CURRENT LIABILITIES			
Lease liabilities		727	1,864
NET ASSETS		99,986	100,734
EQUITY			
Equity attributable to owners of the Company			
Share capital	<i>14</i>	413,995	413,995
Reserves		(318,956)	(317,023)
		95,039	96,972
Non-controlling interests		4,947	3,762
TOTAL EQUITY		99,986	100,734

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 and the principal activities of its subsidiaries are engaged in distribution and service in medical equipment and consumables, hospital operation and management services, business 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.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

New and Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 April 2020 for the preparation of the consolidated financial statements:

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

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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 rendered.

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

- Distribution and service in medical equipment and consumables;
- Hospital operation and management services; and
- Business service

Segment assets excluded 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 2021 and 2020:

For the year ended 31 March 2021	Distribution and service in medical equipment and consumables <i>HK\$'000</i>	Hospital operation and management service <i>HK\$'000</i>	Business service <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue				
Revenue from external customers	<u>68,768</u>	<u>18,364</u>	<u>757</u>	<u>87,889</u>
Segment results	2,640	(2,340)	(1,481)	(1,181)
Reconciliation:				
Interest income and unallocated income				1,444
Corporate and other unallocated expenses				<u>(5,594)</u>
Loss before tax				<u>(5,331)</u>
Depreciation and amortisation	139	3,414	5	3,558
Reconciliation:				
Unallocated depreciation and amortisation				<u>13</u>
				<u>3,571</u>

For the year ended 31 March 2020	Distribution and service in medical equipment and consumables <i>HK\$'000</i>	Hospital operation and management service <i>HK\$'000</i>	Business service <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue					
Revenue from external customers	<u>29,653</u>	<u>11,104</u>	<u>3,671</u>	<u>732</u>	<u>45,160</u>
Segment results	3,388	(11,580)	(7,085)	(1,503)	(16,780)
Reconciliation:					
Interest income and unallocated income					1,335
Corporate and other unallocated expenses					<u>(18,895)</u>
Loss before tax					<u>(34,340)</u>
Depreciation and amortisation	24	1,923	18	238	2,203
Reconciliation:					
Unallocated depreciation and amortisation					<u>301</u>
					<u>2,504</u>

The following table is an analysis of the Group's assets and liabilities and other segment information as at 31 March 2021 and 2020:

For the year ended 31 March 2021

	Distribution and service in medical equipment and consumables <i>HK\$'000</i>	Hospital operation and management services <i>HK\$'000</i>	Business service <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	55,757	71,564	18,906	146,227
Corporate and other unallocated assets				<u>71,591</u>
Total assets				<u>217,818</u>
Segment liabilities	78,273	29,562	2,128	109,963
Corporate and other unallocated liabilities				<u>7,869</u>
Total liabilities				<u>117,832</u>

For the year ended 31 March 2020

	Distribution and service in medical equipment and consumables <i>HK\$'000</i>	Hospital operation and management services <i>HK\$'000</i>	Business service <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	20,594	79,139	60,738	35,226	195,697
Corporate and other unallocated assets					<u>1,134</u>
Total assets					<u><u>196,831</u></u>
Segment liabilities	7,070	24,760	964	2,066	34,860
Corporate and other unallocated liabilities					<u>61,237</u>
Total liabilities					<u><u>96,097</u></u>

Geographical information

For the years ended 31 March 2021 and 2020, 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 2021, the Group had transactions with one customer (2020: one customer) who contributed over 10% of the Group's total net revenue, which is summarised below:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Customer 1	<u><u>10,456</u></u>	<u><u>7,584</u></u>

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 rendered, net of allowances for returns, trade discounts and value-added tax. An analysis of the Group's revenue is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue from contracts, with customers with the scope of HKFRS 15, disaggregated by major products or services lines:		
Income from distribution and service in medical equipment and consumables*	68,768	29,653
Income from provision of hospital operation and management services* (<i>Note</i>)	18,364	11,104
Service fee income*	757	3,671
Rental income*	—	732
	<u>87,889</u>	<u>45,160</u>

* Income from provision of hospital operation and management services, service fee income and rental income is recognised over time and revenue from distribution and service in medical equipment and consumables is recognised at a point in time.

