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CHINA HEALTH GROUP INC.

中國醫療集團有限公司

(Carrying on business in Hong Kong as “萬全醫療集團”)
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 08225)

**ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED
31 DECEMBER 2021**

**CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED
(THE “STOCK EXCHANGE”)**

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This announcement for which the directors (the “Directors”) of China Health Group Inc. (the “Company” and together with its subsidiaries, the “Group”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to China Health Group Inc. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; (2) there are no other matters the omission of which would make any statement in this announcement herein or this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are found on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

1. The Group recorded a consolidated turnover of approximately RMB83,601,000 for the year ended 31 December 2021 (the “Year”), which represents approximately 0.65% increase from approximately RMB83,063,000 for the year ended 31 December 2020.
2. The Group recorded a profit before taxation of approximately RMB42,521,000 for the Year, which represents approximately 39.9% decrease from approximately RMB70,796,000 for the year ended 31 December 2020.
3. The Group recorded an operating cash outflow before tax paid of approximately RMB6,616,000 for the Year, as compared with operating cash inflow before tax paid of approximately RMB20,619,000 in year 2020.
4. The basic and diluted earnings per share are RMB3.65 cents in 2021, while basic and diluted earnings per share were RMB6.10 cents and RMB6.08 cents respectively in year 2020.

The board of Directors of the Company (the “Board”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2021 together with the comparative audited figures for the year ended 31 December 2020 as follows:

CHINA HEALTH GROUP INC.

中國醫療集團有限公司

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	<u>Notes</u>	2021 RMB'000	2020 RMB'000
REVENUE	5	83,601	83,063
Cost of services		(19,744)	(16,104)
Other income	6	431	303
Administrative expenses		(14,433)	(3,600)
Staff costs		<u>(7,337)</u>	<u>(8,288)</u>
PROFIT FROM OPERATIONS		42,518	55,374
Finance costs	7(a)	(15)	(163)
Gain on disposal of subsidiaries	28	<u>18</u>	<u>15,585</u>
PROFIT BEFORE TAXATION	7	42,521	70,796
Income tax	10	<u>(6,196)</u>	<u>(10,146)</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>36,325</u>	<u>60,650</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		<u>36,325</u>	<u>60,650</u>
		<u>36,325</u>	<u>60,650</u>
EARNINGS PER SHARE (RMB cents)	11		
- Basic		<u>3.65</u>	<u>6.10</u>
- Diluted		<u>3.65</u>	<u>6.08</u>

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,550	1,751
Right-of-use assets	14	-	-
		<u>1,550</u>	<u>1,751</u>
CURRENT ASSETS			
Investments at fair value through profit or loss	16	5,660	12,160
Contract costs	17	24,481	24,800
Trade and bills receivables	18	128,513	86,056
Trade deposit paid	19	1,800	1,800
Prepayments, deposits and other receivables	20	24,742	17,135
Cash and cash equivalents		<u>11,364</u>	<u>16,193</u>
		<u>196,560</u>	<u>158,144</u>
CURRENT LIABILITIES			
Trade payables, other payables and accrued charges	21	19,009	18,594
Contract liabilities	17	1,014	1,161
Lease liabilities		-	-
Tax payable		22,515	19,965
Bank borrowings	22	-	1,500
		<u>42,538</u>	<u>41,220</u>
NET CURRENT ASSETS		<u>154,022</u>	<u>116,924</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>155,572</u>	<u>118,675</u>
NON-CURRENT LIABILITIES			
Lease liabilities		-	-
		<u>-</u>	<u>-</u>
NET ASSETS		<u>155,572</u>	<u>118,675</u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	23	88,906	88,906
Reserves	23	<u>66,666</u>	<u>29,769</u>
Total equity		<u>155,572</u>	<u>118,675</u>

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Attributable to owners of the Company								
	Issued capital RMB'000	Share premium * RMB'000	Share-based payment reserve * RMB'000	Special reserve * RMB'000	Capital reserve * RMB'000	Statutory reserve * RMB'000	Statutory enterprise expansion fund * RMB'000	Accumulated (losses)/profits * RMB'000	Total equity RMB'000
At 1 January 2020	88,673	-	2,894	6,039	6,231	12,738	6,986	(66,581)	56,980
Profit and total comprehensive income for the year	-	-	-	-	-	-	-	60,650	60,650
Cancellation/Lapse of share options	-	-	(31)	-	-	-	-	31	-
Shares issued upon exercise of share options	233	1,402	(590)	-	-	-	-	-	1,045
Appropriations	-	-	-	-	-	6,813	-	(6,813)	-
At 31 December 2020	<u>88,906</u>	<u>1,402</u>	<u>2,273</u>	<u>6,039</u>	<u>6,231</u>	<u>19,551</u>	<u>6,986</u>	<u>(12,713)</u>	<u>118,675</u>
At 1 January 2021	88,906	1,402	2,273	6,039	6,231	19,551	6,986	(12,713)	118,675
Profit and total comprehensive income for the year	-	-	-	-	-	-	-	36,325	36,325
Share-based payment	-	-	572	-	-	-	-	-	572
Appropriations	-	-	-	-	-	4,110	-	(4,110)	-
At 31 December 2021	<u>88,906</u>	<u>1,402</u>	<u>2,845</u>	<u>6,039</u>	<u>6,231</u>	<u>23,661</u>	<u>6,986</u>	<u>19,502</u>	<u>155,572</u>

* These reserve accounts comprise the consolidated reserves in the consolidated statement of financial position.

CHINA HEALTH GROUP INC.**中國醫療集團有限公司****CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	42,521	70,796
Adjustments for:		
Interest expenses	15	61
Bank interest income	(22)	(26)
Depreciation of property, plant and equipment	201	184
Depreciation of right-of-use assets	-	107
Share-based payment expenses	572	-
Unpaid lease liabilities	-	223
Lease interest	-	102
Gain on disposal of subsidiaries	(18)	(15,585)
Gain on lease modification	-	(64)
Interest income on financial assets held as investment	(408)	(208)
Operating profit before working capital changes	42,861	55,590
Change in contract costs	319	47
Change in trade and bills receivables	(42,457)	(33,248)
Change in trade deposits paid	-	-
Change in prepayments and other receivables	(7,607)	(39,049)
Change in trade payables, other payables and accrued charges	415	31,419
Change in contract liabilities	(147)	5,860
Cash (used in)/generated from operations	(6,616)	20,619
Income tax paid	(3,661)	(1,505)
Net cash (used in)/ generated from operating activities	(10,277)	19,114
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash and cash equivalents inflow/(outflow) arising from disposal of subsidiaries	33	(47)
Proceeds from disposal/(Purchases) of investments at fair value through profit or loss	6,500	(12,160)
Bank interest received	22	26
Interest received from financial assets held as investment	408	208
Net cash generated from/(used in) investing activities	6,963	(11,973)
CASH FLOWS FROM FINANCING ACTIVITIES		
New borrowings	-	1,500
Repayment of loans	(1,500)	(1,500)
Interest paid	(15)	(61)
Proceeds from issue of shares	-	1,045
Repayment of lease liabilities	-	(391)
Net cash (used in)/ generated from financing activities	(1,515)	593
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(4,829)	7,734
Cash and cash equivalents at beginning of year	16,193	8,459
Cash and cash equivalents at end of year	11,364	16,193

Note:

Liabilities arising from financing activities include bank borrowings and lease liabilities. No reconciliation of liabilities arising from financing activities as, besides of above cash flow movements, there are no other changes or movements for those liabilities during the years ended 31 December 2021 and 2020.

