



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)

2023

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
Kowloon, 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

MUFG 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
17/F, Far East Finance Centre
16 Harcourt Road
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 2023

	Notes	Six months ended 30 September	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue	5	30,344	32,324
Cost of good sold/services rendered		(23,233)	(23,049)
Gross profit		7,111	9,275
Other income	6	281	110
Other gain/(loss), net	6	30	–
Share-based payment		–	(23)
Selling and distribution expenses		(8,430)	(4,056)
Share of results of an associate		–	(1)
Administrative expenses		(14,489)	(14,801)
Fair value change of contingent consideration		(864)	(17,201)
Finance costs	7	(124)	(800)
LOSS BEFORE TAX	8	(16,485)	(27,497)
Income tax	9	(56)	(25)
LOSS FOR THE PERIOD		(16,541)	(27,522)
LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		(15,060)	(27,611)
Non-controlling interest		(1,481)	89
		(16,541)	(27,522)
LOSS PER SHARE			
– Basic and diluted (HK cents)	10	(3.19)	(6.61)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

For the six months ended 30 September 2023

	Six months ended 30 September	
	2023 <i>HK\$'000</i> (Unaudited)	2022 <i>HK\$'000</i> (Unaudited)
LOSS FOR THE PERIOD	(16,541)	(27,522)
OTHER COMPREHENSIVE LOSS		
Item that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	<u>(5,535)</u>	<u>(15,968)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(22,076)</u>	<u>(43,490)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO:		
Owners of the Company	(19,965)	(42,986)
Non-controlling interest	<u>(2,111)</u>	<u>(504)</u>
	<u>(22,076)</u>	<u>(43,490)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2023

	Notes	30 September 2023 HK\$'000 (Unaudited)	31 March 2023 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		19,639	21,300
Right-of-use assets		3,507	2,738
Goodwill		191,191	37,880
Investment in an associate		–	–
Prepayments		16,347	17,132
Total non-current assets		230,684	79,050
CURRENT ASSETS			
Inventories		14,117	11,666
Trade receivables	11	27,715	30,751
Prepayments, deposits and other receivables		42,613	29,020
Loan and interest receivables	12	48,970	59,218
Cash and bank balances		3,255	11,480
Total current assets		136,670	142,135
CURRENT LIABILITIES			
Trade payables	13	25,597	24,117
Other payables and accrued expenses	14	91,616	74,886
Contract liabilities		8,827	5,468
Lease liabilities		1,247	353
Tax payables		1,144	1,646
Amount due to a director		–	7,020
Bank borrowing		5,423	5,684
Contingent consideration		–	8,061
Total current liabilities		133,854	127,235

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 September 2023

	Notes	30 September 2023 HK\$'000 (Unaudited)	31 March 2023 HK\$'000 (Audited)
NET CURRENT ASSETS		2,816	14,900
TOTAL ASSETS LESS CURRENT LIABILITIES		233,500	93,950
NON-CURRENT LIABILITIES			
Contingent consideration		153,000	–
Total non-current liabilities		153,000	–
NET ASSETS		80,500	93,950
EQUITY			
Share capital	15	47,900	471,795
Reserves		27,392	(385,463)
Equity attributable to owners of the Company		75,292	86,332
Non-controlling interests		5,208	7,618
TOTAL EQUITY		80,500	93,950

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2023

	Share capital	Share premium	Contributed surplus	Convertible bonds reserve	Other reserve	Foreign currency translation reserve	Share options	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 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
Forfeiture 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>
At 1 April 2023 (audited)	<u>471,795</u>	<u>528,340*</u>	<u>57,124*</u>	<u>-*</u>	<u>(10,304)*</u>	<u>(8,397)*</u>	<u>6,308*</u>	<u>(958,534)*</u>	<u>86,332</u>	<u>7,618</u>	<u>93,950</u>
Loss for the period	-	-	-	-	-	-	-	(15,060)	(15,060)	(1,481)	(16,541)
Other comprehensive loss for the period	-	-	-	-	-	(4,905)	-	-	(4,905)	(630)	(5,535)
Total comprehensive loss for the period	-	-	-	-	-	(4,905)	-	(15,060)	(19,965)	(2,111)	(22,076)
Capital reduction	(424,615)	(528,340)	952,955	-	-	-	-	-	-	-	-
Issuance of share capital	720	8,205	-	-	-	-	-	-	8,925	-	8,925
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	(299)	(299)
At 30 September 2023 (unaudited)	<u>47,900</u>	<u>8,205*</u>	<u>1,010,079*</u>	<u>-*</u>	<u>(10,304)*</u>	<u>(13,302)*</u>	<u>6,308*</u>	<u>(973,594)*</u>	<u>75,292</u>	<u>5,208</u>	<u>80,500</u>

