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Qianhai Health Holdings Limited

前海健康控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 911)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board (the “**Board**”) of directors (the “**Directors**”) of Qianhai Health Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2022 (the “**Interim Period**”), together with the comparative figures for the corresponding period ended 30 June 2021 (the “**Prior Period**”) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Revenue	4	1,201,279	195,714
Costs of sales		(1,173,117)	(185,155)
Gross profit		28,162	10,559
Other income	5	49	60
Other gains/(losses), net	6	1,544	(4,876)
Selling and distribution costs		(76)	(83)
Administrative expenses		(10,055)	(9,100)
Finance costs	7	(16)	(275)

		Six months ended 30 June	
		2022	2021
	<i>NOTES</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Operating profit/(loss) before income tax	<i>8</i>	19,608	(3,715)
Income tax expense	<i>9</i>	<u>–</u>	<u>–</u>
Profit/(loss) for the period and profit for the period attributable to owners of the Company		19,608	(3,715)
Other comprehensive income for the period			
Exchange differences arising on translation of foreign operation		<u>–</u>	<u>8</u>
Total comprehensive income/(loss) for the period and total comprehensive income attributable to owners of the Company		<u>19,608</u>	<u>(3,707)</u>
Earnings/(loss) per share			
– basic	<i>11</i>	<u>1.16 cents</u>	<u>(0.22) cents</u>
– diluted	<i>11</i>	<u>1.16 cents</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

		As at 30 June 2022 <i>HK\$'000</i> (unaudited)	As at 31 December 2021 <i>HK\$'000</i> (audited)
	<i>NOTES</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	12	28,872	30,086
Loan receivables	13	<u>17,550</u>	<u>18,000</u>
Total non-current assets		<u>46,422</u>	48,086
Current assets			
Inventories		276,880	455,082
Trade and other receivables	13	231,590	232,988
Cash and cash equivalents		<u>163,428</u>	<u>2,470</u>
Total current assets		<u>671,898</u>	690,540
Total assets		<u><u>718,320</u></u>	<u><u>738,626</u></u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		67,778	67,778
Reserves		<u>622,363</u>	<u>602,755</u>
Total equity		<u><u>690,141</u></u>	<u><u>670,533</u></u>

		As at 30 June 2022 <i>HK\$'000</i> (unaudited)	As at 31 December 2021 <i>HK\$'000</i> (audited)
LIABILITIES			
Current liabilities			
Trade and other payables	<i>14</i>	22,931	54,262
Contract liabilities		4,942	6,000
Lease liabilities		306	666
Bank borrowings		—	7,165
		<hr/>	<hr/>
Total liabilities		28,179	68,093
		<hr/>	<hr/>
Total equity and liabilities		718,320	738,626
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. GENERAL AND BASIS OF PREPARATION

Qianhai Health Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) are principally engaged in sale of electronic component products and health care products.

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 August 2011 under the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands. The ultimate holding company is Explorer Rosy Limited (“**Explorer Rosy**”), a company incorporated in the British Virgin Islands. The ultimate beneficial owners of Explorer Rosy are Mr. Huang Guanchao and Mr. Lim Tzea. The address of the Company’s registered office is P.O. Box 2681, Cricket Square, Hutchins Drive, Grand Cayman, KY1-1111, the Cayman Islands. The address of its principal place of business is Room 301-3, 3/F, Wing Tuck Commercial Centre, 177-183 Wing Lok Street, Sheung Wan Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The condensed consolidated financial statements (“**Financial Statements**”) are presented in Hong Kong dollars (“**HK\$**”), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

The Financial Statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules (the “**Listing Rules**”) Governing the Listing of Securities on the Stock Exchange.

These Financial Statements do not include all the information and disclosures required in annual consolidated financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) except for the adoption of new and amended standards as disclosed in Note 3.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those followed in the preparation of the Group's annual financial information for the year ended 31 December 2021.

The Group has adopted the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA for the first time for these Financial Statements.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to HKFRSs 2018-2020	<i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16 and HKAS 41</i>

The application of the above revised HKFRSs in the current period has had no material impact on the Group's results and financial position.

4. SEGMENT INFORMATION

The Group determines its operating segments based on internal reports reviewed by the chief operating decision makers, which are the executive directors of the Company, for the purpose of allocating resources to the segments and to assess their performance which focus on the sale of different types of products from different business lines.