Note: The amount comprises (a) the management fee income from Shuanglun Hospital of approximately HK\$3,088,000 (2020: HK\$3,293,000); (b) the management fee income and hospital operation income from Anping Hospital of approximately HK\$15,276,000 (2020: HK\$7,811,000).

6. OTHER INCOME/OTHER LOSS, NET

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
(i) Other income		
Exchange gain	—	3
Loan interest income	5,135	5,857
Interest income	8	530
Sundry income	1,333	1,408
	<u>6,476</u>	<u>7,798</u>

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
(ii) Other gain/(loss), net		
Reversed/(recognised) of impairment loss on loan and interest receivables	722	(3,417)
Reversed of impairment loss on trade receivables	124	1,870
Recognised of impairment loss on other receivables	(191)	(25)
Derecognition of right-of-use assets	13	–
Derecognition of intangible asset	–	(13,365)
	<u>668</u>	<u>(14,937)</u>

7. FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on lease liabilities	224	148
Interest on bank loan	70	–
	<u>294</u>	<u>148</u>

8. LOSS BEFORE TAX

Loss before tax is arrived at after charging the following:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Auditors' remuneration	810	810
Depreciation of right-of-use assets	741	553
Depreciation of property, plant and equipment	2,830	1,214
Loss on disposal of property, plant and equipment	187	26
Amortisation of intangible assets	–	737
Derecognition of intangible asset	–	13,365
Short-term lease payment	1,140	1,062
Staff costs (including directors' emoluments)		
– Salaries, wages, and other benefits	17,056	16,214
– Share-based payment	895	9,926
– Contributions to defined contribution retirement plans	410	558

9. INCOME TAX

Hong Kong Profit Tax is calculated at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits for the year. 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% (2020: 25%).

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current tax-PRC		
Provision for the year	<u>1,228</u>	<u>1,435</u>

A reconciliation of the tax expense applicable to loss before tax at the statutory rates of the PRC, where the majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rates, is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loss before tax	<u>(5,331)</u>	<u>(34,340)</u>
Tax at the statutory rate in the PRC of 25%	(1,333)	(8,585)
Effect of different tax rate of subsidiaries operating in other jurisdictions	1	1,745
Tax effect of non-taxable income	(2)	(132)
Tax effect of non-deductible expenses	973	3,969
Tax losses not recognised	<u>1,589</u>	<u>4,438</u>
Tax charge for the year	<u>1,228</u>	<u>1,435</u>

10. LOSS PER SHARE

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loss attributable to owners of the Company, used in the basis loss per share calculation:	<u>(7,744)</u>	<u>(36,679)</u>
	2021 '000	2020 '000
Weighted average number of ordinary shares for the purpose of calculating loss per share	<u>4,122,304</u>	<u>4,122,304</u>

(a) Basic loss per share

For the year ended 31 March 2021, the calculation of basic loss per share amount is based on the net loss for the year of approximately HK\$7,744,000 (2020: approximately HK\$36,679,000) attributable to the equity holders of the Company, and weighted average of approximately 4,122,304,000 (2020: approximately 4,122,304,000) 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 RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables:		
Distribution and service in medical equipment and consumables	29,430	12,138
Hospital operation and management services	25,169	20,774
Business service	1,718	2,926
	<u>56,317</u>	<u>35,838</u>

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

- (i) Income from distribution and service in medical equipment and consumables business is with credit terms of 90 days.
- (ii) Provision of hospital operation and management services is with credit terms of 0 to 90 days.
- (iii) Provision of business service is with credit terms of 30 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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 1 month	7,865	3,979
1 – 3 months	10,057	1,627
Over 3 months	38,395	30,232
	<u>56,317</u>	<u>35,838</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 90 days	3,715	10,260
91 – 180 days	6,330	2,573
Over 180 days	29,265	19,509
	<u>39,310</u>	<u>32,342</u>

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.

Movement in the allowance for credit loss:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Balance at beginning of the year	2,004	3,874
Reversal of allowance, net	(124)	(1,870)
	<u>1,880</u>	<u>2,004</u>

12. TRADE PAYABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade payables	<u>17,079</u>	<u>14,099</u>

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 1 months	1,800	1,604
1-3 months	665	1,440
Over 3 months and within 1 year	14,614	11,055
	<u>17,079</u>	<u>14,099</u>

13. OTHER PAYABLE AND ACCRUED EXPENSES

As at 31 March 2020 and 31 March 2021, a dividend payable on redeemable convertible cumulative preference shares in the sum of US\$4 million (equivalent to approximately HK\$30.9 million), which is in dispute as explained below, was included in other payables and accrued expenses.