* These reserve amounts comprise the consolidated surplus in reserves of approximately HK\$27,392,000 (31 March 2023: consolidated deficiency of approximately HK\$385,463,000) in the consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2023

	Six months ended 30 September	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(14,890)	(5,320)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(271)	(4,726)
NET CASH FLOWS GENERATED FROM FINANCING ACTIVITIES	7,072	23,098
	<hr/>	<hr/>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(8,089)	13,052
Effect of foreign exchange rate changes, net	(136)	1,157
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	11,480	8,537
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	3,255	22,746
	<hr/> <hr/>	<hr/> <hr/>
Analysis of cash and cash equivalents:		
Cash and bank balances	3,255	22,746
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

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 2023, 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 2023 are the same as those presented in the Group's annual financial statements for the year ended 31 March 2023.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

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 2023 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;
- (iii) Distribution and marketing of pharmaceutical products; and
- (iv) Business service

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

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 2023 and 2022.

	Distribution and service in medical equipment and consumables		Hospital operation and management services		Distribution and marketing of pharmaceutical products		Business service		Total	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Segment revenue										
Revenue from external customers	21,808	21,683	6,460	10,641	2,076	-	-	-	30,344	32,324
Segment results	(1,253)	(1,995)	(3,135)	(594)	(2,115)	-	(588)	-	(7,091)	(2,589)
Reconciliation:										
Interest income and unallocated gains									281	90
Corporate and other unallocated expenses									(9,675)	(24,998)
Loss before tax									(16,485)	(27,497)
Depreciation	74	476	1,287	2,091	249	-	130	28	1,740	2,595

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

4. OPERATING SEGMENT INFORMATION (Continued)

The following tables are an analysis of the Group's assets as at 30 September 2023 and 31 March 2023:

	As at 30 September 2023 (Unaudited)				
	Distribution and service in medical equipment and consumables HK\$'000	Hospital operation and management services HK\$'000	Distribution and marketing of pharmaceutical products HK\$'000	Business service HK\$'000	Total HK\$'000
SEGMENT ASSETS	49,294	14,131	166,010	67,248	296,683
Corporate and other unallocated assets					70,671
Total assets					<u>367,354</u>
SEGMENT LIABILITIES	32,748	21,788	1,436	10,087	66,059
Corporate and other unallocated liabilities					220,795
Total liabilities					<u>286,854</u>

	As at 31 March 2023 (Audited)				
	Distribution and service in medical equipment and consumables HK\$'000	Hospital operation and management services HK\$'000	Distribution and marketing of pharmaceutical products HK\$'000	Business service HK\$'000	Total HK\$'000
SEGMENT ASSETS	46,195	16,859	–	79,666	142,720
Corporate and other unallocated assets					78,465
Total assets					<u>221,185</u>
SEGMENT LIABILITIES	24,082	21,508	–	1,181	46,771
Corporate and other unallocated liabilities					80,464
Total liabilities					<u>127,235</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

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	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
People's Republic of China ("PRC")	30,344	32,324

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	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Revenue:		
Income from distribution and service in medical equipment and consumables	21,808	21,683
Income from provision of hospital operation and management services	6,460	10,641
Income from distribution and marketing of pharmaceutical products	2,076	–
	30,344	32,324

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

6. OTHER INCOME/OTHER GAIN, NET

	Six months ended 30 September	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
(i) Other income		
Bank interest income	–	5
Other interest income	223	–
Sundry income	58	105
	<u>281</u>	<u>110</u>
(ii) Other gain, net		
Gain on deregistration of a subsidiary	9	–
Sundry gains	21	–
	<u>30</u>	<u>–</u>

7. FINANCE COSTS

	Six months ended 30 September	
	2023 HK'000 (Unaudited)	2022 HK'000 (Unaudited)
Interest on lease liabilities	21	58
Interest on borrowing	103	319
Interest on convertible bonds	–	423
	<u>124</u>	<u>800</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

8. LOSS BEFORE TAX

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

	Six months ended 30 September	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Depreciation of right-of-use assets	752	685
Depreciation of property, plant and equipment	988	1,914
Loss on disposal of property, plant and equipment	–	91
Share-based payment expenses	–	23
Interest income	(223)	(5)
	<u> </u>	<u> </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% (2022: 25%).