Specifically, the Group's reportable and operating segments have been identified as follows:

- (i) Electronic component products: sale of information technology component products (including semi-conductors and central processing units); and
- (ii) Health-care products: sale of health-care products (including Chinese herbal medicine, skin-care and other health-care products).

The following is an analysis of the Group's revenue and results by segment:

	Electronic components <i>HK\$'000</i>	Health-care products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2022 (unaudited)			
Segment revenue	1,201,279	–	1,201,279
Cost of sales	<u>(1,173,117)</u>	<u>–</u>	<u>(1,173,117)</u>
Segment result	<u>28,162</u>	<u>–</u>	<u>28,162</u>
Six months ended 30 June 2021 (unaudited)			
Segment revenue	97,585	98,129	195,714
Cost of sales	<u>(85,633)</u>	<u>(99,522)</u>	<u>(185,155)</u>
Segment result	<u>11,952</u>	<u>(1,393)</u>	<u>10,559</u>
		Six months ended 30 June	
		2022	2021
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Segment results		28,162	10,559
Unallocated			
Other income		49	60
Other gains/(losses), net		1,544	(4,876)
Selling and distribution expenses		(76)	(83)
Administrative expenses		(10,055)	(9,100)
Finance costs		<u>(16)</u>	<u>(275)</u>
Profit/(loss) before income tax		<u>19,608</u>	<u>(3,715)</u>

Revenue reported above represents revenue generated from external customers. There were no intersegment sales during both periods.

Segment result during the period represents the gross profit of each segment without allocation of other income, other gains/(losses), net, selling and distribution expenses, administrative expenses, finance costs and share of results of a joint venture accounted for using the equity method. This is the measure reported to the Group's chief operating decision maker, for the purposes of resource allocation and performance assessment.

5. OTHER INCOME

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
OTHER INCOME		
Interest income from bank deposits	1	–
Interest income from loan receivables	48	60
	<u>49</u>	<u>60</u>
	<u>49</u>	<u>60</u>

6. OTHER GAINS/(LOSSES), NET

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Gain on disposal of a subsidiary	–	15,366
Exchange gain, net	1,544	1,758
Provision for impairment loss on receivables	–	(22,000)
	<u>1,544</u>	<u>(4,876)</u>
TOTAL	<u>1,544</u>	<u>(4,876)</u>

7. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest expense on:		
– bank loans	4	246
– lease liabilities	12	29
	<u>16</u>	<u>275</u>

8. PROFIT/(LOSS) BEFORE TAXATION

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit/(loss) before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	1,219	1,217
Expenses relating to short-term leases and other leases	<u>109</u>	<u>101</u>

9. INCOME TAX EXPENSE

(i) *Hong Kong Profits Tax*

Hong Kong Profits Tax is calculated at 16.5% (2021: 16.5%) on the estimated assessable profit. No provision for Hong Kong Profits Tax has been made for the Company and the subsidiaries incorporated in Hong Kong as they have no assessable profits or sufficient tax losses brought forward to set off estimate assessable profits in both current and prior periods.

(ii) *PRC Enterprise Income Tax*

The subsidiaries established in the People's Republic of China (“**PRC**”) are subject to PRC Enterprise Income Tax (“**EIT**”) rate of 25% (2021: 25%) during the period.

No provision for PRC EIT has been made as the subsidiaries established in the PRC have estimated tax losses for both current and prior periods.

(iii) Income tax from other tax jurisdictions

Pursuant to the income tax rules and regulations, the Group is not subject to income tax in the jurisdictions of the Cayman Islands and the BVI.

10. DIVIDENDS

No dividend has been proposed by the Directors during the six months ended 30 June 2022 and subsequent to the end of the reporting period.

11. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings/(loss)		
Profit/(loss) attributable to owners of the Company	<u>19,608</u>	<u>(3,715)</u>

	Six months ended 30 June	
	2022	2021
	('000)	('000)
Number of shares		
Weighted average number of ordinary shares		
for the purpose of basic and diluted earnings per share	<u>1,694,450</u>	<u>1,692,760</u>

Diluted earnings per share is the same amount as the basic earnings per share for the six months ended 30 June 2022 because the exercise of the outstanding share options would be anti-dilutive.

The computation of diluted loss per share for the six months ended 30 June 2021 does not assume the exercise of outstanding share options of the Company since their assumed exercise would result in a decrease in loss per share.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired other property, plant and equipment of approximately HK\$5,000 (six months ended 30 June 2021: HK\$9,000). The Group has no material disposal of property, plant and equipment on both periods.