On 12 September 2016, the Company received a statutory demand (the “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\$4.0 million (equivalent to approximately HK\$30.9 million) (the “Alleged Outstanding Sum”). Such amount has been included in other payables and accrued expenses in the Company’s consolidated balance sheet. An originating summons (the “Originating Summons”) under action number HCMP2593/2016 has been issued by the Company (as plaintiff) against Li Hong (as defendant) on 27 September 2016. Pursuant to the Originating Summons, the Company sought, amongst others, the following 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 High Court of Hong Kong (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 million or its equivalent into the Court within 21 days from the date of the hearing, which was so paid on 19 October 2016; 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, among other things, that (i) Li Hong be restrained from presenting any petition for the windingup of the Company based on the Alleged Outstanding Sum; and (ii) the sum of US\$4 million or its equivalent paid into the Court be released to the Company. Pursuant to the reasons for judgment 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 loan note dated 1 August 2015 to Li Hong (the “Loan Note”) was in fact issued by the Company pursuant to a backdoor arrangement made or participated in by Mr. Li Zhong Yuan (“Mr. Li”, a former executive Director and chairman of the Company) for his benefit, though not necessarily for his sole or exclusive benefit, and that Li Hong was a nominee for the purpose of receiving the Loan Note. As stated in the judgment, it follows that it must at least be open to serious argument that the Loan Note is not enforceable by Li Hong against the Company, because the issue of the Loan Note by the Company to Mr. Li’s nominee (i.e. Li Hong) would involve a breach of fiduciary duty on Mr. 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 (“Capital Foresight”) and/or an agreement dated 23 November 2012 between the Company and Capital Foresight (the “Capital Foresight Agreement”) 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 “Litigation Announcements”).

Further to the Statutory Demand and upon internal investigation, the Company believes that the US\$4 million as set out in the Litigation Announcements belongs to the Company on the following grounds: (1) that the Capital Foresight Agreement executed by Mr. Li was purportedly entered into in breach of Mr. Li's fiduciary duties and without authority, and Capital Foresight was knowingly complicit in this arrangement; (2) the Loan Note issued by the Company (under its former name China Healthcare Holdings Limited), executed by Mr. Li purportedly on behalf of the Company in favour of Li Hong was purportedly entered into in breach of Mr. Li's fiduciary duties, without authority and inconsistent with the Company's articles of association; and (3) the Capital Foresight Agreement and the Loan Note were and are void or voidable and unenforceable. On this basis, on 7 November 2017, a writ of summons under action number HCA2549/2017 has been issued in the Court by the Company against Mr. Li as 1st defendant, Capital Foresight as 2nd defendant and Li Hong as 3rd defendant (together, the "Defendants"). Pursuant to the writ, the Company sought, amongst others, the following reliefs against the Defendants: (i) a declaration that the Capital Foresight Agreement executed by Mr. Li is void or voidable and unenforceable; and (ii) a declaration that the Loan Note is void or voidable and unenforceable, as announced in the announcement of the Company dated 8 November 2017. Following that announcement, acknowledgements of service and a statement of claim were filed in December 2017.

On 24 November 2017 and in connection with the Statutory Demand, the Company received a writ of summons under action number HCA2569/2017 dated 9 November 2017 claiming for an order directing the Company to forthwith issue in favour of Capital Foresight or its nominee a promissory note of US\$4 million pursuant to the Capital Foresight Agreement, or alternatively US\$4 million, interest and costs. Pursuant to a Court order dated 19 January 2018, this action number HCA2569/2017 has been consolidated with the action number HCA2549/2017 (the "2549 & 2569 Action").

In connection with the 2549 & 2569 Action and up to the date of this announcement, the parties have filed their respective pleadings with the Court. The Company will keep the shareholders informed of the latest material developments by making further announcement(s) as and when appropriate.

