



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)

Listed on The Stock Exchange of Hong Kong (Stock Code : 673)

2021 INTERIM REPORT



CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Zhang Fan
Mr. Chung Ho

NON-EXECUTIVE DIRECTORS

Mr. Xing Yong
Mr. Huang Lianhai
Mr. Wang Jingming

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jiang Xuejun
Mr. Du Yanhua
Mr. Lai Liangquan

COMPANY SECRETARY

Mr. Tsui Siu Hung Raymond

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 801, 8/F
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

PRINCIPAL BANKER

The Bank of East Asia Limited
10 Des Voeux Road Central
Hong Kong

AUDITORS

Elite Partners CPA Limited
10/F, 8 Observatory Road
Tsim Sha Tsui, Hong Kong

LEGAL ADVISER

Jones Day
31st Floor
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUGF Fund Services (Bermuda) Limited
4th Floor North Ceder House
41 Ceder Avenue
Hamilton HM 12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
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183 Queen's Road East
Hong Kong

STOCK CODE

673

COMPANY WEBSITE

<http://www.ch-groups.com>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2021

		Six months ended 30 September	
	<i>Notes</i>	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	5	42,022	33,414
Cost of good sold/services rendered		(32,304)	(24,130)
Gross profit		9,718	9,284
Other income	6	294	3,832
Other gain, net	6	132	29
Share-based payment		(567)	(496)
Selling and distribution expenses		(3,861)	(2,522)
Administrative expenses		(10,255)	(12,516)
Finance costs	7	(163)	(150)
LOSS BEFORE TAX	8	(4,702)	(2,539)
Income tax	9	(82)	(438)
LOSS FOR THE PERIOD		(4,784)	(2,977)
(LOSS)/PROFIT FOR THE PERIOD			
ATTRIBUTABLE TO:			
Owners of the Company		(5,207)	(3,999)
Non-controlling interest		423	1,022
		(4,784)	(2,977)
LOSS PER SHARE			
– Basic and diluted (HK cents)	10	(0.13)	(0.10)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

For the six months ended 30 September 2021

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD	(4,784)	(2,977)
OTHER COMPREHENSIVE INCOME		
Item that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	<u>1,025</u>	<u>2,280</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(3,759)</u>	<u>(697)</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD ATTRIBUTABLE TO:		
Owners of the Company	(4,182)	(1,905)
Non-controlling interest	<u>423</u>	<u>1,208</u>
	<u>(3,759)</u>	<u>(697)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

	Notes	30 September 2021 <i>HK\$'000</i> (Unaudited)	31 March 2021 <i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		23,969	25,073
Right-of-use assets		3,653	4,023
Goodwill		22,603	22,603
Investment in a associate	17	–	–
Deposit for property, plant and equipment		1,662	1,658
Prepayments		20,227	–
Total non-current assets		<u>72,114</u>	<u>53,357</u>
CURRENT ASSETS			
Inventories		8,987	5,080
Trade receivables	12	31,600	56,317
Prepayments, deposits and other receivables		24,128	18,524
Loan and interest receivables	11	70,250	79,946
Cash and bank balances		5,017	4,594
Total current assets		<u>139,982</u>	<u>164,461</u>
CURRENT LIABILITIES			
Trade payables	13	15,906	17,079
Other payables and accrued expenses	14	104,254	86,653
Contract liabilities		3,782	651
Lease liabilities		1,065	1,084
Tax payables		–	2,327
Amount due to a director		1,000	5,758
Bank borrowing	15	3,612	3,553
Total current liabilities		<u>129,619</u>	<u>117,105</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 September 2021

	Notes	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
NON-CURRENT LIABILITIES			
Lease liabilities		<u>283</u>	<u>727</u>
Total non-current liabilities		<u>283</u>	<u>727</u>
NET CURRENT ASSETS			
		<u>10,363</u>	<u>47,356</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>82,477</u>	<u>100,713</u>
NET ASSETS			
		<u>82,194</u>	<u>99,986</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	<u>413,995</u>	413,995
Reserves		<u>(331,801)</u>	(318,956)
		<u>82,194</u>	95,039
Non-controlling interests		<u>–</u>	<u>4,947</u>
TOTAL EQUITY			
		<u>82,194</u>	<u>99,986</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2021

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Other reserve HK\$'000	Foreign currency translation reserve HK\$'000	Share options reserve HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000	Non-controlling interest HK\$'000	Total equity HK\$'000
At 1 April 2020 (audited)	413,995	525,958	57,124	-	(8,183)	5,394	(897,316)	96,972	3,762	100,734
(Loss)/profit for the period	-	-	-	-	-	-	(3,999)	(3,999)	1,022	(2,977)
Other comprehensive income for the period	-	-	-	-	2,094	-	-	2,094	186	2,280
Total comprehensive income/(loss) for the period	-	-	-	-	2,094	-	(3,999)	(1,905)	1,208	(697)
Recognition of share-based payment	-	-	-	-	-	496	-	496	-	496
At 30 September 2020 (unaudited)	413,995	525,958	57,124	-	(6,089)	5,890	(901,315)	95,563	4,970	100,533
At 1 April 2021 (audited)	413,995	525,958	57,124	-	(3,267)	6,084	(904,855)	95,039	4,947	99,986
(Loss)/profit for the period	-	-	-	-	-	-	(5,207)	(5,207)	423	(4,784)
Other comprehensive income for the period	-	-	-	-	1,025	-	-	1,025	-	1,025
Total comprehensive income/(loss) for the period	-	-	-	-	1,025	-	(5,207)	(4,182)	423	(3,759)
Further acquisition of a subsidiary	-	-	-	(8,872)*	(358)	-	-	(9,230)	(5,370)	(14,600)
Recognition of share-based payment	-	-	-	-	-	567	-	567	-	567
Forfeited of share options	-	-	-	-	-	(13)	13	-	-	-
At 30 September 2021 (unaudited)	413,995	525,958	57,124	(8,872)	(2,600)	6,638	(910,049)	82,194	-	82,194