	Six months ended 30 September	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax – PRC		
Provision for the period	56	25
	<u> </u>	<u> </u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

10. LOSS PER SHARE

	Six months ended 30 September	
	2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)
Loss attributable to owners of the Company, used in the basic loss per share calculation	<u>(15,060)</u>	<u>(27,611)</u>
Number of shares		
	2023 '000	2022 '000
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>471,952</u>	<u>417,885</u>

For the period ended 30 September 2023, 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 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

11. TRADE RECEIVABLES

	30 September 2023 HK\$'000 (Unaudited)	31 March 2023 HK\$'000 (Audited)
Trade receivables:		
Distribution and service in medical equipment and consumables	19,742	25,932
Hospital operation and management services	3,801	4,678
Distribution and marketing of pharmaceutical products	272	–
Business service	4,720	961
	<hr/>	<hr/>
Less: Allowance for credit loss	(820)	(820)
	<hr/>	<hr/>
	27,715	30,751
	<hr/> <hr/>	<hr/> <hr/>

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 2023 HK\$'000 (Unaudited)	31 March 2023 HK\$'000 (Audited)
Within 90 days	5,662	13,807
91 – 180 days	7,386	3,158
over 180 days	14,667	13,786
	<hr/>	<hr/>
	27,715	30,751
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

11. TRADE RECEIVABLES (Continued)

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

	30 September 2023 HK\$'000 (Unaudited)	31 March 2023 HK\$'000 (Audited)
Within 90 days	13,048	16,966
91 – 180 days	9,841	9,764
Over 180 days	4,826	4,021
	<u>27,715</u>	<u>30,751</u>

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

12. LOAN AND INTEREST RECEIVABLES

	30 September 2023 HK\$'000 (Unaudited)	31 March 2023 HK\$'000 (Audited)
Loan receivables – unsecured	<u>48,970</u>	<u>59,218</u>

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

	30 September 2023 HK\$'000 (Unaudited)	31 March 2023 HK\$'000 (Audited)
Within one year	<u>48,970</u>	<u>59,218</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

12. LOAN AND INTEREST RECEIVABLES (Continued)

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 2023	31 March 2023
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Beginning of the period	59,218	59,862
Additions	616	8,747
Repayment	(7,833)	(571)
Impairment charged for the year, net	–	(4,039)
Exchange realignment	(3,031)	(4,781)
	<hr/> 48,970 <hr/>	<hr/> 59,218 <hr/>
End of the period	48,970	59,218

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

	30 September 2023		31 March 2023	
	(Unaudited)		(Audited)	
	%	HK\$'000	%	HK\$'000
Fixed rate:				
Loan receivables	7	48,970	7	59,218
		<hr/> 48,970 <hr/>		<hr/> 59,218 <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

13. TRADE PAYABLES

	30 September 2023 HK\$'000 (Unaudited)	31 March 2023 HK\$'000 (Audited)
Trade payables	25,597	24,117

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 2023 HK\$'000 (Unaudited)	31 March 2023 HK\$'000 (Audited)
Within one month	2,600	1,288
One to three months	1,403	1,560
Over three months but within 1 year	21,594	21,269
	25,597	24,117

14. OTHER PAYABLES AND ACCRUED EXPENSES

As at 30 September 2023 and 31 March 2023, approximately US\$4,000,000 (equivalent to approximately HK\$31,399,000) (31 March 2023: US\$4,000,000 (equivalent to approximately HK\$31,399,000)) 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 2023

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 2023

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. On 25 January 2022, leave was granted to the Company to set the case down for a Trial. The Trial commenced on 5 June 2023 before the Honourable Mr. Justice Harris and was completed on 29 June 2023. The Judgment for the 2549 & 2569 Action will be handed down by the Judge by 27 December 2023. 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 2023

15. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Authorised:		
Ordinary shares of HK1 each		
At 31 March 2023 and 1 April 2023	10,000,000,000	10,000,000
Effects of capital reduction (Note (a))	<u>90,000,000,000</u>	<u>–</u>
Ordinary shares of HK0.1 each		
At 30 September 2023	<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 2023 and 1 April 2023	471,794,763	471,795
Effects of capital reduction (Note (a))	–	(424,615)
Consideration issue (Note (b))	<u>7,200,000</u>	<u>720</u>
At 30 September 2023	<u>478,994,763</u>	<u>47,900</u>

- (a) On 24 August 2023, the Company made a proposal of capital reduction to the shareholders that:(i) the par value of each of the issued shares was reduced from HK\$1.00 to HK\$0.10 per issued Share by cancelling the paid up share capital to the extent of HK\$0.90 per issued Share; (ii) the sub-division whereby each of the authorised but unissued shares with par value of HK\$1.00 each was sub-divided into ten (10) unissued new shares with par value of HK\$0.10 each; (iii) the share premium reduction whereby the entire amount standing to the credit of the share premium account of the Company was reduced to nil; and (iv) upon the capital reduction and the share premium reduction becoming effective, the credit arising from the capital reduction and the share premium reduction was transferred to the contributed surplus account of the Company. The capital reduction has become effective on 20 September 2023.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

15. SHARE CAPITAL (Continued)

(b) 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.