14. SHARE CAPITAL

	<i>Notes</i>	No of shares	Share capital HK\$'000
Authorised:			
Ordinary shares of HK\$0.1 each At 1 April 2019, 31 March 2020, 1 April 2020 and 31 March 2021		100,000,000,000	10,000,000
Issued and fully paid:			
At 1 April 2019		4,093,947,634	409,395
Subscription of shares	(i)	46,000,000	4,600
At 31 March 2020 and 31 March 2021		4,139,947,634	413,995

Notes:

- (i) On 19 August 2019, an aggregate of 46,000,000 subscription shares were successfully allotted and issued to subscriber. The net proceeds of approximately HK\$4,600,000 will be used for future business development, investment and general working capital purposes.

15. EVENTS AFTER THE END OF THE REPORTING PERIOD

- a) On 17 March 2021, Pioneer Kingdom Limited (a wholly-owned subsidiary of the Company), the Company, Alpha Success International Limited (the “Vendor”) and Mr. Ho Pei Lin (as guarantor) entered into the sale and purchase agreement in relation to acquisition of 75% of the total equity interest in Bloom King Corporation Limited (“Bloom King”), which owns 49% equity interests of 馬格瑞茲(武漢)醫療技術發展有限公司 (Mageruizi (Wuhan) Medical Technology Development Co., Ltd.) (“Mageruizi Wuhan”), and 75% of the total outstanding amounts owing by Bloom King to the Vendor at date of completion of the acquisition for an aggregate consideration of HK\$14.6 million. The consideration shall be settled in cash of HK\$6 million and the issue of the loan note of HK\$8.6 million. The acquisition has been completed on 21 May 2021 and the Company indirectly owns a 75% equity interest in Bloom King. The effective equity interest held by the Group in Mageruizi Wuhan has been increased from 51% to 87.75% accordingly. Further details of the above were set out in the announcements of the Company dated 17 March 2021, 14 May 2021 and 21 May 2021.
- b) On 30 April 2021, the Company, two wholly-owned subsidiaries of the Company, Shuangluan Hospital and the Shuangluan Government entered into an agreement (the “Settlement Agreement”) to deal with matters concerning (i) the settlement of the sum (the “Sum”) in aggregate of approximately RMB87.7 million (equivalent to approximately HK\$105.3 million) representing principal and interest on loan advances (the “Advances”) to Shuangluan Hospital and unpaid management fees (the “Fees”) calculated up to 31 December 2020; and (ii) the management right over Shuangluan Hospital. Further details of the above were set out in the announcements of the Company dated 30 April 2021.

FINAL DIVIDEND

The Directors do not recommend the payment of any final dividend to the shareholders (2020: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

For the year ended 31 March 2021, the Group reported a revenue of approximately HK\$87.9 million, representing an increase of 94.5% as compared to HK\$45.2 million for the previous financial year. The revenue comprises (a) income from distribution and service in medical equipment and consumables of approximately HK\$68.8 million (2020: HK\$29.7 million); (b) income from hospital operation and management of approximately HK\$18.4 million (2020: HK\$11.1 million); and (c) service fee income from business factoring of approximately HK\$0.7 million (2020: HK\$3.7 million). In 2020, there was income from property investment of HK\$0.7 million. There was no such revenue during the year as the property investment business has been terminated following completion of acquisition of Anping Bo'ai Hospital for the year ended 31 March 2020 as stated below.

For the year ended 31 March 2021, the Group reported gross profit of approximately HK\$26 million, representing an increase of 50.3% as compared to HK\$17.3 million for the previous financial year.

The Group's loss attributable to shareholders for the year was approximately HK\$7.7 million as compared to a net loss of approximately HK\$36.7 million for the previous financial year. The decrease in net loss was mainly attributable to no expense of derecognition of intangible asset recognised (2020: HK\$13.4 million) and decrease in share based payment recognised of approximately HK\$9 million during the year. Basic loss per share for the year was HK\$0.19 cents (2020: HK\$0.89 cents).

REVIEW OF BUSINESS OPERATION

For the year ended 31 March 2021, the existing business segments of the Group comprise (a) medical equipment and consumables distribution and service business; (b) hospital operation and management services business; and (c) business factoring business.