* On 21 May 2021, the Group indirectly own a 75% equity interest in the Bloom King Corporation Limited ("Bloom King") and the effective equity interest held by the Group in Mageruizi Wuhan increased from 51% to 87.75%. 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2021

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
NET CASH FLOWS GENERATED FROM/(USED IN) OPERATING ACTIVITIES	23,562	(5,896)
NET CASH FLOWS USED IN FROM INVESTING ACTIVITIES	(23,175)	(679)
NET CASH FLOWS (USED IN)/GENERATED FROM FINANCING ACTIVITIES	(530)	2,455
NET DECREASE IN CASH AND CASH EQUIVALENTS	(143)	(4,120)
Effect of foreign exchange rate changes, net	566	(2,202)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	4,594	10,245
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	5,017	3,923
Analysis of cash and cash equivalents:		
Cash and bank balances	5,017	3,923

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

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.

2. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The accounting policies and the basis of preparation adopted in the preparation of these interim condensed consolidated financial statements are consistent with those adopted in the annual consolidated financial statements of the Group for the year ended 31 March 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by 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 unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except for when otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2021 are the same as those presented in the Group's annual financial statements for the year ended 31 March 2021.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the 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 Group's condensed consolidated financial statements:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 (Amendment)	Interest Rate Benchmark Reform – Phase 2
HKFRS 16 (Amendment)	Covid-19-Related Rent Concessions

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed 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:

- (i) Distribution and service in medical equipment and consumables;
- (ii) hospital operation and management services; and
- (iii) Business service

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

4. OPERATING SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's revenue and results by operating segment for the six months ended 30 September 2021 and 2020.

	Distribution and service in medical equipment and consumables		Hospital operation and management services		Business service		Total	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Segment revenue								
Revenue from external customers	33,231	24,435	8,683	8,423	108	556	42,022	33,414
Segment results	865	807	(303)	(1,090)	3,298	(1,199)	3,860	(1,482)
Reconciliation:								
Interest income and unallocated gains							291	81
Corporate and other unallocated expenses							(8,853)	(1,138)
Loss before tax							(4,702)	(2,539)
Depreciation and amortisation	258	183	2,236	1,628	10	-	2,504	1,811

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

4. OPERATING SEGMENT INFORMATION (Continued)

The following tables are an analysis of the Group's assets as at 30 September 2021 and 31 March 2021:

	As at 30 September 2021 (Unaudited)			
	Distribution and service in medical equipment and consumables HK\$'000	Hospital operation and management services HK\$'000	Business service HK\$'000	Total HK\$'000
SEGMENT ASSETS	47,002	94,394	42,704	184,100
Corporate and other unallocated assets				27,996
Total assets				<u>212,096</u>
SEGMENT LIABILITIES	75,388	38,300	4,942	118,630
Corporate and other unallocated liabilities				11,272
Total liabilities				<u>129,902</u>

	As at 31 March 2021 (Audited)			
	Distribution and service in medical equipment and consumables HK\$'000	Hospital operation and management services HK\$'000	Business service HK\$'000	Total HK\$'000
SEGMENT ASSETS	55,757	71,564	18,906	146,227
Corporate and other unallocated assets				71,591
Total assets				<u>217,818</u>
SEGMENT LIABILITIES	78,273	29,562	2,128	109,963
Corporate and other unallocated liabilities				7,869
Total liabilities				<u>117,832</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

4. OPERATING SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's revenue from external customers presented by geographical location as below:

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
People's Republic of China ("PRC")	42,022	33,308
Germany	–	106
	42,022	33,414

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 as follows:

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue:		
Income from distribution and service in medical equipment and consumables	33,231	24,435
Income from provision of hospital operation and management services	8,683	8,423
Business service	108	556
	42,022	33,414

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

6. OTHER INCOME/OTHER GAIN, NET

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
(i) Other income		
Bank interest income	1	62
Loan interest income	–	3,263
Sundry income	293	507
	<u>294</u>	<u>3,832</u>
(i) Other gain, net		
Reversal of impairment loss on loan and interest receivables	–	257
Reversal/(recognised) of impairment loss on trade receivables	40	(113)
Reversal/(recognised) of impairment loss on other receivables	92	(115)
	<u>132</u>	<u>29</u>

7. FINANCE COSTS

	Six months ended 30 September	
	2021 HK'000 (Unaudited)	2020 HK'000 (Unaudited)
Interest on lease liabilities	68	146
Interest on bank borrowing	95	4
	<u>163</u>	<u>150</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

8. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Depreciation of right-of-use assets	438	671
Depreciation of property, plant and equipment	2,066	1,355
Loss on disposal of property, plant and equipment	–	149
Share-based payment expenses	567	496
Interest income	(1)	(3,325)
	_____	_____

9. INCOME TAX

No provision for Hong Kong Profits Tax has been made in the unaudited condensed consolidated interim financial statements as the Group did not generate any assessable profits arising from Hong Kong for both periods.