On 27 Sept 2023, the profit guarantee of the related subsidiary for the period ended 30 September 2023 has been met and a total of 7,200,000 ordinary shares were issued according to the relevant agreement regarding the acquisition of the subsidiary.

16. BUSINESS COMBINATION

During the period ended 30 September 2023, the Group entered into an agreement for the acquisition of 51% equity interests of Golden Alliance Limited and its subsidiaries (the "Golden Alliance Group"). The consideration of HK\$153,000,000 was satisfied by: (1) issuing the first promissory note (shall carry no interest and mature in 12 months) in the amount of HK\$23,562,500 and the second promissory note (shall carry no interest and mature in 24 months) in the amount of HK\$23,562,500 to the vendor on the completion date; and (2) allotment and issuance of up to 87,500,000 consideration shares at the issue price of HK\$1.21 per consideration share by the Company to the vendors.

The principal activities of Golden Alliance Group is engaged in the sales and distribution of medicines and related products in the PRC and is the exclusive distributor for the Ximuming Products in the PRC. Such acquisition has completed on 16 June 2023.

As at 30 September 2023, the contingent consideration for the acquisition of approximately HK\$153,000,000 remained unpaid and included in the contingent consideration.

As at the date of this report, the fair value assessments of the assets acquired and liabilities assumed of the Golden Alliance Group have not yet been completed. The relevant fair values of the net assets/liabilities acquired has been determined on a provisional basis and the adjustments on the consideration are subject to agreement with the vendor.

For the purpose of initial recognition, the Directors of the Company determined the best estimates for the value of these assets and liabilities based on the nominal values for the purpose of determining the consideration.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

16. BUSINESS COMBINATION (Continued)

The Group incurred transaction costs of approximately HK\$600,000 for the acquisition which have been expensed and are included in administrative expenses in the condensed consolidated statement of profit or loss for the six months ended 30 September 2023.

Since the acquisition, Golden Alliance Group contributed approximately HK\$1,887,000 to the Group's revenue and loss of approximately HK\$1,923,000 was included in the Group's results for the six months ended 30 September 2023.

Had the acquisition been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 30 September 2023, would have been approximately HK\$32,276,000, and the amount of loss for the interim period would have been approximately HK\$17,918,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

17. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 12 October 2023, the Company, Long Heng Investments Limited, a direct and wholly-owned subsidiary of the Company, Ever True Ventures Limited and Ms. Ma Xiaoming, as the guarantor, entered into the agreement for acquisition of 100% equity interest in Jinmei Developments Limited, which is principally engaged in the research and development and sale of functional foods for the prevention of cardiovascular and cerebrovascular diseases through its wholly owned subsidiary namely 深圳市偉航奕寧生物科技有限公司 (Shenzhen Weihang Yining Biotechnology Co., Ltd), at the consideration of HK\$146,000,000, which shall be satisfied by the issue of the promissory note by the Company.

Pursuant to the respective sales and purchase agreement, the guarantor has irrevocably guaranteed to the purchaser and the Company that the actual profit for the year ended 31 December 2024 prepared in accordance with Hong Kong Financial Reporting Standards shall be not less than the guaranteed profit of RMB15 million (equivalent to approximately HK\$16.1 million) and the actual profit for the year ending 31 December 2025 prepared in accordance with Hong Kong Financial Reporting Standards shall be not less than the guaranteed profit of RMB40 million (equivalent to approximately HK\$42.8 million) respectively. In the event that the above profit guarantee is not achieved, the consideration shall be adjusted downwards by the adjusted amount as stated in the respective sales and purchase agreement. Such acquisition has been completed on 16 November 2023.

18. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved by the Board on 30 November 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

For the six months ended 30 September 2023 (the “Period”), the Group reported revenue of approximately HK\$30.4 million, representing a decrease as compared to approximately HK\$32.3 million for the previous period. The revenue comprises (a) income from distribution and service in medical equipment and consumables of approximately HK\$21.8 million (2022: HK\$21.7 million); (b) income from hospital operation and management services of approximately HK\$6.5 million (2022: HK\$10.6 million); and (c) distribution and marketing of pharmaceutical products of approximately HK\$2.1 million (2022: nil). The decrease in revenue was mainly due to decrease in revenue from income from hospital operation and management services during the Period. The Group reported gross profit of approximately HK\$7.1 million, representing a decrease of 24% 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\$15.1 million as compared to approximately HK\$27.6 million for the previous financial period. The decrease in loss was mainly due to decrease in recognition of fair value change of contingent consideration of HK\$0.9 million arising from issue of consideration shares in respect of the acquisition of a subsidiary of the Company during the Period (2022: loss of HK\$17.2 million). Basic loss per share for the Period was HK\$3.19 cents (2022: HK\$6.61 cents).