(a) Medical equipment and consumables distribution and service business

During the year, the Group recorded revenue of approximately HK\$68.8 million (2020: HK\$29.7 million), representing a significant increase of 131.6% compared with last year, and operating profit of approximately HK\$2.6 million (2020: HK\$3.4 million) from medical equipment and consumables distribution and service business respectively.

In first half of 2020, the businesses of the Group are inevitably affected by the outbreak of Novel Coronavirus (COVID-19) in Wuhan and surrounding areas in Hubei Province, being the location of distribution and service business of the Group. However, benefiting from the advantages of its subdivided industries and good relationships with hospital customers and various manufacturers' brands, 馬格瑞茲(武漢)醫療技術發展有限公司 (Mageruizi (Wuhan) Medical Technology Development Co., Ltd.) ("Mageruizi Wuhan"), the principal business of the Group, overcame various difficulties, on the one hand, it vigorously expanded new hospital customers, including a batch of top-quality hospitals such as 湖北省人民醫院 (Hubei Provincial People's Hospital) and Zhongnan Hospital of Wuhan University; on the other hand, it conducted in-depth cooperation with well-known domestic and foreign manufacturers, for which it introduced new partners including Microport Scientific Corporation and undertook the platform functions of manufacturers such as Boston Scientific Corporation in central China. Against the background of the epidemic first half of this year, it still achieved a substantial increase in sales with dedicated effort by the team. In the second half of the year, the Group was more proactive in seizing the opportunity of industry recovery to expand its customer network, increase the number of products, and finally achieve satisfactory outcome throughout the year.

The Group's cardiovascular device and consumables distribution business has initially established its core competitiveness, which is to build a large-scale tertiary hospital service network with Wuhan as its center, Hubei as its foundation and radiate to central China. The Group has established sound strategic partnerships with leading global manufacturers, and built an influential regional supply chain service platform for all aspects of cardiovascular intervention and surgery. In view of the development of distribution business and the market growth potential, during the year, the Group further increased its shareholding in Mageruizi Wuhan, and its equity interest increased from 51% to 87.75%. Such acquisition was completed in May 2021.

In the medium and long term, the Group will strive to transform from a platform supplier to a brand manufacturer. While expanding its business scale and building supply chain service platform, the Group will seek opportunity to develop the manufacturing business in the cardiovascular device segment. In future, the Group will become a leading enterprise integrating R&D, manufacturing and sales in this industry.

(b) Hospital operation and management services business

Shuangluan Hospital

The Group obtained the operation right 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 July 2015 pursuant to the terms of the hospital management agreement (as supplemented on 31 July 2015 and 25 August 2015, the “Management Agreement”) dated 23 July 2015. The Group is entitled to a management fee equivalent to 3% of the revenue of Shuangluan Hospital and recorded management fee of approximately HK\$3.1 million (2020: HK\$3.3 million) during the year.

On 30 April 2021, the Company, two wholly-owned subsidiaries of the Company, Shuangluan Hospital and the Shuangluan Government entered into an agreement (the “Settlement Agreement”) to deal with matters concerning (i) the settlement of the sum (the “Sum”) in aggregate of approximately RMB87.7 million (equivalent to approximately HK\$105.3 million) representing principal and interest on loan advances (the “Advances”) to Shuangluan Hospital and unpaid management fees (the “Fees”) calculated up to 31 December 2020; and (ii) the management right over Shuangluan Hospital. Pursuant to the Settlement Agreement,

- (i) the parties acknowledged that 北京中衛康融醫院管理有限公司 (Beijing Zhong Wei Kong Rong Hospital Management Company Limited) (“Kangrong”) (a wholly-owned subsidiary of the Company) has taken up the rights and obligations of the Management Company under the Management Agreement;
- (ii) the Shuangluan Government and Shuangluan Hospital agreed that the Sum, net of expenses incurred by personnel appointed by the Group amounting to approximately RMB2.3 million (equivalent to approximately HK\$2.81 million) which shall be borne by the Group, shall be settled in cash pursuant to schedule as stated in the Settlement Agreement. The scheduled payments shall be applied towards settlement of (a) firstly, the Fees; (b) secondly, the accrued interests on the Advances; and (c) lastly, the principal amount of the Advances;
- (iii) the management right of Kangrong over Shuangluan Hospital shall cease upon the signing of the Settlement Agreement and the Group shall not be entitled to any further management fee from Shuangluan Hospital; and
- (iv) the Management Agreement shall remain effective until the full settlement of the Sum, and the representative of the Group shall resign from the role as the legal representative of Shuangluan Hospital within two business day following the full settlement of the Sum, in the manner as described in (ii) above.