Subsidiaries established in the People's Republic of China (the "PRC") are subject to the PRC enterprise income tax at the standard rate of 25% (2020: 25%).

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax – PRC		
Provision for the period	82	438
	_____	_____

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

10. LOSS PER SHARE

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Loss attributable to owners of the Company, used in the basic loss per share calculation	<u>(5,207)</u>	<u>(3,999)</u>
Number of shares	2021 '000	2020 '000
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>4,139,948</u>	<u>4,139,948</u>

For the period ended 30 September 2021 and 2020, the outstanding share options had an anti-dilutive effect on the basic loss per share and were ignored in the calculation of diluted loss per share.

11. LOAN AND INTEREST RECEIVABLES

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Loan receivables – unsecured	<u>70,250</u>	<u>79,946</u>

The Group's loan and interest receivables are recoverable as follows:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Within one year	<u>70,250</u>	<u>79,946</u>

The above loan and interest receivables are based on the covenants set out in the relevant loan agreements and the Company will demand repayment from the counterparties in respect of the loan and interest receivables pursuant to the covenants.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

11. LOAN AND INTEREST RECEIVABLES (Continued)

Movement of loan and interest receivables are as follows:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Beginning of the period	79,946	87,243
Additions	–	4,903
Repayment	(11,047)	(19,620)
Reversal of over-provision of Impairment allowance, net	–	722
Exchange realignment	1,351	6,698
	<u>70,250</u>	<u>79,946</u>
End of the period	<u>70,250</u>	<u>79,946</u>

The following table shows effective interest rate of various loan receivables of the Group:

	30 September 2021 (Unaudited)		31 March 2021 (Audited)	
	%	HK\$'000	%	HK\$'000
Fixed rate:				
Loan receivables	7	<u>70,250</u>	7	<u>79,946</u>

12. TRADE RECEIVABLES

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Trade receivables:		
Distribution and service in medical equipment and consumables	28,444	29,430
Hospital operation and management services	1,049	25,169
Business service	2,107	1,718
	<u>31,600</u>	<u>56,317</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

12. TRADE RECEIVABLES (Continued)

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

- (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; and
- (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, is as follows:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Within 1 month	12,246	7,865
2 to 3 months	6,515	10,057
over 3 months	12,839	38,395
	31,600	56,317

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

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Within 90 days	1,195	3,715
91 – 180 days	7,712	6,330
Over 180 days	4,973	29,265
	13,880	39,310

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

13. TRADE PAYABLES

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Trade payables	15,906	17,079

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

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Within one month	–	1,800
One to three months	465	665
Over three months	15,441	14,614
	15,906	17,079

14. OTHER PAYABLES AND ACCRUED EXPENSES

As at 30 September 2021 and 31 March 2021, approximately US\$4,000,000 (equivalent to approximately HK\$30,894,000) (31 March 2021: US\$4,000,000 (equivalent to approximately HK\$30,894,000)) were a dividend payable on redeemable convertible cumulative preference shares which is in dispute as detailed below.

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 (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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

14. OTHER PAYABLES AND ACCRUED EXPENSES (Continued)

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 winding up 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**").

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

14. OTHER PAYABLES AND ACCRUED EXPENSES (Continued)

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 grounds including: (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**"). Following that announcement, acknowledgments 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 issued by Capital Foresight Limited 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, with interest and costs. Pursuant to a Court order dated 19 January 2018, this action HCA2569/2017 has been consolidated with the action HCA2549/2017 (the "**2549 & 2569 Action**").

In connection with the 2549 & 2569 Action and up to the date of this report, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

15. BANK BORROWING

As at 30 September 2021, the Group has a bank loan which was denominated in Renminbi, amounting to RMB3 million (equivalent to approximately HK\$3.6 million) (As at 31 March 2021: RMB3 million (equivalent to approximately HK\$3.6 million)). The loan carry interest at LPR plus 0.25% (ie: 3.8525%) and repayable on 10 September 2021.

16. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Authorised:		
Ordinary shares of HK0.1 each		
At 1 April 2020, 31 March 2021, 1 April 2021 and 30 September 2021	<u>100,000,000,000</u>	<u>10,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.1 each		
At 31 March 2021, 1 April 2021 and 30 September 2021	<u>4,139,947,634</u>	<u>413,995</u>

17. CAPITAL COMMITMENT

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Capital expenditure in respect of the establish of investment in associate contracted for but not provided in the consolidated financial statements	<u>2,408</u>	<u>—</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

18. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 31 August 2021, the Company, Zhongwei International Finance Lease (Shenzhen) Co., Ltd. (a wholly-owned subsidiary of the Company, "Zhongwei International"), Mr. Yang Huijun ("Mr. Yang"), Mr. Sun Chunlei ("Mr. Sun"), Best Robust Ventures Limited (a company wholly-owned by Mr. Yang and Mr. Sun, "Best Robust") and 北京佑康健業醫療器械有限公司 (Beijing Youkang Jianye Medical Equipment Co., Ltd.) ("Beijing Youkang") entered into an agreement (as supplemented on 8 October 2021) (the "Agreement") for capital injection to Beijing Youkang in the amount of RMB1,800,000 (equivalent to approximately HK\$2,160,000) by Zhongwei International and RMB1,200,000 (equivalent to approximately HK\$1,440,000) by Mr. Yang and Mr. Sun. The Company shall also pay the consideration to Best Robust which shall be satisfied by the Company's allotting and issuing 250,000,000 shares of the Company to Best Robust at the issue price of HK\$0.10 each. The acquisition has been completed and a total of 250,000,000 new shares have been issued and allotted to Best Robust on 22 October 2021. Upon completion of acquisition of Beijing Youkang, the Company indirectly owns 60% equity interest in Beijing Youkang. Further details of the above were set out in the announcements of the Company dated 31 August 2021, 8 October 2021 and 22 October 2021.

19. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved by the Board on 30 November 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

For the Period, the Group reported a revenue of approximately HK\$42 million, representing a significant increase as compared to approximately HK\$33.4 million for the previous period. The revenue comprises (a) income from distribution and service in medical equipment and consumables of approximately HK\$33.2 million (2020: HK\$24.4 million); (b) income from hospital operation and management services of approximately HK\$8.7 million (2020: HK\$8.4 million); and (c) income from business factoring business of approximately HK\$0.1 million (2020: HK\$0.6 million). The increase in revenue was mainly due to increase in revenue from income from distribution and service in medical equipment and consumables during the Period. The Group reported gross profit of approximately HK\$9.7 million, representing an increase of 4.3% as compared to approximately HK\$9.3 million for the previous period.

The Group's loss attributable to shareholders for the Period was approximately HK\$5.2 million as compared to approximately HK\$4 million for the previous financial period. Basic loss per share for the Period was HK\$0.13 cents (2020: HK\$0.10 cents).

REVIEW OF BUSINESS OPERATION

For the Period, 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 Period, the Group recorded revenue of approximately HK\$33.2 million (2020: HK\$24.4 million), representing an increase of 36% as compared with the previous period. The operating profit was approximately HK\$0.9 million (2020: HK\$0.8 million) from medical equipment and consumables distribution and service business during the Period.

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, took full advantage of the opportunity brought by the recovery of medical market after the epidemic, on the one hand, it vigorously developed new hospital customers and expanded new service areas; on the other hand, it strengthened the depth cooperation with well known manufacturers at home and abroad and developed new product line. In the first half of this year, it achieved a substantial increase in sales after effort by the team. In the second half of the year, Mageruizi Wuhan was more proactive in seizing the opportunity of industry recovery to further expand its customer network, increase the number of products, and target to 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, In May 2021, the Group further increased its shareholding in Mageruizi Wuhan, and its equity interest increased from 51% to 87.75%.

The Group has also been identifying opportunities to expand the business. In October 2021, the Group completed acquisition of 60% equity interest in 北京佑康健業醫療器械有限公司 (Beijing Youkang Jianye Medical Equipment Co., Ltd.) ("Beijing Youkang"), which is principally engaged in medical equipment and consumables distribution business in the Beijing and its surrounding areas, where the medical services is one of the highest regions with potential in the PRC, and focuses on two high-end categories, namely surgical instruments in cardiac electrophysiology and urology. Beijing Youkang has established business relationship with over 20 top-tier hospitals and medical institutions in Beijing and is also an authorised distributor of certain well-known international brands of cardiac electrophysiology and urology products, namely Johnson & Johnson, Abbott, Medtronic, Synaptic Medical and Boston Scientific. In 2021, Beijing Youkang further developed the business of distribution of new products in the area of cardiac intensive care and vascular surgery, which became the new business growth point.

In particular, Beijing Youkang entered the pet vaccine distribution market in the PRC and was authorized by a well-known company to provide marketing and promotional services for its rabies vaccine. These services include collection of market information, performing market analysis, conducting marketing visits and sales pitches to potential purchasers of vaccines comprising 19 target hospitals/clinics authorised in Beijing, and organising symposium and seminars and other marketing and promotional activities. The fee from the provision of services received by Beijing Youkang is determined based on, among other things, the frequency of marketing and promotional activities conducted and the volume of vaccines purchased by the target hospitals/clinics. The Group expects that the pet vaccine market has huge room for development.

In the medium and long term, the Group will gradually extend 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 of the relevant medical equipment. 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”) entered on 23 July 2015. The Group is entitled to a management fee equivalent to 3% of the revenue of Shuangluan Hospital. The Group ceased to receive management fee and recorded no management fee (2020: HK\$1.5 million) during the Period upon the signing of the Settlement Agreement (as defined below).