CHINA HEALTH GROUP INC.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

1. GENERAL INFORMATION

China Health Group Inc. (the “Company”) was incorporated in the Cayman Islands on 21 May 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares are listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office is P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands and its principal place of business is at Building 17, Jianwai SOHO, Chaoyang District, Beijing, the People’s Republic of China (the “PRC”). The parent company of the Company is Winsland Agents Limited, incorporated in the British Virgin Islands, and its ultimate controller is Mr. GUO Xia, who is also an executive director of the Company.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 15 to the consolidated financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2021. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current year and prior years.

The Company has not applied the new HKFRSs that have been issued but are not yet effective. The Company has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention. The consolidated financial statements are presented in Renminbi (“RMB”), rounded to the nearest thousand except when otherwise indicated. RMB is the functional currency of the Company and the Company’s subsidiaries established in the PRC.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to these consolidated financial statements are disclosed in note 4 to the consolidated financial statements.

A summary of the significant accounting policies adopted by the Group is set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity’s returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company’s share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”).

(b) Transactions and balances in each entity’s financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

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Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(c) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- (iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation is provided to write off the cost of items of property, plant and equipment, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives of property, plant and equipment are as follows:

Leasehold improvements	10 years
Machinery and equipment	5-10 years
Motor vehicles	10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less any impairment losses. Depreciation begins when the relevant assets are available for use.

Leases

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Buildings	over the lease term of 1 to 20 years
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Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US\$5,000 (approximately equivalent to HK\$39,000).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified under the following category:

Financial assets at amortised cost; and

Investments at fair value through profit or loss

Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

- (a) the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- (b) the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

Investments at fair value through profit or loss

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of debt investments at fair value through other comprehensive income unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition.

Investments at fair value through profit or loss are subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss. The fair value gains or losses recognised in profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in profit or loss.

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("life time expected credit losses") for trade receivables or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of life time expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

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Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

- (a) the customer simultaneously receives and consumes the benefits provided by the Group's performance;
- (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

Other income

Interest income is recognised using the effective interest method.

Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(c) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is related to the Group (reporting entity) if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group operates in a single segment and no segmental analysis is presented.

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Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) *Impairment loss for bad and doubtful debts*

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(b) *Impairment of property, plant and equipment*

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the fair value less costs of disposal. Where the fair value less costs of disposal are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of fair value less costs of disposal, a material impairment loss may arise.

(c) *Property, plant and equipment and depreciation*

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(d) *Measurement of right-of-use assets and lease liabilities*

The Group estimated the right-of-use assets and lease liabilities based on the terms of the rental agreements and the Group's incremental borrowing rate. Estimates are required in determining the Group's incremental borrowing rate.

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5. OPERATING SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group is principally engaged in the provisions of clinical research services, real-world clinical research, medical science liaisons, medical marketing programs which aims to bridge the gaps between the clinical and commercial phases of product development in the PRC and its revenues are all derived in the PRC for both years. These services are subject to similar business risks and resources and are allocated based on the view of the whole Group's benefits in enhancing the value as a whole rather than on any specific unit. The Group's chief operating decision-maker considers that the performance assessment of the Group should be based on the profit before taxation of the Group as a whole. Therefore, only one single segment information are disclosed under the requirements of HKFRS 8.

The amount of each significant category of revenue is as follows:

	2021 RMB'000	2020 RMB'000
Provision of post launch market research, medical and medical market services (the "PM services")	83,601	82,016
Provision of contracted pharmaceutical development services (the "PD services")	-	849
Provision of contracted clinical research services (the "CR services")	-	198
	<u>83,601</u>	<u>83,063</u>

Other medical services include registration, application and testing services.

Disaggregation of revenue from contracts with customers:

	2021 RMB'000	2020 RMB'000
<i>Major products/service</i>		
Provision of PM services	83,601	82,016
Provision of PD services	-	849
Provision of CR services	-	198
Total	<u>83,601</u>	<u>83,063</u>
<i>Timing of revenue recognition</i>		
At a point in time	83,601	83,063
Over time	-	-
Total	<u>83,601</u>	<u>83,063</u>

Provision of PM services, PD services, CR services and other medical services

The Group provides PM services, PD services, CR services and other services to the customers. Revenue is recognised when the relevant services are rendered, no unfulfilled obligation that could affect the customer's acceptance of the services rendered and the respective amount of revenue can be measured reliably.

Some of revenue from PM services is recognised when the progress towards complete satisfaction of the performance obligations of a service contract can be measured reasonably, revenue from the contract and the contract costs are recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. This method provides the most reliable estimate of the percentage of completion.

When the progress towards complete satisfaction of the performance obligations of a service contract cannot be measured reasonably, revenue is recognised only to the extent of contract costs incurred that is expected to be recoverable.

The customers pay the contract prices to the Group according to the payment schedules as stipulated in the contracts. If the payments exceed the service rendered, a contract liability is recognised.

Services rendered to customers are normally made with credit terms of 30 days. Deposits received are recognised as a contract liability.

A receivable is recognised when the services are rendered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

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Sales of drugs technologies and patents and trademarks

The Group sells drugs technologies, patents and trademarks derived from its research to customers. Sales are recognised when control of the products have been transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

Sales to customers are normally made with credit terms of 30 days.

A receivable is recognised when the services are rendered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Revenue from customers of the corresponding years, each contributing over 10% of total sales of the Group are as follows:

	2021 RMB'000	2020 RMB'000
Provision of PM services to Customer A	9,192	14,334
Provision of PM services to Customer B	25,413	27,587
Provision of PM and PD services to Customer C	4,717	19,811
Provision of PM services to Customer D	4,717	14,151
Provision of PM services to Customer E	<u>33,019</u>	<u>-</u>

6. OTHER INCOME

	2021 RMB'000	2020 RMB'000
Bank interest income	22	26
Interest income on financial assets held as investment	408	208
Others	<u>1</u>	<u>69</u>
	<u>431</u>	<u>303</u>

7. PROFIT BEFORE TAXATION

The Group's profit before tax is arrived at after charging:

	2021 RMB'000	2020 RMB'000
<u>(a) Finance costs</u>		
Interests on:		
Lease interest	-	102
Bank borrowings	<u>15</u>	<u>61</u>
	<u>15</u>	<u>163</u>
<u>(b) Staff costs (including directors' emoluments as disclosed in note 8)</u>		
Salaries, bonuses and other benefits	5,108	7,056
Contributions to defined contribution retirement plans	1,657	1,232
Share-based payment expenses	<u>572</u>	<u>-</u>
	<u>7,337</u>	<u>8,288</u>
<u>(c) Other items</u>		
Auditors' remuneration	820	780
Bad debt written off	6,500	-
Depreciation of property, plant and equipment	201	184
Depreciation of right-of-use assets	-	107
Loss allowance	381	-
Listing expenses	2,972	-
Cost of services	<u>19,744</u>	<u>16,104</u>

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8. DIRECTORS' REMUNERATION

Director's emoluments disclosed pursuant to GEM Listing Rule and section 383 of the Hong Kong Companies Ordinance as follows:

	For the year ended 31 December 2021				
	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Contributions to defined contribution retirement plans RMB'000	Share-based payments RMB'000	Total RMB'000
Executive Directors:					
Mr. GUO Xia	-	-	-	-	-
Dr. SONG Xuemei	-	179	81	-	260
Non-executive directors					
Mr. SU Yi	-	-	-	-	-
Independent non-executive Directors:					
Dr. NI Binhui	-	-	-	-	-
Mr. QIU Rui	-	-	-	-	-
Mr. ZHEN Ling	-	-	-	-	-
	<u>-</u>	<u>179</u>	<u>81</u>	<u>-</u>	<u>260</u>
	For the year ended 31 December 2020				
	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Contributions to defined contribution retirement plans RMB'000	Share-based payments RMB'000	Total RMB'000
Executive Directors:					
Mr. GUO Xia	-	-	-	-	-
Dr. SONG Xuemei	-	110	46	-	156
Non-executive directors					
Mr. SU Yi	-	-	-	-	-
Independent non-executive Directors:					
Dr. NI Binhui	-	-	-	-	-
Mr. QIU Rui	-	-	-	-	-
Mr. ZHEN Ling	-	-	-	-	-
	<u>-</u>	<u>110</u>	<u>46</u>	<u>-</u>	<u>156</u>

There were no arrangements under which a director waived or agreed to waive any emoluments in respect of the year ended 31 December 2021 (2020: Nil). During the years ended 31 December 2021 and 2020, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group, or as compensation for loss of office.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the four (2020: five) individuals with the highest emoluments, one individual is director whose emoluments is disclosed in note 8. The aggregate of the emoluments in respect of the remaining four (2020: five) individuals are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, bonuses and other benefits	1,131	721
Contributions to defined contribution retirement plans	227	61
	<u>1,358</u>	<u>782</u>

The emoluments of the four individuals with the highest emoluments are within the band of HK\$Nil to HK\$1,000,000 in both years.

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10. INCOME TAX

(a) *Taxation in the consolidated statement of profit or loss and other comprehensive income represents:*

	2021 RMB'000	2020 RMB'000
Current — PRC Enterprise Income Tax		
Provision for the year	6,196	10,146
Income tax expense	<u>6,196</u>	<u>10,146</u>

No provision for Hong Kong Profits Tax has been made as the Group had no estimated assessable profits for the year ended 31 December 2021 (2020: Nil).

Provision for PRC Enterprise Income Tax for the Company and its subsidiaries is calculated based on the Enterprise Income Tax Law of the People's Republic of China ("EIT Law of the PRC"). The Group is subject to a tax rate of 25%. Some subsidiaries of the Company are eligible for tax incentives due to their location and industry. These subsidiaries are subject to a preferential tax rate of 9% and 15%. A subsidiary of the Group was approved and certified by relevant authorities as "High and New Technology Enterprises" and is entitled to a preferential EIT rate of 15% for the year ended 31 December 2021.

Taxation of other overseas subsidiaries are charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) *Reconciliation between tax expense and accounting profit at applicable tax rates:*

	2021 RMB'000	2020 RMB'000
Profit before tax	<u>42,521</u>	<u>70,796</u>
Notional tax on profit before taxation, calculated at the applicable tax rate of 25%	10,630	17,699
Tax effect of expenses that are not deductible	2,305	1,324
Preferential income tax rates applicable to subsidiaries	(6,074)	(9,084)
Tax effect of unused tax losses not recognised	-	657
Tax effect of utilisation of tax losses not recognised	(665)	(450)
Tax at the Group's effective rate	<u>6,196</u>	<u>10,146</u>

(c) *Deferred tax not recognised*

At 31 December 2021, the Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately RMB123,000 (2020: approximately RMB37,000), as it is not probable that future taxable profits will be available against which the unused tax losses can be utilised in the relevant tax jurisdiction. The unused tax losses will expire within five years from the end of the respective reporting periods.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

	2021 RMB'000	2020 RMB'000
<i>Earnings</i>		
Earnings for the purpose of calculating basic earnings per share	<u>36,325</u>	<u>60,650</u>
<i>Number of shares</i>		
Issued ordinary shares at 1 January	995,352	992,772
Effect of share options converted	-	2,580
Issued ordinary shares at 31 December	<u>995,352</u>	<u>995,352</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	995,352	994,055
Effect of dilutive potential ordinary shares arising from share options outstanding	-	3,050
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>995,352</u>	<u>997,105</u>

12. DIVIDEND

The directors of the Company did not recommend the payment of any dividend for the years ended 31 December 2021 and 2020.

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13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST:					
At 1 January 2020	5,672	20,464	645	46	26,827
Disposal	-	(25)	-	-	(25)
Disposal of subsidiaries	(4,546)	(2,861)	(645)	-	(8,052)
At 31 December 2020 and 1 January 2021	1,126	17,578	-	46	18,750
Additions					
Disposal	(5)	-	-	-	(5)
At 31 December 2021	1,121	17,578	-	46	18,745
ACCUMULATED DEPRECIATION AND IMPAIRMENT:					
At 1 January 2020	5,667	18,411	577	-	24,655
Charge for the year	-	184	-	-	184
Disposal	-	(25)	-	-	(25)
Disposal of subsidiaries	(4,546)	(2,692)	(577)	-	(7,815)
At 31 December 2020 and 1 January 2021	1,121	15,878	-	-	16,999
Charge for the year	-	201	-	-	201
Disposal	(5)	-	-	-	(5)
At 31 December 2021	1,116	16,079	-	-	17,195
CARRYING AMOUNTS:					
At 31 December 2020	5	1,700	-	46	1,751
At 31 December 2021	5	1,499	-	46	1,550

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14. RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2021 RMB'000	2020 RMB'000
Buildings	<u>-</u>	<u>-</u>
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:	2021 RMB'000	2020 RMB'000
Less than 1 year	-	-
Between 1 and 2 years	-	-
Between 2 and 5 years	-	-
Over 5 years	<u>-</u>	<u>-</u>
Lease commitments of short-term leases	<u>-</u>	<u>279</u>
Depreciation charge of right-of-use assets	<u>-</u>	<u>107</u>
Lease interests	<u>-</u>	<u>102</u>
Expenses related to short term leases	<u>534</u>	<u>104</u>
Total cash outflow for leases	<u>534</u>	<u>597</u>

During the years ended 31 December 2021 and 2020, a short-term lease was entered with a director of the Company, Mr. GUO Xia.

The Group leases various buildings. Lease agreements are typically made for fixed periods of 1 to 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and the leased assets may not be used as security for borrowing purposes.

