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China Health Group Limited
中國衛生集團有限公司

(Carrying on business in Hong Kong as CHG HS Limited)

(Incorporated in Bermuda with limited liability)

(Stock Code: 673)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022

The board (the "Board") of directors (the "Directors") of China Health Group Limited (the "Company") would like to present the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2022 (the "Period"). These unaudited condensed consolidated interim financial statements have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2022

	Notes	Six months ended 30 September	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue	5	32,324	42,022
Cost of good sold/services rendered		<u>(23,049)</u>	<u>(32,304)</u>
Gross profit		9,275	9,718
Other income	6	110	294
Other gain/(loss), net	6	–	132
Share-based payment		(23)	(567)
Selling and distribution expenses		(4,056)	(3,861)
Share of results of an associate		(1)	–
Administrative expenses		(14,801)	(10,255)
Fair value change of contingent consideration		(17,201)	–
Finance costs	7	<u>(800)</u>	<u>(163)</u>
LOSS BEFORE TAX	8	(27,497)	(4,702)
Income tax	9	<u>(25)</u>	<u>(82)</u>
LOSS FOR THE PERIOD		<u>(27,522)</u>	<u>(4,784)</u>
(LOSS)/PROFIT FOR THE PERIOD			
ATTRIBUTABLE TO:			
Owners of the Company		(27,611)	(5,207)
Non-controlling interest		<u>89</u>	<u>423</u>
		<u>(27,522)</u>	<u>(4,784)</u>
Restated			
LOSS PER SHARE			
– Basic and diluted (HK cents)	10	<u>(6.61)</u>	<u>(1.26)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

For the six months ended 30 September 2022

	Six months ended 30 September	
	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Unaudited)
LOSS FOR THE PERIOD	(27,522)	(4,784)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Item that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	<u>(15,968)</u>	<u>1,025</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u><u>(43,490)</u></u>	<u><u>(3,759)</u></u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD ATTRIBUTABLE TO:		
Owners of the Company	(42,986)	(4,182)
Non-controlling interest	<u>(504)</u>	<u>423</u>
	<u><u>(43,490)</u></u>	<u><u>(3,759)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

		30 September 2022	31 March 2022
	Notes	HK\$'000 (Unaudited)	<i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		22,471	25,356
Right-of-use assets		4,504	3,398
Goodwill		36,587	40,970
Investment in a associate		3,999	–
Prepayments		16,600	18,530
		<hr/>	<hr/>
Total non-current assets		84,161	88,254
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		11,718	13,434
Trade receivables	11	21,351	38,156
Prepayments, deposits and other receivables		26,808	17,714
Loan and interest receivables	12	52,952	59,862
Cash and bank balances		22,746	8,537
		<hr/>	<hr/>
Total current assets		135,575	137,703
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade payables	13	20,441	21,138
Other payables and accrued expenses	14	77,587	80,505
Contract liabilities		2,276	1,396
Lease liabilities		1,528	850
Tax payables		727	3,914
Amount due to a director		5,100	5,100
Bank borrowing		2,179	17,617
Contingent consideration		7,570	6,375
		<hr/>	<hr/>
Total current liabilities		117,408	136,895
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

As at 30 September 2022

	30 September 2022 <i>Notes</i> HK\$'000 (Unaudited)	31 March 2022 <i>HK\$'000</i> <i>(Audited)</i>
NON-CURRENT LIABILITIES		
Lease liabilities	304	–
Convertible bonds	39,500	–
Contingent consideration	–	3,930
	<u>39,804</u>	<u>3,930</u>
Total non-current liabilities	<u>39,804</u>	<u>3,930</u>
NET CURRENT ASSETS	<u>18,167</u>	<u>808</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>102,328</u>	<u>89,062</u>
NET ASSETS	<u><u>62,524</u></u>	<u><u>85,132</u></u>
EQUITY		
Share capital	15 431,795	413,995
Reserves	<u>(374,321)</u>	<u>(334,417)</u>
Equity attributable to owners of the Company	<u>57,474</u>	<u>79,578</u>
Non-controlling interests	<u>5,050</u>	<u>5,554</u>
TOTAL EQUITY	<u><u>62,524</u></u>	<u><u>85,132</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2022