On 30 April 2021, the Company, two wholly-owned subsidiaries of the Company, Shuanglun Hospital and the Shuanglun 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 Shuanglun Hospital and unpaid management fees (the "Fees") calculated up to 31 December 2020; and (ii) the management right over Shuanglun 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 Shuanglun Government and Shuanglun 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 Shuanglun Hospital shall cease upon the signing of the Settlement Agreement and the Group shall not be entitled to any further management fee from Shuanglun 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 Shuanglun 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 report, approximately RMB36.2 million (approximately HK\$43.4 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

The Group completed acquisition of 70% equity interests of 安平博愛醫院 (“Anping Bo'ai Hospital”) in October 2019 and remaining 30% equity interests of Anping Bo'ai Hospital in March 2020. 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\$8.7 million (2020: HK\$6.9 million) and operating loss of approximately HK\$0.3 million (2020: HK\$2.5 million) during the Period.

(c) Business factoring business

During the Period, 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 PROSPECTS

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. While encouraging the introduction of foreign advanced medical products and technologies, the Chinese Government has also vigorously pursued a policy of domestic upgrading to replace import, creating good conditions for the Group to expand its business fields.

The Group's medical equipment distribution and service business has come a long way and a distribution network has been established in Beijing-Tianjin-Hebei region and Central China in recent years. In the future, the Group will continue to invest more resource to further integrate customer resource, broaden product categories and give full paly to the synergistic effect of the distribution network to build a comprehensive platform for the distribution of medical equipment and consumables.

The Group is optimistic about the huge market potential for vaccine distribution in China. By cooperating with an authorized distributor and participating in the marketing and promotion of rabies vaccine upon acquisition of Beijing Youkang, the Group has taken the first step into vaccine business. It's expected that the Group will be in a better position to obtain distribution contracts for other vaccine products such as tetanus vaccine, shingles vaccine and HPV vaccine in the future.

Hospital operation and management remains an important business of the Group. In the future, the Group will focus on the development of featured specialities 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. The Group 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 maximum value for shareholders.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

(i) Additional acquisition of Mageruizi Wuhan

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.

(ii) Investment in a fund

On 5 July 2021, Zhongwei Health Industries (Shenzhen) Company Limited (a wholly-owned subsidiary of the Company, “Zhongwei Health”) and 寧波易達誠資產管理有限公司 (Ningbo Yidacheng Asset Management Co., Ltd., “Ningbo Yidacheng”) entered into the agreement, pursuant to which Ningbo Yidacheng agreed to transfer the partnership interest in 北京啟慧智元信息科技合夥企業 (有限合夥) (Beijing Qihui Zhiyuan Information Technology Enterprise Partnership (Limited Partnership), “Beijing Qihui”) to Zhongwei Health for a cash consideration of RMB1 payable by Zhongwei Health. In consideration of the Vendor transferring the partnership interest to Zhongwei Health, Zhongwei Health shall take up the obligation of Ningbo Yidacheng to contribute registered capital in the amount of RMB30,000,000 to Beijing Qihui.

Beijing Qihui holds a 15% partnership interest (as limited partner) in 湖南博創科建產業投資基金 (有限合夥) (Hunan Bochuang Technology Construction Industry Investment Fund (Limited Partnership), the “Fund”). The Fund is a limited partnership established in the PRC on 10 July 2020 under the approval of the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部). The Fund has invested in several projects engaging in medical equipment business, research and development and sale of implantable drugs for cancer treatment and development and operation of digital healthcare services platform.

Upon capital contribution of RMB30,000,000 by Zhongwei Health to Beijing Qihui, Zhongwei Health will be interested in 16.6% partnership interest in Beijing Qihui. Zhongwei Health's percentage interest in the Beijing Qihui's profit or loss shall be diluted to 4.44% if Ningbo Yidacheng pays up in full its share of outstanding registered capital of Beijing Qihui (or any other partners make additional capital contribution to Beijing Qihui).

As at date of this report, capital of approximately RMB15 million (approximately HK\$18 million) has been paid by the Group. Further details of the above has been disclosed in the announcements dated 5 July 2021 and 26 July 2021.

(iii) Acquisition of Beijing Youkang

On 31 August 2021, the Company, Zhongwei International Finance Lease (Shenzhen) Co., Ltd. (a wholly-owned subsidiary of the Company, "Zhongwei International"), Mr. Yang Huijun ("Mr. Yang"), Mr. Sun Chunlei ("Mr. Sun"), Best Robust Ventures Limited (a company wholly-owned by Mr. Yang and Mr. Sun, "Best Robust") and Beijing Youkang entered into an agreement (as supplemented on 8 October 2021) (the "Agreement") for capital injection to Beijing Youkang in the amount of RMB1,800,000 (equivalent to approximately HK\$2,160,000) by Zhongwei International and RMB1,200,000 (equivalent to approximately HK\$1,440,000) by Mr. Yang and Mr. Sun (collectively "the Existing Owners"). The Company shall also pay the consideration to Best Robust which shall be satisfied by the Company's allotting and issuing 250,000,000 shares of the Company to Best Robust at the issue price of HK\$0.10 each. Following completion of the above capital injection, Zhongwei International and the Existing Owners will be interested in 60% and 40% of the equity interest in Beijing Youkang respectively.