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15. SUBSIDIARIES

Particulars of the Company's major subsidiaries at 31 December 2021 are set out below:

Company name	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Proportion of ownership interest		Principal activities
				Held by the Company	Held by a subsidiary	
Venturepharm Laboratories (BVI) Limited ("VP (BVI)")	British Virgin Islands ("BVI")	US\$100	100%	100%	-	Investment holding
Venovo Pharma US Inc	BVI	US\$1	100%	100%	-	Investment holding
VPSCRO Group Inc.	BVI	US\$1	100%	100%	-	Inactive
北京萬全陽光醫學技術有限公司*	The PRC	US\$200,000	100%	-	100%	Research and development of drugs, natural drugs and synthetic drugs; technological transfer of and services for the research and development of biodrugs, natural drugs and synthetic drugs; pharmacodynamics and clinical research of drugs; Provision of PM services and PD services
泰州萬全醫藥科技有限公司*	The PRC	RMB1,000,000	100%	-	100%	Research and development of drugs, natural drugs and synthetic drugs; technological transfer of and services for the research and development of biodrugs, natural drugs and synthetic drugs; pharmacodynamics and clinical research of drugs; Provision of PM services and PD services
海南盛科生命科學研究院*	The PRC	US\$360,000	100%	-	100%	Research and development of drugs, natural drugs and synthetic drugs; technological transfer of and services for the research and development of biodrugs, natural drugs and synthetic drugs; pharmacodynamics and clinical research of drugs; Provision of PM services and PD services
西藏萬全醫學技術有限公司*	The PRC	RMB1,000,000	100%	-	100%	Research and development of drugs, natural drugs and synthetic drugs; technological transfer of and services for the research and development of biodrugs, natural drugs and synthetic drugs; pharmacodynamics and clinical research of drugs; Provision of PM services and PD services
重慶拜敏醫藥科技有限公司*	The PRC	RMB2,000,000	100%	-	100%	Inactive
萬全醫療健康(海南)有限公司*	The PRC	RMB10,000,000	100%	-	100%	Research and development of drugs, natural drugs and synthetic drugs; technological transfer of and services for the research and development of biodrugs, natural drugs and synthetic drugs; pharmacodynamics and clinical research of drugs; Provision of PM services and PD services

*These subsidiaries are wholly foreign owned enterprises in the PRC.

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16. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 RMB'000	2020 RMB'000
Non-current assets		
Unlisted investment fund	<u>5,660</u>	<u>12,160</u>

The investment is a fund that is interest bearing and not quoted in an active market. The principal and interest earned are linked to certain bank deposits, interbank loans and exchange traded financial assets and products (except for shares and convertible bonds). This investment could be redeemed from the bank at anytime on demand before 10 January 2040.

17. CONTRACT COSTS AND LIABILITIES

Disclosures of revenue-related items:

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000	As at 1 January 2020 RMB'000
Total contract costs	<u>24,481</u>	<u>24,800</u>	<u>25,176</u>
Total contract liabilities	<u>1,014</u>	<u>1,161</u>	<u>52</u>
Contract receivables (included in trade receivables)	<u>119,154</u>	<u>82,056</u>	<u>49,557</u>

Transaction prices allocated to performance obligations unsatisfied at end of period/year and expected to be recognised as revenue in:

- 2021	-	10,000
- 2022	10,000	-
	<u>10,000</u>	<u>10,000</u>

Year ended 31 December	2021 RMB'000	2020 RMB'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	<u>1,161</u>	<u>52</u>

Significant changes in contract liabilities during the year:

	2021 RMB'000	2020 Contract liabilities RMB'000
Increase due to operations in the year	1,014	3,109
Transfer of contract liabilities to revenue	<u>(1,161)</u>	<u>(2,000)</u>

A contract asset represents the Group's right to consideration in exchange for products or services that the Group has transferred to a customer.

A contract liability represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Costs to fulfill contracts with customers, mainly service fees to third parties are capitalised as contract costs because the Group expects to recover these costs. Capitalised contract costs are amortised to profit or loss when the related revenue is recognised.

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18. TRADE AND BILLS RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade and bills receivables (Gross)	128,894	86,056
Loss allowance	(381)	-
	<u>128,513</u>	<u>86,056</u>

Reconciliation of loss allowance for trade and bills receivables:

	2021 RMB'000	2020 RMB'000
At 1 January	-	-
Increase in loss allowance for the year	381	-
At 31 December	<u>381</u>	<u>-</u>

Included in trade receivables of the Group as at 31 December 2021 is the trade receivable from a related company of approximately RMB51,159,000(2020: approximately RMB31,620,000), which is unsecured, interest-free and bears normal commercial terms as other trade debtors. The related company is an entity in which a director of the Company, Mr. GUO Xia, has significant influence.

(a) Ageing analysis

The Group normally grants 30 days (2020: 30 days) credit period to its customers since the invoice date. The bills receivable as at 31 December 2021 are non-interest bearing bank acceptance bills and commercial acceptance bills which are aged within 12 months. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by management.

As of the end of the reporting year, the ageing analysis of trade and bills receivables, based on the invoice date and net of allowances for doubtful debts, is as follows:

	2021 RMB'000	2020 RMB'000
Within 30 days	93,578	77,135
31 to 60 days	26,988	6,899
61 to 90 days	-	-
91 to 365 days	2,927	1,940
Over 365 days	5,020	82
	<u>128,513</u>	<u>86,056</u>

(b) The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current RMB'000	30 days past due RMB'000	31 to 365 days past due RMB'000	Over 365 days past due RMB'000	Total RMB'000
At 31 December 2021					
Expected loss rate	0.36%	0%	0%	1.63%	0.32%
Receivable amount	84,219	26,988	2,927	5,020	119,154
Loss allowance	299	-	-	82	381
At 31 December 2020					
Expected loss rate	0%	0%	0%	0%	0%
Receivable amount	73,135	6,899	1,940	82	82,056
Loss allowance	-	-	-	-	-

19. TRADE DEPOSITS PAID

Trade deposits paid represented guarantee deposits paid to customers in connection with service agreement signed for the provision of PM services and will be refunded upon satisfaction of contract terms.

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20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Details of the prepayments, deposits and other receivables are as follows:

	2021 RMB'000	2020 RMB'000
Prepayment	22,386	13,494
Value-added tax recoverable	-	-
Advances to staff for business trips	330	333
Amounts due from directors	220	220
Other receivables	1,806	3,088
	<u>24,742</u>	<u>17,135</u>

(a) Amounts due from directors

The amounts due from directors, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance, are as follows:

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000	Maximum amount outstanding during the year	
			2021 RMB'000	2020 RMB'000
Mr. GUO Xia	31	31	31	31
Dr. SONG Xuemei	189	189	189	189
	<u>220</u>	<u>220</u>	<u>220</u>	<u>220</u>

The amount due from a director is non-trade related, unsecured, interest-free and repayable on demand.

21. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

	Notes	2021 RMB'000	2020 RMB'000
Trade payables	(a)	10,880	8,687
Litigation claims payables	(b)	296	42
Accrued staff costs, welfare and benefits		1,470	1,833
Value-added tax and sundry taxes payable		3,725	6,496
Others		2,638	1,536
		<u>19,009</u>	<u>18,594</u>

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

(a) Ageing analysis

As of the end of the reporting year, the ageing analysis of trade payables, based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Within 30 days	2,580	2,146
31 to 90 days	145	899
91 to 365 days	3,440	2,546
Over 365 days	4,715	3,096
	<u>10,880</u>	<u>8,687</u>

(b) Several subsidiaries of the Company are defendants in various lawsuits and claims arising in the normal course of business. The amounts provided represented the outstanding claims payables to plaintiffs according to the respective court judgements.

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22. BANK BORROWING

	2021 RMB'000	2020 RMB'000
Bank loan	-	<u>1,500</u>

The loan was unsecured, interest-bearing at the Loan Prime Rate of Beijing Bank plus 50 points and was guaranteed by a director of the Company, Dr. SONG Xuemei. The effective interest rate during the period ended 31 December 2021 was Nil% (2020: 4.79%) per annum and repayable within one year.

23. CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of reserves between the beginning and the end of the year are set out below:

	Share premium RMB'000	Share-based payment reserve RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2020	-	2,894	6,139	28,011	(157,159)	(120,115)
Loss and total comprehensive loss for the year	-	-	-	-	(8,464)	(8,464)
Cancellation/lapse of share options	-	(31)	-	-	31	-
Shares issued upon exercise of share options	<u>1,402</u>	<u>(590)</u>	-	-	-	<u>812</u>
At 31 December 2020 and 1 January 2021	1,402	2,273	6,139	28,011	(165,592)	(127,767)
Loss and total comprehensive loss for the year	-	-	-	-	(8,933)	(8,933)
Shares-based payment	<u>-</u>	<u>572</u>	-	-	-	<u>572</u>
At 31 December 2021	<u>1,402</u>	<u>2,845</u>	<u>6,139</u>	<u>28,011</u>	<u>(174,525)</u>	<u>(136,128)</u>

(b) Share capital

Authorised:	Number of Shares'000	HK\$'000
Ordinary shares of HK\$0.1 (2020: HK\$0.1) each At 1 January 2020, 31 December 2020 and 31 December 2021	<u>10,000,000</u>	<u>1,000,000</u>
Issued and fully paid:	Number of Shares'000	RMB'000
Ordinary shares of HK\$0.1 (2020: HK\$0.1) each At 1 January 2020 and 31 December 2020	995,352	88,906
Shares issued upon exercise of share options	<u>-</u>	<u>-</u>
At 31 December 2021	<u>995,352</u>	<u>88,906</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(c) Nature and purpose of reserves

(i) Special reserve

The special reserve represents the differences between the nominal value of the shares of VP (BVI) (a holding company of the other members of the Group prior to the group reorganisation) and the nominal value of the Company's shares issued pursuant to the group reorganisation.

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(ii) Capital reserve

The capital reserve represents the additional contributions made by the shareholders of the Company and the additional contributions made by the non-controlling shareholder of the subsidiary of the Company prior to the listing of the Company's shares on The Growth Enterprise Market of the Stock Exchange. It also includes the premium of the issued share capital of the Company.

(iii) Statutory reserve and statutory enterprise expansion fund

Pursuant to the PRC regulations and the Articles of Association and Board regulations of the subsidiaries of the Company, each of the subsidiary is required to transfer 10% of its net profit, as determined under PRC accounting regulations, to a statutory reserve until the fund aggregates 50% of each of the subsidiary registered capital. The transfer to this reserve must be made before distribution of any dividends to shareholders. The statutory reserve shall only be used to make good of previous years' losses, to expand the subsidiary's production operations or to increase the capital of the subsidiary. Upon approval by a resolution at a shareholder's general meeting, the subsidiary may transform its statutory reserve into share capital and issue bonus share to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the reserve fund after such issue is not less than 25% of the registered capital. Moreover, the subsidiaries of the Company established in the PRC can transfer certain percentage of their profit after taxation on voluntary basis, as determined under the PRC accounting regulations to the enterprise expansion fund.

(iv) Contributed surplus

The contributed surplus represents the difference between the net assets of the subsidiaries and the nominal amount of the Company's shares issued in exchange thereof pursuant to the Group Reorganisation.

The Company's reserves available for distribution to its shareholders comprise the capital reserve and contributed surplus. In accordance with the Company's Articles of Association, dividends shall be payable out of profits or other reserves of the Company. Under the Companies Law of the Cayman Islands, the Company must be able to pay its debts as they fall due in the ordinary course of business immediately following the distribution of any dividends.

24. RETIREMENT BENEFIT SCHEMES

Pursuant to the relevant labour rules and regulations in the PRC, the subsidiaries of the Company in the PRC participate in defined contribution retirement schemes (the "Schemes") organised by the relevant local authorities whereby the subsidiaries in the PRC are required to make contributions to the Schemes at rates which range from 0.4% to 16% (2020: 0.4% to 19%) of the eligible employee's salaries during the year. The relevant local government authorities are responsible for the entire pension obligations payables to retired employees.

25. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 20 June 2003 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company within the Group, to take up options at predetermined considerations to subscribe for shares of the Company. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(a) The terms and conditions of the share options are as follows:

2021

Grant date	Exercise price	Notes	At 1 January 2021	Grant of share options	Exercise of share options	Cancellation/ lapsed during the year	At 31 December 2021
30 June 2015	HK\$0.45	(i)	10,850,000	-	-	-	10,850,000
24 March 2021	HK\$0.504	(ii)	-	14,650,000	-	-	14,650,000
			<u>10,850,000</u>	<u>14,650,000</u>	<u>-</u>	<u>-</u>	<u>25,500,000</u>

2020

Grant date	Exercise price	Notes	At 1 January 2020	Grant of share options	Exercise of share options	Cancellation/ lapsed during the year	At 31 December 2020
30 June 2015	HK\$0.45	(i)	13,490,000	-	(2,580,000)	(60,000)	10,850,000
			<u>13,490,000</u>	<u>-</u>	<u>(2,580,000)</u>	<u>(60,000)</u>	<u>10,850,000</u>

Notes:

- (i) These options are exercisable in three trench with the maximum percentage of options exercisable with the periods commencing from 30 June 2016 to 29 June 2017, 30 June 2017 to 29 June 2018 and on 30 June 2018 being 40%, 70% and 100% respectively. The options are valid and effective until 29 June 2025.

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(ii) 320,000 options granted to the independent non-executive directors of the Company are exercisable immediately from 24 March 2021. The remaining 14,330,000 options granted to other persons are exercisable with the periods commencing from 24 March 2022 to 23 March 2023, 24 March 2023 to 23 March 2024 and on 24 March 2024 being 40%, 70% and 100% respectively. The options are valid and effect until 23 March 2031.

These fair values of share options with grant date of 24 March 2021 using the binomial model pricing model. The inputs into the model are as follows:

Weighted average share price (HK\$)	0.475
Weighted average exercise price	0.504
Expected volatility	87.90%
Expected life (years)	10
Risk free rate	1.23
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 11.5 years. The expected life used in the model has been adjusted, based on the Group's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

(b) The number and weighted average exercise prices of share options that are exercisable are as follows:

	2021		2020	
	Weighted average exercise price HK\$	Number of options	Weighted average exercise price HK\$	Number of options
Outstanding at the beginning of the year	0.45	10,850,000	0.45	13,490,000
Grant of share options	0.504	14,650,000	-	-
Exercise of share options	-	-	0.45	(2,580,000)
Cancellation/lapsed during the year	-	-	0.45	(60,000)
Outstanding at the end of the year	0.48	<u>25,500,000</u>	0.45	<u>10,850,000</u>
Exercisable at the end of the year	0.452	<u>11,170,000</u>	0.45	<u>10,850,000</u>

The option outstanding as at 31 December 2021 had their exercise price of HK\$0.452 (2020: HK\$0.45) and a weighted average remaining contractual life of 7.91 years (2020: 4.5 years).

26. MATERIAL RELATED PARTY TRANSACTIONS AND BALANCES

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group wholly related to amounts paid to the Company's directors, as disclosed in note 8.

(b) Other related parties transactions

In addition to the financial arrangement dealt with a director of the Company as mentioned in note 22, the Group entered into the following material related party transactions during the year:

	2021 RMB'000	2020 RMB'000
Lease payment to a director, Mr. GUO Xia	372	93
Lease payment to a related company (Note)	-	391
Income for PM services from a related company (Note)	<u>25,413</u>	<u>27,587</u>

Note:

A related company is an entity in which a director of the Company, Mr. GUO Xia has significant influence.