REVIEW OF BUSINESS OPERATION

For the Period, the business segments of the Group comprise (a) medical equipment and consumables distribution and service business; (b) hospital operation and management services business; (c) distribution and marketing of pharmaceutical products; and (d) business factoring service.

(a) Medical equipment and consumables distribution and service business

During the Period, the Group recorded revenue of approximately HK\$21.8 million (2022: HK\$21.7 million). The operating loss was approximately HK\$1.3 million (2022: HK\$2 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. The Group has strengthened its existing business, optimized its product mix, developed 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.

(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\$6.5 million (2022: HK\$10.6 million) and operating loss of approximately HK\$3.1 million (2022: HK\$0.6 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 report, approximately RMB38.7 million (approximately HK\$42.2 million) has been received by the Group under the Settlement Agreement.

(c) Distribution and marketing of pharmaceutical products

On 16 June 2023, the Group completed acquisition of 51% equity interest in Golden Alliance Limited, which is principally engaged in distribution and marketing of pharmaceutical products in the PRC through its indirectly wholly owned subsidiary, 武漢明誠旺達醫藥有限公司 (Wuhan Mingcheng Wangda Pharmaceutical Co., Ltd., “Mingcheng Wangda”).

The Group recorded revenue and the operating loss of approximately HK\$2.1 million (2022: nil) and approximately HK\$2.1 million (2022: nil) respectively during the Period.

(d) 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

During the Period, the PRC and Hong Kong had finally emerged from the COVID-19 pandemic that lasted for three years, and the society and economy had begun to recover and return to normal in an all-round way. Entering the post-pandemic era, the medical and healthcare industry in the PRC remains the leader in all industries. As the urbanization expands and the population ages, the medical and healthcare industry will maintain a diversified and sustained growth, with huge development potential. This has created favorable conditions for the Group to expand new business areas.

In a new year, the economic recovery and development of the PRC were against expectations due to insufficient overall demand, supply chain adjustments, and the adverse effects of geopolitics. The Group was inevitably affected by the general environment and faced unprecedented difficulties in business operations, including the failure of the new distribution business to realise its plans. Thanks to the unremitting efforts of all employees of the Group, its businesses generally remained stable in the first half of the year. Recently, the central government has introduced new incentive policies to open wider to the world. It is believed that the general business environment will continue to improve. The Group expects that its businesses will resume growth in the second half of the year and achieve its annual operation goals.

The Group will remain committed to the existing development strategy, and concentrate resources to build a nationwide medical and healthcare distribution platform. On the one hand, it will continue to expand and integrate new channel resources, including the integration of offline entities and online e-commerce. On the other hand, it will further enrich new product resources by selecting high-quality products among medicines, healthcare products, nursing products and functional foods, to rapidly increase the market share of distributed products, thus forming competitive products of the Group. Under ripe conditions, active efforts will be made to invest and develop in the upstream R&D and production fields to achieve the integration of R&D, production and sales, thereby enhancing the Group's core competitiveness. The Board believes that through endeavors in the next few years, the Group will be able to get through difficulties, achieve rapid development and create maximum value for the shareholders.

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 report, capital of RMB15 million (approximately HK\$16.3 million) has been paid by Zhongwei Health. Further details of the above has been disclosed in the announcements of the Company dated 5 July 2021 and 26 July 2021.

(ii) Acquisition of 51% equity interest in Wuhan Mingcheng Wangda Pharmaceutical Co., Ltd.

On 2 December 2022, the Company and Mingcheng Wangda have entered into a cooperation framework agreement, pursuant to which the Company and Mingcheng Wangda intend to have close cooperation in various ways for distributing medical one health products. Mingcheng Wangda's business scope covers western medicine, traditional Chinese medicine, healthcare products, medical devices, medical equipment, medical testing, consumer health products, animal healthcare, raw materials for characteristic traditional Chinese medicine and health technology, and provision of integrated services such as procurement, marketing, logistics, distribution, Internet and entity expansion. Further details of the above has been disclosed in the announcement of the Company dated 2 December 2022.

On 6 February 2023, the Company, Long Heng Investments Limited (a direct and wholly-owned subsidiary of the Company as the purchaser), three vendors, namely Double Bliss Investments Limited, Mr. Zhou Wang and Alpha Success International Limited and two vendor guarantors entered into the sales and purchase agreement (the "Agreement") for acquisition of 51% equity interest in Golden Alliance Limited, which is principally engaged in distribution and marketing of pharmaceutical products in the PRC through its indirectly wholly owned subsidiary (i.e. Mingcheng Wangda), at the consideration of HK\$153,000,000, which shall be satisfied by (i) the issue of the promissory notes in the aggregate amount of HK\$47,125,000 on the date of completion of acquisition; and (ii) the allotment and issue of up to 87,500,000 shares at the issue price of HK\$1.21 per share after the issue of audited financial statements of the target group for the year ending 31 March 2024 and 2025 pursuant to the Hong Kong Financial Reporting Standards (HKFRS) subject to the profit guarantee adjustments stated in the Agreement. The acquisition was completed on 16 June 2023. Further details of the above has been disclosed in the announcements of the Company dated 6 February 2023, 26 April 2023, 31 May 2023 and 16 June 2023.