	Share capital	Share premium	Contributed surplus	Convertible bonds reserve	Other reserve	Foreign currency translation reserve	Share options reserve	Accumulated losses	Sub-total	Non-controlling interest	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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)	<u>413,995</u>	<u>525,958</u>	<u>57,124</u>	<u>-</u>	<u>(8,872)</u>	<u>(2,600)</u>	<u>6,638</u>	<u>(910,049)</u>	<u>82,194</u>	<u>-</u>	<u>82,194</u>
At 1 April 2022 (audited)	413,995	525,958	57,124	-	(10,304)	3,008	6,384	(916,587)	79,578	5,554	85,132
(Loss)/profit for the period	-	-	-	-	-	-	-	(27,611)	(27,611)	89	(27,522)
Other comprehensive loss for the period	-	-	-	-	-	(15,375)	-	-	(15,375)	(593)	(15,968)
Total comprehensive loss for the period	-	-	-	-	-	(15,375)	-	(27,611)	(42,986)	(504)	(43,490)
Issuance of share capital	17,800	2,136	-	-	-	-	-	-	19,936	-	19,936
Issuance of convertible bonds	-	-	-	923	-	-	-	-	923	-	923
Recognition of share-based payment	-	-	-	-	-	-	23	-	23	-	23
Forfeited of share options	-	-	-	-	-	-	(99)	99	-	-	-
At 30 September 2022 (unaudited)	<u>431,795</u>	<u>528,094</u>	<u>57,124</u>	<u>923</u>	<u>(10,304)</u>	<u>(12,367)</u>	<u>6,308</u>	<u>(944,099)</u>	<u>57,474</u>	<u>5,050</u>	<u>62,524</u>

* 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 2022

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
NET CASH FLOWS (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(5,320)	23,562
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(4,726)	(23,175)
NET CASH FLOWS GENERATED FROM/(USED IN) FINANCING ACTIVITIES	23,098	(530)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	13,052	(143)
Effect of foreign exchange rate changes, net	1,157	566
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	8,537	4,594
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	22,746	5,017
Analysis of cash and cash equivalents: Cash and bank balances	22,746	5,017

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 2022, 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 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 March 2022.

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 2022 for the preparation of the Group's condensed consolidated financial statements:

- Amendments to HKFRS 3, *Reference to the Conceptual Framework*
- Amendments to HKAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts - cost of fulfilling a contract*
- Annual Improvements to HKFRSs 2018-2020 Cycle

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

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 2022 and 2021.

	Distribution and service in medical equipment and consumables		Hospital operation and management services		Business service		Total	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Segment revenue								
Revenue from external customers	<u>21,683</u>	<u>33,231</u>	<u>10,641</u>	<u>8,683</u>	<u>-</u>	<u>108</u>	<u>32,324</u>	<u>42,022</u>
Segment results	<u>(1,995)</u>	<u>865</u>	<u>(594)</u>	<u>(303)</u>	<u>-</u>	<u>3,298</u>	<u>(2,589)</u>	<u>3,860</u>
Reconciliation:								
Interest income and unallocated gains							<u>90</u>	<u>291</u>
Corporate and other unallocated expenses							<u>(24,998)</u>	<u>(8,853)</u>
Loss before tax							<u>(27,497)</u>	<u>(4,702)</u>
Depreciation and amortisation	<u>476</u>	<u>258</u>	<u>2,091</u>	<u>2,236</u>	<u>28</u>	<u>10</u>	<u>2,595</u>	<u>2,504</u>

4. OPERATING SEGMENT INFORMATION (Continued)

The following tables are an analysis of the Group's assets as at 30 September 2022 and 31 March 2022:

	As at 30 September 2022 (Unaudited)			
	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	130,416	71,665	13,750	215,831
Corporate and other unallocated assets				3,905
Total assets				<u>219,736</u>
SEGMENT LIABILITIES	91,947	23,217	259	115,423
Corporate and other unallocated liabilities				41,789
Total liabilities				<u>157,212</u>

	As at 31 March 2022 (Audited)			
	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	104,115	80,896	18,906	203,917
Corporate and other unallocated assets				22,040
Total assets				<u>225,957</u>
SEGMENT LIABILITIES	101,111	25,624	458	127,193
Corporate and other unallocated liabilities				13,632
Total liabilities				<u>140,825</u>

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	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
People's Republic of China ("PRC")	<u>32,324</u>	<u>42,022</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 as follows:

	Six months ended 30 September	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue:		
Income from distribution and service in medical equipment and consumables	21,683	33,231
Income from provision of hospital operation and management services	10,641	8,683
Business service	–	108
	<u>32,324</u>	<u>42,022</u>

6. OTHER INCOME/OTHER GAIN, NET

	Six months ended 30 September	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
(i) Other income		
Bank interest income	5	1
Sundry income	<u>105</u>	<u>293</u>
	<u>110</u>	<u>294</u>
(i) Other gain, net		
Reversal/(recognised) of impairment loss on trade receivables	–	40
Reversal/(recognised) of impairment loss on other receivables	<u>–</u>	<u>92</u>
	<u>–</u>	<u>132</u>

7. FINANCE COSTS

	Six months ended 30 September	
	2022 HK'000 (Unaudited)	2021 HK'000 (Unaudited)
Interest on lease liabilities	58	68
Interest on borrowing	319	95
Interest on convertible bonds	<u>423</u>	<u>–</u>
	<u>800</u>	<u>163</u>

8. LOSS BEFORE TAX

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

	Six months ended 30 September	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Depreciation of right-of-use assets	685	438
Depreciation of property, plant and equipment	1,914	2,066
Loss on disposal of property, plant and equipment	91	–
Share-based payment expenses	23	567
Interest income	(5)	(1)
	<u>685</u>	<u>438</u>

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% (2021: 25%).

	Six months ended 30 September	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Current tax – PRC		
Provision for the period	<u>25</u>	<u>82</u>

10. LOSS PER SHARE

	Six months ended 30 September	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Loss attributable to owners of the Company, used in the basic loss per share calculation	<u>(27,611)</u>	<u>(5,207)</u>
Number of shares	2022 '000	2021 '000 (Restated)
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>417,885</u>	<u>413,995</u>

For the period ended 30 September 2022, the outstanding convertible bonds and share options had an anti-dilutive effect on the basic loss per share and were ignored in the calculation of diluted loss per share.

For the period ended 30 September 2021, 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. TRADE RECEIVABLES

	30 September 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
Trade receivables:		
Distribution and service in medical equipment and consumables	19,331	34,826
Hospital operation and management services	2,020	5,029
Business service	<u>–</u>	<u>44</u>
Less: Allowance for credit loss	<u>–</u>	<u>(1,743)</u>
	<u>21,351</u>	<u>38,156</u>

11. 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 and net of impairment, is as follows:

	30 September 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
Within 90 days	4,582	797
91 – 180 days	3,835	14,237
over 180 days	12,934	23,122
	21,351	38,156

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

	30 September 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
Within 90 days	7,390	15,035
91 – 180 days	6,443	19,594
Over 180 days	7,518	3,527
	21,351	38,156

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

12. LOAN AND INTEREST RECEIVABLES

	30 September 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
Loan receivables – unsecured	<u>52,952</u>	<u>59,862</u>

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

	30 September 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
Within one year	<u>52,952</u>	<u>59,862</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.

Movement of loan and interest receivables are as follows:

	30 September 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
Beginning of the period	59,862	79,946
Repayment	(706)	(21,032)
Reversal of over-provision of Impairment allowance, net	–	(2,400)
Exchange realignment	<u>(6,204)</u>	<u>3,348</u>
End of the period	<u>52,952</u>	<u>59,862</u>

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

	30 September 2022 (Unaudited)		31 March 2022 (Audited)	
	%	HK\$'000	%	HK\$'000
Fixed rate:				
Loan receivables	7	<u>52,952</u>	7	<u>59,862</u>

13. TRADE PAYABLES

	30 September 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
Trade payables	20,441	21,138

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 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
Within one month	886	317
One to three months	434	1,372
Over three months but within 1 year	19,121	19,449
	20,441	21,138

14. OTHER PAYABLES AND ACCRUED EXPENSES

As at 30 September 2022 and 31 March 2022, approximately US\$4,000,000 (equivalent to approximately HK\$30,894,000) (31 March 2022: 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.

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").

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 announcement, the parties have filed their respective pleadings with the Court. On 25 January 2022, leave was granted to the Company to set the case down for a Trial. On 10 June 2022, leave was granted to the Company to set down a 15-days Trial in June 2023 before the Honourable Mr Justice Harris, with a Pre-Trial Review Hearing fixed on 25 April 2023. The Company will keep the shareholders informed of the latest material developments by making further announcement(s) as and when appropriate.

15. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Authorised:		
Ordinary shares of HK\$0.1 each		
At 1 April 2021, 31 March 2022 and 1 April 2022	100,000,000,000	10,000,000
Effects of share consolidation (<i>Note (b)</i>)	<u>(90,000,000,000)</u>	<u>–</u>
Ordinary shares of HK1 each		
At 30 September 2022	<u>10,000,000,000</u>	<u>10,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$1 each		
At 31 March 2022 and 1 April 2022	4,139,947,634	413,995
Consideration issue (<i>Note (a)</i>)	178,000,000	17,800
Effects of share consolidation (<i>Note (b)</i>)	<u>(3,886,152,871)</u>	<u>–</u>
At 30 September 2022	<u>431,794,763</u>	<u>431,795</u>

(a) On 22 October 2021, a total of 250,000,000 ordinary shares were successfully issued but subject to the lock-up period provisions according to the profit guarantee indicated in the relevant agreement regarding the subsidiary acquisition of the Group. Therefore, such shares are considered not yet issued to the vendor until the condition of profit guarantee satisfied.

On 22 August 2022, the profit guarantee of the related subsidiary for the year ended 31 March 2022 has been met and a total of 178,000,000 ordinary shares were issued according to the relevant agreement regarding the acquisition of the subsidiary.

(b) On 4 July 2022, the Company made a proposal of share consolidation to the shareholders that: every ten issued shares of HK\$0.1 each to be consolidated into one consolidated share of HK\$1.00 each. The share consolidation has become effective on 8 August 2022.

16. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved by the Board on 30 November 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

For the Period, the Group reported a revenue of approximately HK\$32.3 million, representing a decrease as compared to approximately HK\$42 million for the previous period. The revenue comprises (a) income from distribution and service in medical equipment and consumables of approximately HK\$21.7 million (2021: HK\$33.2 million); and (b) income from hospital operation and management services of approximately HK\$10.6 million (2021: HK\$8.7 million). There were no income from business factoring business (2021: HK\$0.1 million) during the Period. The decrease in revenue was mainly due to decrease in revenue from income from distribution and service in medical equipment and consumables during the Period. The Group reported gross profit of approximately HK\$9.3 million, representing a decrease of 4.3% as compared to approximately HK\$9.7 million for the previous period.

The Group's loss attributable to shareholders for the Period was approximately HK\$27.6 million as compared to approximately HK\$5.2 million for the previous financial period. The increase in loss was mainly due to recognition of fair value change of contingent consideration of HK\$17.2 million (2021: nil) arising from issue of consideration shares in respect of the acquisition of a subsidiary of the Company during the Period. Basic loss per share for the Period was HK\$6.50 cents (2021: HK\$1.26 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; and (b) hospital operation and management services business.

(a) Medical equipment and consumables distribution and service business

During the Period, the Group recorded revenue of approximately HK\$21.7 million (2021: HK\$33.2 million), representing a decrease of 34.6% as compared with the previous period. The operating loss was approximately HK\$2 million (2021: profit of HK\$0.9 million) during the Period.

The Group operated the medical equipment and consumables distribution and service business through its subsidiaries, namely 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”) based in Wuhan, the PRC and 北京佑康健業醫療器械有限公司 (Beijing Youkang Jianye Medical Equipment Co., Ltd.) (“Beijing Youkang”) based in Beijing, the PRC. As a result of the COVID-19 epidemic spreading and the tightening of control policies in the PRC, the Group’s medical equipment and consumables distribution business was significantly affected in the first half of the year, a significant decline was recorded in the revenue of Mageruizi Wuhan thus incurring operating loss, while the revenue growth of Beijing Youkang slowed down. In the second half of the year, the Group will further strengthen its existing business, optimize its product mix, develop new customers and new products, and seek positioning of new business growth. In particular, Beijing Youkang has already won several successful bidding projects and strengthened marketing services for pet vaccines, so as to ensure that its annual operations meet its objectives.

(b) Hospital operation and management services business

Anping Kangrong Hospital Company Limited and Anping Bo’ai Hospital

安平博愛醫院 (“Anping Bo’ai Hospital”) was 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\$10.6 million (2021: HK\$8.7 million) and operating loss of approximately HK\$0.6 million (2021: HK\$0.3 million) during the Period.