(c) Details of balances with related parties are disclosed in notes 18 and 21.

(d) Mr. GUO Xia, an executive director of the Company, have given a guarantee to the Company on a potential Enterprise Income Tax amount in connection with the difference between PRC Enterprise Income Tax rate and the preferential tax rate of a subsidiary of the Company of approximately RMB4.5 million for the year ended 31 December 2021.

27. CONTINGENT LIABILITIES IN RESPECT OF LITIGATION CLAIMS

As of 31 December 2021, certain subsidiaries of the Group are defendants in proceedings relating to its customers. Based on the respective court judgements, management is of the opinion that the outcome of such proceedings will not exceed the existing accruals made for such litigation claims as disclosed in note 21(b). Accordingly, there will be no significant impact to the financial status of the Group.

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28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

During the reporting period, the Company entered into agreements with independent third parties to dispose of its interests in a subsidiary.

Net assets at the date of disposal were as follows:

	RMB'000
Property, plant and equipment	5
Other receivables	<u>10</u>
Net assets disposed	15
Gain on disposal of subsidiaries	<u>18</u>
Total consideration settled by cash	<u><u>33</u></u>
Net cash and cash equivalents inflow on disposal:	
Cash consideration received	<u><u>33</u></u>

During the year ended 31 December 2020, the Company entered into agreements with independent third parties to dispose of its interests in certain subsidiaries.

Net liabilities at the date of disposal were as follows:

	RMB'000
Property, plant and equipment	237
Contract costs	329
Trade and bills receivables	5,749
Prepayments, deposits and other receivables	27,835
Bank balances	47
Trade payables, other payables and accrued charges	(30,426)
Contract liabilities	(4,751)
Net liabilities disposed	<u>(980)</u>
Intragroup current accounts written off	(12,585)
Gain on disposal of subsidiaries	<u>15,585</u>
Total consideration receivable	<u><u>2,020</u></u>
Net cash outflow on disposal:	
Cash and cash equivalents disposed of	<u><u>47</u></u>

29. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. The Group's overall strategy remains unchanged from prior years.

The Group actively and regularly reviews and manages its capital structure to ensure it is effective and optimises shareholder returns, taking into consideration the future capital requirements of the Group prevailing and projected capital expenditure and projected investment opportunities.

In order to maintain or adjust the capital structure, the Group may consider the amount of dividends paid to shareholders, the return of capital to shareholders, the issue of new shares or selling assets to reduce debt.

The Group assesses the total equity/deficiency presented on the face of the consolidated statement of financial position for capital management purposes.

30. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arise in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and cash and cash equivalents. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

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In respect of trade and other receivables, the Group has policies in place to ensure credit is granted to customers with appropriate credit history and good reputations through evaluations on customer past history of making payments when due and have the ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which they operate. Trade and bills receivables are due within 30 days (2020: 30 days) from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group has a concentration of credit risk on its four largest customers (2020: four largest customers) and the largest customer which represent 90% (2020: 91%) and 39% (2020: 37%) of the total trade and bills receivables balance respectively.

The credit risk on cash and cash equivalents is limited because the counterparties are authorised financial institutions with sound credit ratings.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairments or allowances.

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following information is used:

- internal credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

The Group uses two categories for non-trade loan receivables which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

Category	Definition	Loss provision
Performing	Low risk of default and strong capacity to pay	12 month expected losses
Non-performing	Significant increase in credit risk	Lifetime expected losses

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's Board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting year) and the earliest date the Group can be required to pay:

2021

	Contractual undiscounted cash flows	
	Within 1 year or on demand RMB'000	Carrying amount RMB'000
Trade payables, other payables and accrued charges	19,009	19,009
Bank borrowings	-	-

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2020

	Contractual undiscounted cash flows	
	Within 1 year or on demand RMB'000	Carrying amount RMB'000
Trade payables, other payables and accrued charges	18,594	18,594
Bank borrowings	1,514	1,500

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank deposits and bank borrowing. The bank deposits and borrowings bear interest at variable rates and expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile is monitored by management.

Sensitivity analysis

At 31 December 2021, it is estimated that a general increase/decrease of 100 basis points in the interest rates, with all other variables held constant, it would have increased/decreased the Group's profit after tax and accumulated losses by approximately RMB113,000 (2020: decreased/increased the Group's profit after tax and increased/decreased of accumulated losses by approximately RMB141,000).

The sensitivity analysis above has been determined assuming that changes in interest rates occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual end of reporting period. The analysis is performed on the same basis for 2020.

(d) Categories of financial instruments

	2021 RMB'000	2020 RMB'000
Financial assets:		
Financial assets at fair value through profit or loss	5,660	12,160
Financial assets at amortised cost (including cash and cash equivalents)	144,033	107,690
Financial liabilities:		
Financial liabilities at amortised cost	19,009	20,094

(e) Currency risk

The Group is not exposed to significant foreign currency risk as most of income and expenses are denominated in the functional currency of the Group.

(f) Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

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(i) Disclosures of level in fair value hierarchy at 31 December 2021:

Description	Fair value measurements using:			Total
	Level 1	Level 2	Level 3	2021
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements:				
Investments at fair value through profit or loss				
Unlisted investment fund	-	5,660	-	5,660
Total recurring fair value measurements	-	5,660	-	5,660

(ii) Disclosure of valuation techniques and inputs used in fair value measurements at 31 December 2021:

As at 31 December 2021

Description	Valuation technique	Key input	Fair value
			RMB'000
Investments at fair value through profit or loss	Discounted cash flow	Market interest rate	5,660

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2021	2020
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	-	-
	<u>-</u>	<u>-</u>
CURRENT ASSETS		
Prepayments, deposits and other receivables	2,735	2,193
Cash and cash equivalents	109	196
	<u>2,844</u>	<u>2,389</u>
CURRENT LIABILITIES		
Other payables and accruals	18,188	6,537
Amounts due to subsidiaries	31,878	34,713
	<u>50,066</u>	<u>41,250</u>
NET CURRENT LIABILITIES	<u>(47,222)</u>	<u>(38,861)</u>
NET LIABILITIES	<u>(47,222)</u>	<u>(38,861)</u>
EQUITY		
Issued capital	88,906	88,906
Reserves	(136,128)	(127,767)
Total equity	<u>(47,222)</u>	<u>(38,861)</u>

EXTRACT OF INDEPENDENT AUDITOR’S REPORT

The following is an extract of the independent auditor’s report from ZHONGHUI ANDA CPA Limited, the external auditor of the Company, on the Group’s consolidated financial statements for the year ended 31 December 2021.

QUALIFIED OPINION

We have audited the consolidated financial statements of China Health Group Inc. (the “Company”) and its subsidiaries (together the “Group”) set out on pages 3 to 29, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the recoverability of certain trade receivables included in the trade and bills receivables on the consolidated statement of financial position of approximately RMB44,000,000 as at 31 December 2021. The management is still in progress on negotiating with the customers on settlement of the remaining RMB44,000,000. In absence of the information in relation to the financial status of the customers on assessing its ability for settlement of RMB44,000,000 to the Group, the management considered that there is uncertainty on recovering certain trade receivables. The management has not yet initiated actions including but not limited to legal action against the customers on the balances, hence no result from actions is available up to the date of this report for justifying the extent of the recoverability of the aforesaid balances. There are no other satisfactory audit procedures that we could adopt to determine whether any allowance for non-recovery of the amount should be made in the consolidated financial statements.