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

Subsequent to the end of the Period, on 12 October 2023, Long Heng Investments Limited (as the purchaser), the Company, Ever True Ventures Limited (as the vendor) and Ms. Ma Xiaoming (as the guarantor) entered into the agreement in respect of acquisition of 100% equity interest in Jinmei Developments Limited, which is principally engaged in the research and development and sale of functional foods for the prevention of cardiovascular and cerebrovascular diseases through its wholly owned subsidiary namely 深圳市偉航奕寧生物科技有限公司 (Shenzhen Weihang Yining Biotechnology Co., Ltd), at the consideration of HK\$146,000,000, which shall be satisfied by the issue of the promissory note by the Company.

Pursuant to the respective sales and purchase agreement, the guarantor has irrevocably guaranteed to the purchaser and the Company that the actual profit for the year ending 31 December 2024 prepared in accordance with Hong Kong Financial Reporting Standards shall be not less than the guaranteed profit of RMB15 million (equivalent to approximately HK\$16.1 million) and the actual profit for the year ending 31 December 2025 prepared in accordance with Hong Kong Financial Reporting Standards shall be not less than the guaranteed profit of RMB40 million (equivalent to approximately HK\$42.8 million) respectively. In the event that the above profit guarantee is not achieved, the consideration shall be adjusted downwards by the adjusted amount as stated in the respective sales and purchase agreement. The acquisition was completed on 16 November 2023. Further details of the above have been disclosed in the announcements of the Company dated 12 October 2023, 1 November 2023, 15 November 2023 and 16 November 2023.

SIGNIFICANT INVESTMENT

The Group had no significant investment of carrying value of 5% or more of the total assets as at 30 September 2023 (31 March 2023: nil).

CAPITAL REDUCTION OF ISSUED SHARES, SUB-DIVISION OF UNISSUED SHARES AND REDUCTION OF SHARE PREMIUM

On 1 August 2023, the Board proposes the capital reduction of issued shares (the “Capital Reduction”), the sub-division of unissued shares (the “Sub-division”) and the reduction of share premium (the “Share Premium Reduction”) to be implemented in the following manner:

- (i) the Capital Reduction whereby the par value of each of the issued shares will be reduced from HK\$1.00 to HK\$0.10 per issued share by cancelling the paid up share capital to the extent of HK\$0.90 per issued share;
- (ii) the Sub-division whereby each of the authorised but unissued shares with par value of HK\$1.00 each will be sub-divided into ten (10) unissued new shares with par value of HK\$0.10 each;
- (iii) the Share Premium Reduction whereby the entire amount standing to the credit of the share premium account of the Company will be reduced to nil; and
- (iv) upon the Capital Reduction and the Share Premium Reduction becoming effective, the credit arising from the Capital Reduction and the Share Premium Reduction will be transferred to the contributed surplus account of the Company within the meaning of the Companies Act 1981 of Bermuda (as amended from time to time) to thereafter be applied towards inter alia offsetting the accumulated losses of the Company as at the effective date of the Capital Reduction and the Share Premium Reduction (the “Accumulated Losses”) in accordance with and as permitted by all applicable laws and the memorandum of association and bye-laws of the Company and as the Board considers appropriate.

Upon the Capital Reduction, the Sub-division and the Share Premium Reduction becoming effective, after the share subdivision of each authorised but unissued share of HK\$1.00 into ten (10) new shares of HK\$0.10 each, the authorised share capital will be HK\$10,000,000,000 divided into 100,000,000,000 new shares of HK\$0.10 each, of which 478,994,763 Shares will be issued new shares, and US\$150 divided into preference shares of US\$0.01 each. The authorised share capital of the Company shall remain at HK\$10,000,000,000 and US\$150 prior to and immediately after completion of the Capital Reduction, the Sub-division and the Share Premium Reduction. The par value of each of the 478,994,763 issued shares will be reduced from HK\$1.00 to HK\$0.10 per issued share by cancelling the paid up share capital to the extent of HK\$0.90 per issued share by way of a reduction of capital, so as to form issued new shares with par value of HK\$0.10 each, the Company's existing issued share capital of HK\$478,994,763 will be reduced by HK\$431,095,286.70 to HK\$47,899,476.30.