As at date of this announcement, approximately RMB32.6 million (approximately HK\$38.5 million) has been received by the Group under the Settlement Agreement. Further details of the above has been disclosed in the announcement dated 30 April 2021.

Anping Kangrong Hospital Company Limited and Anping Bo'ai Hospital

During the year, Anping Bo'ai Hospital has been reorganized into Anping Kangrong Hospital Company Limited and has become an indirect wholly-owned subsidiary of the Company and changed to a profit Class II general hospital. The total gross floor area of the hospital is approximately 6,123 square metres, of which approximately 3,000 square metres are for treatment and diagnosis use, offering up to 130 beds. The hospital provides services covering clinical medicine, pediatrics, surgery, gynecology, traditional Chinese medicine and otolaryngology through outpatient services, hospitalization and general medical services including health examinations and diagnosis.

The Group recorded revenue from hospital operation of approximately HK\$15.3 million (2020: HK\$7.8 million) during the year.

(c) Business factoring business

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

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 continuous growth in recent years. Especially in the fields of biomedicine, high-end medical equipment and advanced treatment technology, it has achieved rapid development in recent years, showing huge market potential and creating good conditions for the Group to expand its business fields. The Group's cardiovascular device distribution and service business has come a long way, and a distribution network has been established in the Central China. In the future, the Group will continue to invest more resource to further expand other important regional market and gradually build a comprehensive platform for the distribution of medical equipment and consumables.

Hospital operation and management remains an important business of the Group. In the future, the Group will focus on the development of hospitals specialized in cardiovascular field and other fields to establish a self-operated hospital system. In recent years, the government has continuously strengthened the public welfare function. The commercial custody of public hospitals faces uncertain policy risks. The Group will reassess and adjust the public hospital custody business from time to time.

In the future, the Group will take advantage of the tremendous opportunities for the development of the medical and big health industry, especially the business opportunity for import substitution of high value medical device. We will focus on the important market segments in medical equipment field, seek opportunity to integrate the industrial chain of medical equipment so as to enter the field of production and R&D of medical equipment and keep a foothold in the segment, and gradually build itself into a professional device supplier with research and development, manufacturing and sales ability. The board of directors believe that adhering to this strategy, the Group will continue to improve its operating performance and create reasonable return for shareholders.

MATERIAL ACQUISITIONS AND DISPOSALS

On 24 April 2020, the Group entered into a non-binding memorandum of understanding (the “MOU”) with Mission Venus International (HK) Company Limited (the “Mission Venus”) which is primarily engaged in research and development of Chinese Herbal Skincare Products with its own special formula. The MOU relates to, among other things, (i) the proposed formation of a joint venture company; and (ii) leverage on the Company’s healthcare industry network to distribute Mission Venus’s products through the proposed joint venture to healthcare institutions in China. The MOU has been lapsed during the year. Further details of the above were set out in the announcements of the Company dated 24 April 2020 and 24 June 2020.

On 26 June 2020, the Company entered into a non-binding memorandum of understanding with Beijing Bowei Zhixin Investment Management Company Limited (the “General Partner”) regarding potential investment of not more than RMB30 million as a limited partner in a fund (the “Fund”) being established and to be managed by the General Partner. The Fund is an industrial investment sub-fund of the national science and technology achievement transformation guidance fund approved by the Ministry of Science and Technology of the People’s Republic of China in January 2020. The Fund will have an initial size of RMB1,000 million and focus on investments in the medical equipment, bio-pharmaceutical and medical services sectors. Further details of the above were set out in the announcement of the Company dated 26 June 2020.