Any adjustment to this point might have a consequential effect on the financial performance, cash flow, related disclosures for the year and the financial position as at 31 December 2021.

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the HKICPA 's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group recorded a revenue of approximately RMB83,601,000 for the Year, which represents approximately 0.65% increase from approximately RMB83,063,000 in 2020. Among them, revenue from post-marketing research and academic extension services are about RMB83,601,000 (2020: RMB82,016,000) accounting for 100% (2020: 98.74%) of total revenue; revenue from contractual clinical research services are RMB0 (2020: RMB198,000), accounting for 0% (2020: 0.24%) of total revenue; revenue from provision of contracted pharmaceutical development services are RMB0 (2020: RMB849,000), accounting for 0% (2020: 1.02%) of total revenue; clinical research is one of the four growth driving platforms that the Group strives to build. The research-based promotion of terminal clinical medicine, i.e. post-marketing research and academic promotion services, has been widely recognized by the market; the contribution of revenue accounted for 100%.

The Group recorded a profit before taxation of approximately RMB42,521,000 for the Year, which represents approximately 39.9% decrease from approximately RMB70,796,000 for the year ended 31 December 2020. Net profits in 2021 and 2020 were approximately RMB36,325,000 and approximately RMB60,650,000 respectively.

Total consolidated administrative expenses and staff costs were approximately RMB21,770,000 for the Year and the corresponding period last year is approximately RMB11,888,000. The increase was mainly due to the agent fee for transferring to main board.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2021, the Group's net current assets and its net assets were approximately RMB154,022,000 (2020: approximately RMB116,924,000) and approximately RMB155,572,000 (2020: approximately RMB118,675,000) respectively.

The gearing ratio was 0% as at 31 December 2021 (2020: approximately 0.94%). The gearing ratio is derived by dividing the total of borrowings by total assets. The gearing ratio has decreased for the Year when compared to 31 December 2020 because there is no borrowing.

During the Year, the Group financed its operations with its own working capital and bank borrowings. As at 31 December 2021, the Group had no borrowing (2020: approximately RMB1,500,000 of secured bank borrowing which are repayable within a period of not exceeding 5 years, and there was no other borrowing).

Meanwhile, considering the working capital and long term fund demand for future development, the Group will consider to raise further funds through bank loans, issuance of new shares, convertible notes, and issuance of new debts, etc.

FOREIGN EXCHANGE EXPOSURE

During the Year, the Group's transactions were substantially denominated in Renminbi ("RMB"). As such, the foreign currency risk of the Group is limited. Currently, the Group has not adopted any financial instrument for hedging purposes.

TREASURY POLICIES

The Directors will continue to follow a prudent policy in managing the Group's cash and maintaining a strong and healthy liquidity to ensure that the Group is well placed to take advantage of future growth opportunities.

BUSINESS REVIEW AND PROSPECT

2021 has been an exciting year for the Group, as we have made significant progress in the research and development of specific anti-COVID-19 medicine. As of the date of this announcement, Venturepharm, an affiliated enterprise of the Group, is the only company that owns both the raw materials and preparations of Ritonavir. Maikexin is the only Ritonavir oral liquid approved in mainland China, referring to the raw material State Drug Certificate of Approval H20040411 and the formulation State Drug Certificate of Approval H20051019. The Group's participation in the research on oral liquid preparations not only overcomes the disadvantage that the tablets cannot be taken by critically ill patients, the elderly, and children, but also greatly improves the bioavailability of insoluble Ritonavir in the human body. In addition to the discovery that a batch of medicine such as Ritonavir has an inhibitory effect on the coronavirus (2019-nCoV), it discovered how Yueting and relevant medicine can reduce the death of the smoking patients in Covid, as well as prevent depression and allergic reactions caused by the Covid, etc. The epidemic will coexist with human beings for a long time, and the Group will continue to benefit from this health defense battle.

Since 2016, the Group has established a core strategy of building an R&D-based digital medical health system, focusing on three major disease areas of brain science, allergy, and virus, and established five specialized brands: Hein mental psychology, Bayern anti-allergy, Yuejie addiction, Xien anti-infatuation, and Rare Diseases.

With the deepening of medical reform, the Group has built a precision medicine big data platform with clinical research as its core competitiveness, which will better guide treatment. Also, digital clinical research value-enabled promotion will replace the traditional CSO model.

Looking forward to using the big data platform to build a digital specialist clinic

In terms of big data medical services, we have established research digital medicine clinics with many top medical institutions in Beijing, Shanghai, Guangzhou, and digital medical groups such

as Gaoji medical, Haiwang Xingchen, micro medical group and miaozhou medical and other top 100 chains and digital healthcare groups. Yue smoking cessation research and specialized treatment, Xien psychology research and specialized treatment, Baimin fever and cough research and specialized treatment, antiviral medicine research and treatment area, etc., will play a huge value to patients in the epidemic and post-epidemic era. We will launch group-branded specialist outpatient clinics and Venture pharmacy specialist areas in more hospitals and cloud institutions.

Looking forward to becoming the pioneer of brain research and digital academic promotion

Alzheimer's disease, also often referred to as senile dementia, is known as a "live separation" disease that is crueler than "death farewell". The disease, which slowly erases memory like an eraser, is the most common cause of dementia and the most common cause of death in the older. The prevalence of Alzheimer's disease in the elderly population over 65 years old in the world is 4%-7%, and it increases with age. With an average increase of 6.1 years of age, the prevalence rate will increase by 1%. Xien Anti-Dementia Research Group has participated in 80% of the clinical research of products in the field of Alzheimer's In disease research, including Duonaiguaqi, Meijingang, Kabalatin, and Traditional Chinese Medicine. Brain science will be a larger field after oncology. The digital clinical research center of Xien Brain of the Group has long been committed to the clinical and big data research of brain diseases such as stroke, dementia, epilepsy, Parkinson's, and ALS, and has participated in or organized more than 60% of the major clinical researches of national brain science. Some of these projects have also won the first and second prizes of the National Science Progress Award.

Looking forward to becoming a leading company in the anti-allergy field

Allergic diseases have become one of the most prevalent diseases that threaten human health. Nearly one-quarter of adults and one-third of children have suffered from allergic diseases, and a considerable number of allergies cause a list of diseases such as asthma and rhinitis. The Baimin anti-allergy center of the Group is committed to becoming the world's leading anti-allergy center. In the anti-allergic field, from clinical research to commercial pharmacy Baimin Specialty, the Group has cooperated with a number of medical institutions and large chains to build a Baimin allergy prevention specialty and a Baimin anti-allergy zone. At present, more than six of every ten anti-allergic medicines are responsible by the Baimin Clinical Research Center. The Group will be responsible for a series of anti-allergy, asthma, and rhinitis RWS-THERAPY, and CRCO platforms to carry out post-marketing real-world clinical research. Service experts would accurately treat patients in the research, obtain research results in the treatment, and help enterprises to carry out digital academic promotion.