The Capital Reduction, the Sub-division and the Share Premium Reduction became effective on 20 September 2023. Further details of the above have been disclosed in the announcements of the Company dated 1 August 2023, 18 September 2023 and 20 September 2023 and the circular of the Company dated 24 August 2023.

UPDATE OF USE OF PROCEEDS

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 placees.

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 convertible bonds have been fully converted and 40,000,000 consolidated shares were allotted and issued upon conversion of the convertible bonds on 16 March 2023.

The gross proceeds and the net proceeds of the placing were HK\$40,000,000 and approximately HK\$38,800,000 respectively. All the net proceeds were utilised as planned as to (i) HK\$13,800,000 as the general working capital of the Company; and (ii) HK\$25,000,000 for business development and investment of the Group. 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.

Save as disclosed above, there was no unutilised proceeds brought forward from any issue of equity securities made in previous years.

FUND RAISING ACTIVITY

There were no 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 2023, the Group's cash and cash equivalents amounted to approximately HK\$3.3 million (31 March 2023: HK\$11.5 million). As at 30 September 2023, the current assets and net current assets of the Group are approximately HK\$136.7 million (31 March 2023: HK\$142.1 million) and HK\$2.8 million (31 March 2023: HK\$14.9 million) respectively, representing a current ratio of 1.02 (31 March 2023: 1.12).

As at 30 September 2023, a dividend payable on redeemable convertible cumulative preference shares in the sum of US\$4 million (equivalent to approximately HK\$31.4million) (31 March 2023: US\$4 million) (equivalent to approximately HK\$31.4 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 2023, the Group has certain bank loans, which were denominated in Renminbi, amounting to approximately RMB5 million (31 March 2023: RMB5 million) (approximately HK\$5.4 million) (31 March 2023: HK\$5.7 million). The loans carried interest ranging from loan prime rate (LPR) plus 0.1% to 0.25% and repayable within one year.

As at 30 September 2023, the gearing ratio was 0.49 (31 March 2023: 0.43), calculated by dividing dividend payable on redeemable convertible cumulative preference shares of approximately HK\$31.4 million (31 March 2023: HK\$31.4 million) and bank and other borrowings of approximately HK\$5.4 million (31 March 2023: HK\$5.7 million) (representing debts owed by the Company) by shareholders' equity of approximately HK\$75.3 million (31 March 2023: HK\$86.3 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 2023, there were no material contingent liabilities of the Group (31 March 2023: nil).

CHARGE ON GROUP'S ASSETS

As at 30 September 2023, there were no charge on the Group's assets (31 March 2023: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2023, the Group employed 133 employees (31 March 2023: 137). The total staff cost including Directors' emoluments and share based payment was approximately HK\$5.6 million as compared to approximately HK\$5.1 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, lapsed or cancelled during the Period. There were 19,050,000 outstanding share options as at 30 September 2023.

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

As at 30 September 2023, 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 <i>(Note 1)</i>	Through personal & corporate interest	137,299,400(L)	800,000	138,099,400(L)	28.83%
Mr. Chung Ho <i>(Note 2)</i>	Beneficial owner	–	3,000,000(L)	3,000,000(L)	0.63%
Mr. Wang Jingming <i>(Note 3)</i>	Beneficial owner	2,340,600(L)	300,000(L)	2,640,600(L)	0.55%
Mr. Xing Yong <i>(Note 3)</i>	Beneficial owner	139,800(L)	3,400,000(L)	3,539,800(L)	0.74%
Mr. Huang Lianhai <i>(Note 3)</i>	Beneficial owner	–	2,300,000(L)	2,300,000(L)	0.48%
Mr. Jiang Xuejun <i>(Note 4)</i>	Beneficial owner	–	800,000(L)	800,000(L)	0.17%
Mr. Du Yanhua <i>(Note 4)</i>	Beneficial owner	–	300,000(L)	300,000(L)	0.06%
Mr. Lai Liangquan <i>(Note 4)</i>	Beneficial owner	–	300,000(L)	300,000(L)	0.06%

Remark: (L): Long position

Notes:

1. Mr. Zhang Fan is interested in 138,099,400 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 2023, 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 2023
Treasure Wagon Limited (Note 1)	Beneficial owner	135,992,000(L)	–	135,992,000(L)	28.39%

Remark: (L): Long position

Notes:

1. 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.

SHARE OPTION SCHEME

2012 Share Option Scheme

The Company operated a share option scheme which was effective from 28 August 2012 with a period of 10 years from 28 August 2012 (the “2012 Share Option Scheme”). Further details of the 2012 Share Option Scheme were disclosed in the annual report of the Company for the year ended 31 March 2023. There was no change in any terms of the 2012 Share Option Scheme during the Period.