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 was entitled to a management fee equivalent to 3% of the revenue of Shuangluan Hospital. 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.

Further details of the above has been disclosed in the announcement dated 30 April 2021. As at date of this announcement, approximately RMB38.7 million (approximately HK\$47.8 million) has been received by the Group under the Settlement Agreement.

FUTURE PROSPECTS

During the Reporting Period, the ongoing spread of the COVID-19 pandemic had a profound impact on both of the international and domestic situations. Despite the above, the fundamentals of China's social and economic development maintained improvement, in particular for the huge medical and healthcare industry. As the urbanization expands and the population ages, it has maintained a diversified and sustained growth in recent years, with huge development potential. This has created favorable conditions for the Group to expand its business areas.

The Group's businesses have inevitably been adversely affected by the COVID-19 pandemic. Among them, the medical equipment and consumables distribution and service business of the company in Wuhan was greatly affected, while the said business in Beijing recorded growth. The revenue of the Group recorded a decrease of 21.7% in the first half of the year as compared to the previous corresponding period. In the second half of the year, efforts will be made to further integrate customer resources and broaden product offerings, and especially to increase the marketing and promotion of rabies vaccines in Beijing. The board of directors remains optimistic and confident in the achievement of the Group's business objectives for the year.

On the recently concluded 20th National Congress of the Communist Party of China, a dual-circulation goal has been set to build a unified nationwide market in China and combine the domestic and international economic flows, which has formulated a grand blueprint for the future economic development of China, and also provided a wide space for the future development of the Group. To align with the huge business opportunities brought by the national development strategy, the Group, while consolidating and developing existing businesses, has resolved to pool resources, actively seek cooperation opportunities, further expand distribution business in new fields, develop e-commerce, and give full play to the strategic geographical location of Hong Kong, so as to gradually develop a distribution network covering both domestic and international markets, and build a comprehensive distribution platform for medical and big health products. The board of directors believes that by adhering to this strategic direction, the Group will achieve leapfrog development in the near future and create maximum value for shareholders.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

(i) Investment in the Bochuang 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 million to Beijing Qihui.

Beijing Qihui holds a 15% partnership interest (as limited partner) in 湖南博創科健產業投資基金 (有限合夥) Hunan Bochuang Technology and Health Industry Investment Fund (Limited Partnership) (the "Bochuang Fund"). The Bochuang 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. The Bochuang 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 million 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 announcement, capital of RMB15 million (approximately HK\$18.5 million) has been paid by Zhongwei Health. Further details of the above has been disclosed in the announcements dated 5 July 2021 and 26 July 2021. Both parties agreed that the remaining capital of RMB15 million (approximately HK\$18.5 million) will be paid by Zhongwei Health on or before 31 December 2022.

(ii) Investment in Trillion Silver Limited

On 8 September 2022, Long Heng Investments Limited, a wholly owned subsidiary of the Company, has entered into the subscription agreement in respect of (i) subscription of 2,000 shares in Trillion Silver Limited, which is principally engaged in the investment in the research, development, and manufacture of healthcare products, including rapid test kits for monkeypox virus, for a consideration of HK\$4 million, and (ii) the provision of a loan of HK\$2million which bears interest of 6% per annum and will expire one year from the drawdown date. Upon completion of the subscription, the Group will hold 20% of the enlarged issued share capital of Trillion Silver Limited. The subscription has been completed in September 2022.

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 2022 (31 March 2022: nil).

SHARE CONSOLIDATION

On 10 June 2022, the Company proposed to conduct a consolidation (the “Share Consolidation”) of every ten (10) issued and unissued existing shares into one (1) consolidated share. Subject to the Share Consolidation being effective, the Company also proposed to change the board lot size for trading of the shares from 3,000 to 6,000. The Share Consolidation and change of board lot size have become effective on 8 August 2022. Details of the above were disclosed in the announcements of the Company dated 10 June 2022, 16 June 2022, 4 August 2022 and 5 August 2022 and the circular of the Company dated 4 July 2022.