13. TRADE AND OTHER RECEIVABLES

	As at 30 June 2022 <i>HK\$'000</i> (unaudited)	As at 31 December 2021 <i>HK\$'000</i> (audited)
Trade receivables, net of provision	—	104,948
Prepayment for inventory purchase	219,604	25,431
Consideration receivables (<i>Note (a)</i>)	—	90,000
Loan receivables (<i>Note (b)</i>)	29,250	30,000
Other prepayments	—	435
Deposits	174	174
Others	112	—
	<u>249,140</u>	<u>146,040</u>
Total trade and other receivables	249,140	250,988
<i>Less: Non-current loan receivables</i>	<u>(17,550)</u>	<u>(18,000)</u>
Current portion	<u>231,590</u>	<u>232,988</u>

Notes:

- (a) The consideration receivables, being the outstanding receivables regarding the disposal of a subsidiary in 2021, was unsecured, non-interest bearing and repayable within one year.
- (b) The loan is unsecured, interest-bearing at a fixed rate of 0.33% per annum and repayable by instalments from 2021 to 2023.

The Group generally grants credit periods ranging from 30 to 120 days to its customers. Before accepting any new customer upon receipt of partial prepayment in advance, the Group internally assesses the potential customer's credit quality and define an appropriate credit limit. Management closely monitors the credit quality and follow-up action is taken if overdue debts are noted.

The following is an aging analysis of trade receivables based on the invoice date and net of loss allowance at the end of each reporting period:

	As at 30 June 2022 <i>HK\$'000</i> (unaudited)	As at 31 December 2021 <i>HK\$'000</i> (audited)
181 to 365 days	–	65,341
Over 1 year	–	39,607
	<u>–</u>	<u>104,948</u>

14. TRADE AND OTHER PAYABLES

	As at 30 June 2022 <i>HK\$'000</i> (unaudited)	As at 31 December 2021 <i>HK\$'000</i> (audited)
Trade payables	<u>21,587</u>	<u>50,439</u>
Other payables		
– Accrued expenses	1,130	3,609
– Others	<u>214</u>	<u>214</u>
	<u>1,344</u>	<u>3,823</u>
Total trade and other payables	<u>22,931</u>	<u>54,262</u>

The Group normally receives credit terms of 90 to 150 days from its suppliers.

BUSINESS REVIEW

The Group is principally engaged in sale of electronic component products (the “**Electronic Component Business**”) and health-care products (the “**Health-care Business**”).

For the Interim Period, the Group’s revenue was approximately HK\$1,201.3 million (Prior Period: approximately HK\$195.7 million). Gross profit for the Interim Period amounted to approximately HK\$28.2 million (Prior Period: approximately HK\$10.6 million). Operating profit for the Interim Period amounted to approximately HK\$19.6 million (Prior Period: operating loss of approximately HK\$3.7 million). Net profit for the Interim Period amounted to approximately HK\$19.6 million (Prior Period: net loss of approximately HK\$3.7 million). Basic earnings per share for the Interim Period was approximately HK1.16 cents (Prior Period: loss per share of approximately HK0.22 cents).

During the Interim Period, 100% of the Group’s total revenue was contributed by the Electronic Component Business. The increase of the Group’s revenue during the Interim Period was mainly attributable to the increased sales volume of the electronic component products. With the better performance in the Electronic Component Business, the Group has shifted its resources and focus from the Health-care Business to the Electronic Component Business in the Interim Period, in order to maximise the Company’s shareholders’ profits.

OUTLOOK

With the COVID-19 epidemic remained recurrent and the global market environment remained unstable, the economic situation in the second half of 2022 is still full of uncertainties yet opportunities. The Group will continue to monitor the market situation and diversify its product range and customer base and explore business opportunities to leverage on its established experience and to sustain its strong competitive advantages in the market.

The Group will continue to work actively to improve the internal operational and financial efficiencies to improve the Group’s margins. The Group also continues to expand the Electronic Component Business and explore expanding its health-care products portfolio. With the experienced and dedicated management team, the Group is confident that it will be able to continue to grow the business.

FINANCIAL REVIEW

Revenue

During the Interim Period, the Group has enlarged its operation in the Electronic Component Business while minimized its operation in the Health-care Business. During the Interim Period, the Electronic Component Business contributed a revenue of approximately HK\$1,201.3 million (Prior Period: approximately HK\$97.6 million) and recorded a segment profit of approximately HK\$28.2 million (Prior Period: approximately HK\$12.0 million).