2023 Share Option Scheme

In light of the expiry of the 2012 Share Option Scheme, the Board had proposed to adopt a new share option scheme (“2023 Share Option Scheme”), which was approved by the shareholders of the Company on 18 September 2023. The 2023 Share Option Scheme was effective from 18 September 2023 and remains valid for a period of 10 years from 18 September 2023.

The 2023 Share Option Scheme is largely similar to the 2012 Share Option Scheme. The major differences between the 2023 Share Option Scheme and the 2012 Share Option Scheme are changes made to the terms of the 2023 Share Option Scheme to conform to the latest amendments to Chapter 17 of the Listing Rules. The purpose of the 2023 Share Option Scheme is to provide incentives and/or rewards to the eligible participants for their contribution to the growth of the Group. Further details of the 2023 Share Option Scheme were disclosed in the circular of the Company dated 24 August 2023.

The maximum number of ordinary shares of the Company issuable under share options to be granted under the 2023 Share Option Scheme is 47,899,476, representing 10% of the number of ordinary shares of the Company in issue as at 30 September 2023. The total number of shares issued and to be issued upon exercise of the options granted to each eligible participant or grantee (including exercised and outstanding options) in any twelve (12)-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

No share options have been granted, exercised, cancelled or lapsed under the 2023 Share Option Scheme for the period between 18 September 2023 and 30 September 2023. No options were outstanding under the 2023 Share Option Scheme as at 30 September 2023.

The following table discloses details of options outstanding and movements under the 2012 Share Option Scheme during the period:

Name or category of participant	At 1 April 2023	Number of share options					As at 30 September 2023	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						
Directors											
Mr. Zhang Fan	400,000	-	-	-	-	400,000	27 April 2020 to 25 April 2029	1.8	26 April 2019	0.79	
	400,000	-	-	-	-	400,000	21 October 2020 to 20 October 2030	1.8	20 October 2020	0.35	
Mr. Chung Ho	3,000,000	-	-	-	-	3,000,000	27 April 2020 to 25 April 2029	1.8	26 April 2019	0.79	
Mr. Wang Jingming	300,000	-	-	-	-	300,000	27 April 2020 to 25 April 2029	1.8	26 April 2019	0.79	

Name or category of participant	Number of share options					As at 30 September 2023	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\$
	At 1 April 2023	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed/ forfeited during the period					
Mr. Xing Yong	400,000	-	-	-	-	400,000	27 April 2020 to 25 April 2029	1.8	26 April 2019	0.79
	3,000,000	-	-	-	-	3,000,000	21 October 2020 to 20 October 2030	1.8	20 October 2020	0.35
Mr. Huang Lianhai	300,000	-	-	-	-	300,000	27 April 2020 to 25 April 2029	1.8	26 April 2019	0.79
	2,000,000	-	-	-	-	2,000,000	21 October 2020 to 20 October 2030	1.8	20 October 2020	0.35
Mr. Jiang Xuejun	400,000	-	-	-	-	400,000	27 April 2020 to 25 April 2029	1.8	26 April 2019	0.79
	400,000	-	-	-	-	400,000	21 October 2020 to 20 October 2030	1.8	20 October 2020	0.35
Mr. Du Yanhua	300,000	-	-	-	-	300,000	27 April 2020 to 25 April 2029	1.8	26 April 2019	0.79

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Name or category of participant	Number of share options					As at 30 September 2023	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\$
	At 1 April 2023	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed/ forfeited during the period					
Mr. Lai Lianguan	300,000	-	-	-	-	300,000	27 April 2020 to 25 April 2029	1.8	26 April 2019	0.79
Subtotal	11,200,000	-	-	-	-	11,200,000				
Employees	650,000	-	-	-	-	650,000	27 April 2020 to 25 April 2029	1.8	26 April 2019	0.79
	100,000	-	-	-	-	100,000	21 October 2020 to 20 October 2030	1.8	20 October 2020	0.35
Others (Note 1)	800,000	-	-	-	-	800,000	27 April 2020 to 25 April 2029	1.8	26 April 2019	0.79
	6,300,000	-	-	-	-	6,300,000	21 October 2020 to 20 October 2030	1.8	20 October 2020	0.35
Total	<u>19,050,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,050,000</u>				

Note 1: Share options were granted to 14 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, 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.

There were no share-based payment expenses recognised during the Period. In 2022, share-based payment expenses amounted to approximately 23,000 comprising of (i) HK\$13,700 in respect of the Directors; (ii) HK\$1,600 in respect of the directors of the subsidiaries of the Company; (iii) HK\$1,000 in respect of the employees of the Group; and (iv) HK\$6,700 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 (2022: 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 2023.

On behalf of the Board
China Health Group Limited
Zhang Fan

Chairman of the Board and Executive Director

Hong Kong, 30 November 2023