Pursuant to the Agreement, the Existing Owners guarantee and undertake to Zhongwei International that:

- (i) the audited net profit after tax of Beijing Youkang for the year ending 31 March 2022 ("FY2022") shall be not less than RMB3,000,000 (equivalent to approximately HK\$3,600,000) (the "2022 Guaranteed Profit");
- (ii) the audited net profit after tax of Beijing Youkang for the year ending 31 March 2023 ("FY2023") shall be not less than RMB6,000,000 (equivalent to approximately HK\$7,200,000) (the "2023 Guaranteed Profit", together with the 2022 Guaranteed Profit, the "Profit Guarantee");

- (iii) the net assets of Beijing Youkang as at the completion date of acquisition (the "Completion NAV") shall not be lower than that as at 31 July 2021 (the "31/7 NAV") as shown in the management accounts of Beijing Youkang for the seven months ended 31 July 2021; and
- (iv) on or before 30 September 2022, Beijing Youkang shall be able to collect: (a) all the trade receivables relating to the sales of medical devices/equipment as at the Completion Date (the "Trade Receivables"), other than those retention monies which normally represent 10% of the sales value and shall be collected according to the terms of the sale contracts with customers; and (b) the entire amount of receivables other than the Trade Receivables as at the Completion Date (together with (a) above, the "Account Receivables").

In the event that any of the above guarantees and undertakings (including the Profit Guarantee) is not met, the Existing Owners shall jointly and severally compensate Zhongwei International the amount in cash on a dollar-for-dollar basis (the "Compensation").

Best Robust will deposit 250,000,000 shares with the Company for securing the Existing Owners' obligations to pay the Compensation to Zhongwei International. If the 2022 Guaranteed Profit is fulfilled, the Company will release 178,000,000 shares (the "1st batch Consideration Shares") to Best Robust. If there is any shortfall, the Company will withhold such number of shares from the 1st batch Consideration Shares which represents the value (based on HK\$0.10 per share) equivalent to the amount of the Shortage. If both the 2022 Guaranteed Profit and the 2023 Guaranteed Profit are met, the Company will release the remaining 72,000,000 shares (the "2nd batch Consideration Shares") to Best Robust. If the Existing Owners do not pay the Compensation in cash to Zhongwei International for the shortfall in 2022 and/or 2023, the Company may at its option dispose of the 1st batch Consideration Shares and the 2nd batch Consideration Shares.

The acquisition has been completed on 22 October 2021 and the Company indirectly owns 60% equity interest in Beijing Youkang. Further details of the above were set out in the announcements of the Company dated 31 August 2021, 8 October 2021 and 22 October 2021.

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

SIGNIFICANT INVESTMENT

The Group had no significant investment of carrying value of 5% or more of the total assets as at 30 September 2021 (31 March 2021: nil).

FUND RAISING ACTIVITY

There was no other fund raising activity during the Period.

LIQUIDITY AND CAPITAL RESOURCES

The Group mainly financed its day to day operations by internally generated cash flow during the Period. As at 30 September 2021, the Group's cash and cash equivalents amounted to approximately HK\$5 million (31 March 2021: HK\$4.6 million).

As at 30 September 2021, the current assets and net current assets of the Group are approximately HK\$140.0 million (31 March 2021: HK\$164.5 million) and HK\$10.4 million (31 March 2021: HK\$47.4 million) respectively, representing a current ratio of 1.08 (31 March 2021: 1.40).

As at 30 September 2021, a dividend payable on redeemable convertible cumulative preference shares in the sum of US\$4 million (31 March 2021: US\$4 million) (equivalent to approximately HK\$30.9 million), which is in dispute as disclosed in note 14 of these financial statements, was included in other payables and accrued expenses.

As at 30 September 2021, the Group has a bank loan, which was denominated in Renminbi, amounting to RMB3 million (31 March 2021: RMB3 million) (approximately HK\$3.6 million) (31 March 2021: HK\$3.6 million). The loan carried interest at loan prime rate (LPR) plus 0.25% (ie: 3.8525%) and repayable on 10 September 2021.

As at 30 September 2021, the gearing ratio was 0.42 (31 March 2021: 0.33), 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\$82.2 million (31 March 2021: HK\$95.0 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

Material litigations have been disclosed in note 14 of these financial statements.

CONTINGENT LIABILITIES

As at 30 September 2021, there were no material contingent liabilities of the Group (31 March 2021: nil).

CHARGE ON GROUP'S ASSETS

As at 30 September 2021, there were no charge on the Group's assets (31 March 2021: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2021, the Group employed 131 employees (31 March 2021: 116). The total staff cost including Directors' emoluments and share based payment of approximately HK\$0.6 million (2020: HK\$0.5 million) was approximately HK\$9.2 million as compared to approximately HK\$9.2 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. No share options were granted and 5,000,000 share options were lapsed during the Period. There were 260,900,000 outstanding share options as at 30 September 2021.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES AND SHARE OPTIONS