On 17 March 2021, Pioneer Kingdom Limited (a wholly-owned subsidiary of the Company), the Company, Alpha Success International Limited (the “Vendor”) and Mr. Ho Pei Lin (as guarantor) entered into the sale and purchase agreement in relation to acquisition of 75% of the total equity interest in Bloom King Corporation Limited (“Bloom King”), which owns 49% equity interests of Mageruizi Wuhan, and 75% of the total outstanding amounts owing by Bloom King to the Vendor at date of completion of the acquisition for an aggregate consideration of HK\$14.6 million. The consideration shall be settled in cash of HK\$6 million and the issue of the loan note of HK\$8.6 million. The acquisition has been completed on 21 May 2021 and the Company indirectly owns a 75% equity interest in Bloom King. The effective equity interest held by the Group in Mageruizi Wuhan has been increased from 51% to 87.75% accordingly. Further details of the above were set out in the announcements of the Company dated 17 March 2021, 14 May 2021 and 21 May 2021.

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

SIGNIFICANT INVESTMENT

The Group had no significant investment of carrying value of 5% or more of the total assets as at 31 March 2021.

FUND RAISING ACTIVITY

On 28 August 2020, the Company entered into the placing agreement with a placing agent, Yuet Sheung International Securities Limited, in relation to placing of up to 400,000,000 shares at placing price of HK\$0.10 per placing share on a best effort basis. The placing agreement has been terminated on 18 September 2020. Further details of the above were set out in the announcements of the Company dated 28 August 2020 and 18 September 2020.

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 during the year. As at 31 March 2021, the Group's cash and cash equivalents amounted to approximately HK\$4.6 million (2020: HK\$10.2 million).

As at 31 March 2021, the current assets and net current assets of the Group are approximately HK\$164.5 million (2020: HK\$144.9 million) and HK\$47.4 million (2020: HK\$50.7 million) respectively, representing a current ratio of 1.40 (2020: 1.54).

As at 31 March 2021, a dividend payable on redeemable convertible cumulative preference shares in the sum of US\$4 million (2020: US\$4 million) (equivalent to approximately HK\$30.9 million), which is in dispute as disclosed in note 13 of this results announcement, was included in other payables and accrued expenses.

As at 31 March 2021, the Group has a bank loan, which was denominated in Renminbi, amounting to approximately RMB3 million (equivalent to approximately HK\$3.6 million) (2020: nil). The loan carried interest at loan prime rate (LPR) plus 0.25% (i.e. 3.8525%) and repayable on 10 September 2021.

As at 31 March 2021, the gearing ratio was 0.33 (2020: 0.32), calculated by dividing dividend payable on redeemable convertible cumulative preference shares and bank loans (representing debts owed by the Company) by shareholders' equity of approximately HK\$95 million (2020: HK\$97 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 LITIGATION

Material litigation is disclosed in note 13 of this results announcement.

CONTINGENT LIABILITIES

As at 31 March 2021, there were no material contingent liabilities of the Group (2020: nil).

CHARGE ON GROUP'S ASSETS

As at 31 March 2021, there were no charge on the Group's assets (2020: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2021, the Group employed 116 employees (2020: 115). The total staff cost including Directors' emoluments and share based payment of approximately HK\$0.9 million (2020: HK\$9.9 million) was approximately HK\$18.4 million as compared to approximately HK\$26.7 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 defined contribution retirement plans 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. 140,500,000 share options were granted and 5,800,000 share options were lapsed during the year. There were 265,900,000 outstanding share options as at 31 March 2021.

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.
3. Under A.6.7 of the Code, independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. two non-executive Directors and one independent non-executive Director did not attend the Company’s annual general meeting held on 4 September 2020 due to their other unexpected business engagements.

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 again upon resignation of an independent non-executive Director on 22 January 2020. Following the appointment of Ms. Meng Junfeng as an independent non-executive Director on 21 April 2020, the Company has fulfilled the requirement under Rule 3.10A of the Listing Rules.

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 2021.

SCOPE OF WORK OF THE COMPANY'S AUDITOR

The figures in respect of the Group's results for the year ended 31 March 2021 as set out in the 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 results announcement.

By order of the Board
China Health Group Limited
Zhang Fan

Chairman of the Board and Executive Director

Hong Kong, 30 June 2021

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Zhang Fan (chairman), Mr. Chung Ho and Mr. Wang Jingming; two non-executive Directors, namely, Mr. Xing Yong and Mr. Huang Lianhai; and four independent non-executive Directors, namely, Mr. Jiang Xuejun, Mr. Du Yanhua, Mr. Lai Liangquan and Ms. Meng Junfeng.