FUND RAISING ACTIVITY

On 9 June 2022, the Company entered into the placing agreement with the placing agent for placing of the convertible bonds in the aggregate principal amount of up to HK\$82,000,000 at the initial conversion price of HK\$0.10 per conversion share on a best effort basis. The convertible bonds shall bear an interest at the rate of 6% per annum and expire on the second anniversary of the date of issue of the convertible bonds. The placing of convertible bonds has been completed on 5 August 2022 and the convertible bonds with an aggregate principal amount of HK\$40,000,000, which can be converted into 400,000,000 conversion shares at the initial conversion price of HK\$0.10, have been successfully placed to not less than six places.

Upon the Share Consolidation becomes effective on 8 August 2022, the conversion price adjusted from HK\$0.10 to HK\$1.00, and the number of conversion shares has been adjusted from 400,000,000 to 40,000,000 consolidated shares.

The gross proceeds and the net proceeds of the placing were HK\$40,000,000 and approximately HK\$38,800,000 respectively. The expected timeline for utilization of the net proceeds are as follows: (i) HK\$13,800,000 as the general working capital of the Company to be utilised by 30 June 2023; and (ii) HK\$25,000,000 as reserve for possible business development and investment of the Group to be utilised by 30 June 2023. Further details of the placing were disclosed in the announcements of the Company dated 9 June 2022, 16 June 2022, 30 June 2022, 14 July 2022, 26 July 2022 and 5 August 2022. As at the date of this announcement, approximately HK\$11,000,000 has been used as general working capital of the Company and HK\$16,500,000 has been used as business development and investment of the Group.

There was no unutilised proceeds brought forward from any issue of equity securities made in previous years.

LIQUIDITY AND CAPITAL RESOURCES

The Group mainly financed its day to day operations by internally generated cash flow and placing of convertible bonds during the Period. As at 30 September 2022, the Group's cash and cash equivalents amounted to approximately HK\$22.7 million (31 March 2022: HK\$8.5 million). As at 30 September 2022, the current assets and net current assets of the Group are approximately HK\$135.6 million (31 March 2022: HK\$137.7 million) and HK\$18.2 million (2021: HK\$0.8 million) respectively, representing a current ratio of 1.15 (31 March 2022: 1.0).

As at 30 September 2022, a dividend payable on redeemable convertible cumulative preference shares in the sum of US\$4 million (31 March 2022: 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 2022, the Group has certain bank loans, which were denominated in Renminbi, amounting to RMB2 million (31 March 2022: RMB6.5 million) (approximately HK\$2.2 million) (31 March 2022: HK\$8.1 million). The loans carried interest ranging from loan prime rate (LPR) plus 0.1% to 0.25% and repayable within one year. As at 31 March 2022, the Group had an other borrowing of HK\$9.5 million, which was denominated in Hong Kong dollars, interest bearing at 6% per annum and repayable on 30 September 2022. The loan has been fully repaid during the Period. There was no other borrowing as at 30 September 2022.

As at 30 September 2022, there were outstanding convertible bonds with principal amount of HK\$40 million (31 March 2022: nil). The convertible bonds bear an interest at the rate of 6% per annum and will expire on the second anniversary of the date of issue of the convertible bonds, i.e. 5 August 2022.

As at 30 September 2022, the gearing ratio was 1.27 (31 March 2022: 0.61), calculated by dividing dividend payable on redeemable convertible cumulative preference shares, bank and other borrowings and convertible bonds (representing debts owed by the Company) by shareholders' equity of approximately HK\$57.5 million (31 March 2022: HK\$79.6 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

Details of material litigations were disclosed in note 14 of these financial statements.

CONTINGENT LIABILITIES

As at 30 September 2022, there were no material contingent liabilities of the Group (31 March 2022: nil).

CHARGE ON GROUP'S ASSETS

As at 30 September 2022, there were no charge on the Group's assets (31 March 2022: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2022, the Group employed 146 employees (31 March 2022: 122). The total staff cost including Directors' emoluments and share based payment of approximately HK\$0.02 million (2021: HK\$0.6 million) was approximately HK\$8.6 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 during the Period. 41,650,000 share options were lapsed and 182,700,000 share options were cancelled upon the Share Consolidation becoming effective during the Period. There were 19,050,000 outstanding share options as at 30 September 2022.

DIVIDEND

The Directors do not recommend the payment of any interim dividend to shareholders (2021: 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 deviation:

Under paragraph C.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.

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 2022.

On behalf of the Board
China Health Group Limited
Zhang Fan

Chairman of the Board and Executive Director

Hong Kong, 30 November 2022

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