As at 30 September 2021, the interests or short positions of the directors and chief executives of the Company and their associates in the shares, underlying shares and convertible bonds of the Company or any of its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director/chief executive	Capacity	Interests in shares (other than pursuant to share option)	Interests in underlying shares pursuant to share option	Total interest in shares/ underlying shares	Percentage of shares and underlying shares to issued shares
Mr. Zhang Fan (Note 1)	Through personal & corporate interest	1,173,074,000(L)	8,000,000(L)	1,181,074,000(L)	28.53%
Mr. Chung Ho (Note 2)	Beneficial owner	–	30,000,000(L)	30,000,000(L)	0.72%
Mr. Wang Jingming (Note 3)	Beneficial owner	23,406,000(L)	3,000,000(L)	26,406,000(L)	0.64%
Mr. Xing Yong (Note 3)	Beneficial owner	1,398,000(L)	34,000,000(L)	35,398,000(L)	0.86%
Mr. Huang Lianhai (Note 3)	Beneficial owner	–	23,000,000(L)	23,000,000(L)	0.56%
Mr. Jiang Xuejun (Note 4)	Beneficial owner	–	8,000,000(L)	8,000,000(L)	0.19%
Mr. Du Yanhua (Note 4)	Beneficial owner	–	3,000,000(L)	3,000,000(L)	0.07%
Mr. Lai Lianguan (Note 4)	Beneficial owner	–	3,000,000(L)	3,000,000(L)	0.07%

Remark: (L): Long position

Notes:

1. Mr. Zhang Fan is interested in 1,181,074,000 shares/underlying shares through personal interest and Treasure Wagon Limited which is a company incorporated in Samoa and the entire issued share capital of which is owned by Mr. Zhang Fan. Mr. Zhang Fan is chairman of the Board and an executive Director.
2. Mr. Chung Ho is an executive Director.
3. Each of Mr. Wang Jingming, Mr. Xing Yong and Mr. Huang Lianhai is a non-executive Director.
4. Each of Mr. Jiang Xuejun, Mr. Du Yanhua and Mr. Lai Liangquan is an independent non-executive Director.

Save as disclosed above, none of directors or chief executive of the Company had any interest or short position in shares, debentures or underlying shares of the Company and its associated corporations which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or pursuant to section 352 of the SFO, to be recorded in the register referred therein; or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

PERSON WHO HAVE AN INTEREST IN SHARES AND UNDERLYING SHARES DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

As at 30 September 2021, so far as was known to the directors and the chief executive of the Company, the following persons (not being directors or chief executive of the Company of which interests were disclosed above) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of substantial shareholders	Capacity	Interests in shares	Interests in underlying shares pursuant to equity derivatives	Total interests in shares and underlying shares	Approximate percentage of shares and underlying shares held to issued shares as at 30 September 2020
Treasure Wagon Limited (Note 1)	Beneficial owner	1,160,000,000(L)	–	1,160,000,000(L)	28.02%
Speedy Brilliant Investments Limited (Note 2)	Beneficial owner	276,510,000(L)	–	276,510,000(L)	6.68%
Mr. Zhou Disun (Note 2)	Beneficial owner	276,510,000(L)	–	276,510,000(L)	6.68%

Remark: (L): Long position

Notes:

- Treasure Wagon Limited is a company incorporated in Samoa and the entire issued share capital of which is owned by Mr. Zhang Fan who is chairman of the Board and executive Director of the Company.
- Speedy Brilliant Investments Limited is wholly owned by Mr. Zhou Disun.

SHARE OPTION SCHEME

The Company operated a share option scheme which was expired on 7 April 2012 and a new share option scheme (the “New Scheme”) was approved by the shareholders of the Company on 28 August 2012. Further details of the New Scheme were disclosed in the annual report of the Company for the year ended 31 March 2021. There was no change in any terms of the New Scheme during the Period.

The total number of securities available for issue under the share option scheme(s) of the Company as at 30 September 2021 was 532,794,763 shares (including share options for 260,900,000 shares that have been granted but not yet lapsed or exercised) which represented 12.87% of the ordinary shares of the company in issue 30 September 2021.

The following table discloses details of options outstanding and movements during the period:

Name or category of participant	At 1 April 2021	Number of share options						As at 30 September 2021	Exercise period of share options	Exercise price of share options HK\$	Date of grant of share options	Closing price of the Company's share immediately before the date of grant of share options HK\$
		Granted during the period	Exercised during the period	Cancelled during the period	Lapsed/forfeited during the period	Reclassified during the period						
Directors												
Mr. Zhang Fan	4,000,000	-	-	-	-	-	4,000,000	27 April 2020 to 25 April 2029	0.18	26 April 2019	0.079	
	4,000,000	-	-	-	-	-	4,000,000	21 October 2020 to 20 October 2030	0.18	20 October 2020	0.035	
Mr. Chung Ho	30,000,000	-	-	-	-	-	30,000,000	27 April 2020 to 25 April 2029	0.18	26 April 2019	0.079	
Mr. Wang Jingming	3,000,000	-	-	-	-	-	3,000,000	27 April 2020 to 25 April 2029	0.18	26 April 2019	0.079	