Gross profit

Gross profit of the Group increased by approximately 166.7% from approximately HK\$10.6 million in the Prior Period to approximately HK\$28.2 million in the Interim Period. The gross profit margin was approximately 2.3% in the Interim Period (Prior period: approximately 5.4%).

During the Interim Period, the Group reclassified the “Provision of inventory write down” from other gains and losses to costs of sales. Hence, the costs of sales and other gains or losses for the Prior Period were previously re-stated. Due to the uncertain market situations, especially on electronic component products, a provision of inventory of approximately HK\$40.2 million (Prior Period: HK\$2.4million) was recognised in the cost of sales in the Interim Period.

Profit attributable to owners of the Company

The profit attributable to owners of the Company for the Interim Period was approximately HK\$19.6 million, as compared to a loss attributable to owners of the Company of approximately HK\$3.7 million in the Prior Period. The turnaround from loss to profit position of the Group for the Interim Period was mainly due to the Group’s strategy to allocate more resources from Health-care Business to the Electronic Component Business with increase in both revenue and gross profit of such segment.

WORKING CAPITAL AND INVENTORY MANAGEMENT

The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 23.8 times as at 30 June 2022 (31 December 2021: approximately 10.1 times).

The decrease in inventories by approximately 39.2% to approximately HK\$276.9 million as at 30 June 2022 as compared to that of approximately HK\$455.1 million as at 31 December 2021, was mainly due to the shortened inventory turnover of the Group.

TRADE RECEIVABLES

As at 30 June 2022, there were no trade receivables, as compared with approximately HK\$104.9 million as at 31 December 2021. The management of the Group regularly evaluates the Group's customers, and assesses their known financial position and the credit risks. Due to the uncertain market situations, the Group had tightened the credit periods granted to each customer and resulted in no trade receivables as at 30 June 2022.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2022, cash and cash equivalents of the Group amounted to approximately HK\$163.4 million (31 December 2021: approximately HK\$2.5 million).

As at 30 June 2022, the Group has no interest-bearing loans (31 December 2021: approximately HK\$7.2 million).

FOREIGN EXCHANGE EXPOSURE

The Group faces foreign exchange risks as certain cash and cash equivalents are denominated in foreign currencies. The reporting currency of the Group is Hong Kong dollars (“**HKD**”) and the purchases of electronic component products and health-care products are mainly made in United States dollars (“**USD**”) and Canadian dollars (“**CAD**”). As a result, the Group incurred transactional and translational foreign currency gains or losses from its operations. For the Interim Period, the Group incurred a gain of foreign exchange differences of approximately HK\$1.5 million (Prior Period: approximately HK\$1.8 million). The Board will continuously monitor the foreign exchange exposure and will consider the hedging of foreign currency risks should the need arise.

CHARGE OF ASSETS

No assets of the Group were charged as at 30 June 2022.

As at 31 December 2021, certain land and buildings of the Group, with a total carrying value of approximately HK\$27.5 million, were pledged to banks as securities for bank loans of approximately HK\$7.2 million granted to the Group.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the Interim Period.

SUBSEQUENT EVENT

Saved as disclosed in this announcement, the Group had no material subsequent events from the end of the Interim Period to the date of this announcement.

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

During the Interim Period, neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company’s listed securities.

CORPORATE GOVERNANCE

The Board is committed to achieving high standards of corporate governance to safeguard the interest of the Company’s shareholders and to enhance corporate value and accountability. For the Interim Period, the Company has applied the principles and complied with the applicable code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing (the “**Listing Rules**”) the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the code of conduct rules (the “**Model Code**”) regarding securities transactions by Directors on terms no less exactly than the required standard set out in the Model Code for Securities Transactions by the Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, and that having made specific enquiry to all Directors, the Company confirms that all Directors have complied with the Model Code.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited condensed consolidated interim financial statements for the Interim Period, with the Directors.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Yuen Chee Lap Carl (Chairman of the Audit Committee), Mr. Li Wei and Mr. Leung Chun Tung.

By order of the Board
Qianhai Health Holdings Limited
Huang Guanchao
Chairman

Hong Kong, 23 August 2022

As at the date of this announcement, the non-executive Directors are Mr. Huang Guanchao, Mr. Lim Tzea, Mr. Chen Kaiben and Mr. Chen Qi; the executive Director is Mr. Chen Li Kuang and the independent non-executive Directors are Mr. Li Wei, Mr. Yuen Chee Lap Carl and Mr. Leung Chun Tung.