Looking forward to establishing a digital business model

In terms of business model, the Group has launched two models in the new era of epidemic and digital medical care: 1. "Research-based treatment RWS-Therapy model", which is to carry out clinical and big data research on five major clinical and diseases through real-world clinical research, guiding the medical treatment, obtaining the medical big data in the treatment, which in turn guides the research. 2 "Digital clinical research-oriented promotion D-CRCO model" (Digital, Clinical, Research, Commercialization, Organization), using big data clinical research to accurately empower product commercialization. These two models will digitally redefine

research-based treatment and research-based promotion as an alternative to traditional treatment and commercialization. Focusing on the core therapeutic areas, we build a full-scene medical terminal service complex from R&D to patient closure, which is supported by intelligent digital technology and medical technology. It forms a closed-loop system from scientific research to rehabilitation. From hospital big data clinical research to digital scientific research product promotion services, to the joint establishment of digital R&D clinical research specialists, to special specialist medical and medical diagnosis, to rehabilitation medical and tourism medicine services.

Looking ahead, we will use five laboratories to support medical research

The five major laboratories include the real-world clinical research laboratory, the biological analysis laboratory, the clinical big data laboratory, the artificial intelligence laboratory, and the research-oriented specialist outpatient center, which have laid a solid scientific research foundation for the group. Our laboratories are equipped with the latest equipment with top technical capabilities to ensure the high quality of our products. The biological analysis laboratory established by the group was equipped with WatersUPLC-MS/MS.XevoTQS, and was officially opened to the public. The laboratory mainly serves clinical research, especially the clinical research experiment of antiviral medicine. Management believes this will enhance the Group's competitiveness in new clinical studies.

The Group continued to promote the transfer to the main board the Year and plans to launch a financing plan the Year to help achieve the Group's strategy and sales goals. We believe that we are on a steady and long-term path to serve the health of the world.

SIGNIFICANT INVESTMENT

Save as disclosed in this announcement, there was no significant investment during the Year.

CAPITAL COMMITMENT

As of 31 December 2021, the Group did not have any significant capital commitment.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES AND FUTURE PLANS FOR MATERIAL INVESTMENTS

During the Year, the Group did not carry out any material acquisitions and disposals in respect of subsidiaries and associates and there is no plan for making material investments or acquiring capital assets as at the date of this announcement.

CHARGE ON ASSETS

As at 31 December 2021, the total banking facilities available to the Group amounted to RMB0 (2020: RMB1,500,000 which had been utilised and secured by personal guarantee). The details are set out in the note 22 to the consolidated financial statements.

As at 31 December 2021 and 2020, the Group did not charge on any of its assets.

CONTINGENT LIABILITIES

As at 31 December 2021 and 2020, the Group did not have any significant contingent liabilities.

CAPITAL STRUCTURE

During the Year, there had been no changes in the Company's capital structure (including ordinary shares and capital reserve). As at 31 December 2021, the issued shares amounted to about 995,351,660.

EVENT AFTER THE REPORTING PERIOD

There was no significant disclosable event after the Year.

HUMAN RESOURCES

The Group's remuneration policy is basically determined by the performance of individual employees. In addition to salaries and bonuses, The Group also provided various other benefits to its employees. Employee benefits included medical and pension contributions and share options schemes.

The Group monitored closely the remuneration and fringe benefits of the employees and rewarded employees in accordance with the Group's business performance. In addition, training and development opportunities for the employees were also provided by the Group.

EMPLOYEE AND REMUNERATION POLICY

The Group employed 82 and 50 employees as at 31 December 2020 and 2021.

During the Year, staff cost, including directors' remuneration, was approximately RMB7,337,000 (2020: approximately RMB8,288,000). The Group remunerates its employees based on their performance, and the prevailing market price. Other employee benefits include mandatory provident

fund, insurance and medical coverage, training programs and share option scheme.

The Company adopted the share option schemes where share options to subscribe for shares of the Company have been granted to the eligible participants of the Group.

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2021 (2020: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

CORPORATE GOVERNANCE

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and the code provisions as set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 to the GEM Listing Rules. The principles adopted by the Company emphasize a quality board, transparency and accountability to shareholders. In the opinion of the Board, the Company has complied with the Code for the year ended 31 December 2021, with the exception for the following deviation:

Under code provision A.2.1, the responsibilities between chairman and chief executive officer should be separated. However, the chief executive officer of the Company has not yet been appointed. Currently, the day-to-day management of the Company's business is handled by the executive directors and senior management, who take the responsibility to run the Group's business and to implement the Group's strategy so as to achieve the overall commercial objectives of the Company.

RULE 5.05(1) OF THE GEM LISTING RULES

Under Rule 5.05(1) of the GEM Listing Rules, the board of directors of a listed issuer must include at least three independent non-executive Directors.

The Company has fulfilled the requirement on the number of independent non-executive directors of the Company as required under Rule 5.05(1) of the GEM Listing Rules.

RULE 5.28 OF THE GEM LISTING RULES

Under Rule 5.28 of the GEM Listing Rules, every listed issuer must establish an audit committee comprising non-executive directors only. The audit committee must comprise a minimum of 3 members.

The Company has fulfilled the requirements on the number of members of the audit committee as required under Rule 5.28 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the GEM Listing Rules 5.28 to 5.33. The primary duties of the Audit Committee are (a) to review the Group's annual reports, interim reports and quarterly reports (b) to discuss and review with the audit of the Company on the scope and findings of the audit; and (c)

to supervise the financial reporting process, risk management and internal control systems of the Group and provide advice and comments to the Board.

During the Year and up to the date of this announcement, the members of the Audit Committee have been and are:

QIU Rui (Chairman)

NI Binhui

ZHEN Ling

During the Year, the Audit Committee reviewed, assessed and commented on the audited consolidated financial statements for the year ended 31 December 2020, the unaudited consolidated financial statements for the three months ended 31 March 2021, six months ended 30 June 2021 and nine months ended 30 September 2021, respectively. It has also reviewed the effectiveness of the risk management and internal control systems and internal audit functions of the Group, the continuing connected transactions and the policy on anti-money laundering and counter-terrorist financing. It has also reviewed the re-appointment of external auditor of the Company and was satisfied with its work, its independence, and its objectivity, and therefore recommended the re-appointment of ZHONGHUI ANDA CPA LIMITED (which had indicated its willingness to continue in office) as the Group's external auditor for shareholders' approval in the 2021 annual general meeting. The preparation of the consolidated results is in compliance with applicable accounting principles and practices adopted by the Company and the requirements of the Stock Exchange, and adequate disclosure has been made.

The Group's unaudited consolidated quarterly, interim results and audited consolidated annual results for the Year have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Directors confirmed that they have complied with the required standard of dealings and its code of conduct regarding securities transactions by Directors during the Year.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the Year as set out in the preliminary announcement have been agreed by the Group's auditor,

ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by ZHONGHUI ANDA CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ZHONGHUI ANDA CPA Limited on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the GEM website at www.hkexgem.com and the Company's website at www.chgi.net. The annual report of the Company for the year ended 31 December 2021 will be dispatched to the shareholders of the Company and will be available on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
China Health Group Inc.
GUO Xia
Chairman

Hong Kong, 29 March 2022

As at the date hereof, the Board comprises two executive directors, being Mr. GUO Xia and Dr. SONG Xuemei; one non-executive director, being Mr. SU Yi; and three independent non-executive directors, being Mr. QIU Rui, Dr. NI Binhui and Mr. ZHEN Ling.

This announcement will remain on the GEM website with the domain name of www.hkexgem.com on the "Latest Listed Company Information" page for at least 7 days from the date of its posting and on the Company's website at www.chgi.net.