Name or category of participant	At 1 April 2021	Number of share options						Exercise period of share options	Exercise price of share options HK\$	Date of grant of share options	Closing price of the Company's share immediately before the date of grant of share options HK\$
		Granted during the period	Exercised during the period	Cancelled during the period	Lapsed/ forfeited during the period	Reclassified during the period	As at 30 September 2021				
Mr. Xing Yong	4,000,000	-	-	-	-	-	4,000,000	27 April 2020 to 25 April 2029	0.18	26 April 2019	0.079
	30,000,000	-	-	-	-	-	30,000,000	21 October 2020 to 20 October 2030	0.18	20 October 2020	0.035
Mr. Huang Lianhai	3,000,000	-	-	-	-	-	3,000,000	27 April 2020 to 25 April 2029	0.18	26 April 2019	0.079
	20,000,000	-	-	-	-	-	20,000,000	21 October 2020 to 20 October 2030	0.18	20 October 2020	0.035
Mr. Jiang Xuejun	4,000,000	-	-	-	-	-	4,000,000	27 April 2020 to 25 April 2029	0.18	26 April 2019	0.079
	4,000,000	-	-	-	-	-	4,000,000	21 October 2020 to 20 October 2030	0.18	20 October 2020	0.035
Mr. Du Yanhua	3,000,000	-	-	-	-	-	3,000,000	27 April 2020 to 25 April 2029	0.18	26 April 2019	0.079

Name or category of participant	At 1 April 2021	Number of share options						As at 30 September 2021	Exercise period of share options	Exercise price of share options HK\$	Date of grant of share options	Closing price of the Company's share immediately before the date of grant of share options HK\$
		Granted during the period	Exercised during the period	Cancelled during the period	Lapsed/ forfeited during the period	Reclassified during the period						
Mr. Lai Liangquan	3,000,000	-	-	-	-	-	3,000,000	27 April 2020 to 25 April 2029	0.18	26 April 2019	0.079	
Ms. Meng Junfeng	3,000,000	-	-	-	(3,000,000)	-	-	21 October 2020 to 20 October 2030	0.18	20 October 2020	0.035	
Director of the subsidiaries of the Company												
Mr. Liu Hongdi	2,000,000	-	-	-	(2,000,000)	-	-	27 April 2020 to 25 April 2029	0.18	26 April 2019	0.079	
Mr. Liao Jijiang	3,000,000	-	-	-	-	-	3,000,000	27 April 2020 to 25 April 2029	0.18	26 April 2019	0.079	
Ms. Tang Wenji	1,000,000	-	-	-	-	-	1,000,000	27 April 2020 to 25 April 2029	0.18	26 April 2019	0.079	
Subtotal	121,000,000	-	-	-	(5,000,000)	-	116,000,000					

Name or category of participant	At 1 April 2021	Number of share options						Exercise period of share options	Exercise price of share options HK\$	Date of grant of share options	Closing price of the Company's share immediately before the date of grant of share options HK\$
		Granted during the period	Exercised during the period	Cancelled during the period	Lapsed/ forfeited during the period	Reclassified during the period	As at 30 September 2021				
Employees	21,800,000	-	-	-	-	-	21,800,000	19 May 2017 to 18 May 2022	0.18	19 May 2017	0.165
	16,000,000	-	-	-	-	-	16,000,000	27 April 2020 to 25 April 2029	0.18	26 April 2019	0.079
	16,500,000	-	-	-	-	-	16,500,000	21 October 2020 to 20 October 2030	0.18	20 October 2020	0.035
Others (Note 1)	19,600,000	-	-	-	-	-	19,600,000	19 May 2017 to 18 May 2022	0.18	19 May 2017	0.165
	8,000,000	-	-	-	-	-	8,000,000	27 April 2020 to 25 April 2029	0.18	26 April 2019	0.079
	63,000,000	-	-	-	-	-	63,000,000	21 October 2020 to 20 October 2030	0.18	20 October 2020	0.035
Total	<u>265,900,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,000,000)</u>	<u>-</u>	<u>260,900,000</u>				

Note 1: Share options were granted to 15 business consultants of the Group which comprises of (i) Qiu Peiyuan, Huang Bin and He Lijuan, the former Directors who have become consultants of the Group providing advices on business development of the Group; (ii) a former employee of the Company, namely Ding Jiuru, who has subsequently become a consultant of the Group providing advices on financial operation of the Group; and (iii) consultants and business partners of the Group, namely Pinnacle Tread Limited, Zhong Bin, Liu Yanli, Rao Zhenan, Chan Nam, Hor Heng Siang, Yang Yongbin, Quo Wei, Lu Wenhui, Huang Hui and Wu Guanjie, who have provided business, legal or tax consultancy services or other professional services and introduced investment opportunities to the Group.

During the Period, share-based payment expenses amounted to approximately HK\$567,000 (2020: HK\$496,000) comprising of (i) HK\$369,000 million in respect of the Directors; (ii) HK\$26,000 in respect of the directors of the subsidiaries of the Company; (iii) HK\$118,000 in respect of the employees of the Group; and (iv) HK\$54,000 in respect of business consultants of the Group was recognised in the income statement.

DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Period, 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 Period, 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 Period 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, Mr. Xing Yong and Mr. Huang Lianhai are not 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 Period.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including review of the unaudited interim financial statements for the six months ended 30 September 2021.

On behalf of the Board
China Health Group Limited
Zhang Fan

Chairman of the Board and Executive Director

Hong Kong, 30 November 2021