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CHINA HEALTHWISE HOLDINGS LIMITED

中國智能健康控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 348)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2024

The board of directors (the “**Board**” or “**Directors**”) of China Healthwise Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (together the “**Group**”) for the six months ended 30 June 2024 together with the comparative figures for the corresponding period for the six months ended 30 June 2023. These interim consolidated financial statements have not been audited but have been reviewed by the Company’s Audit Committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2024

| | | Unaudited | |
|-------------------------------------|--------------|--|--|
| | | For the six months ended 30 June 2024 | For the six months ended 30 June 2023 |
| | <i>Notes</i> | HK\$’000 | HK\$’000 |
| Revenue | 4 | 60,932 | 80,826 |
| Cost of sales | | (41,271) | (47,173) |
| Gross profit | | 19,661 | 33,653 |
| Other income, gains and losses, net | 4 | (10,989) | (28,239) |
| Selling and distribution expenses | | (14,779) | (14,163) |
| General and administrative expenses | | (18,069) | (16,024) |
| Finance costs | 5 | (4,658) | (4,487) |

| | | Unaudited | |
|---|--------------|---|---|
| | | For the six months ended 30 June 2024 HK\$'000 | For the six months ended 30 June 2023 HK\$'000 |
| | <i>Notes</i> | | |
| Loss before income tax | | (28,834) | (29,260) |
| Income tax credit/(expense) | 6 | <u>171</u> | <u>(2,602)</u> |
| Loss for the period | 7 | <u>(28,663)</u> | <u>(31,862)</u> |
| Other comprehensive income | | | |
| for the period, net of tax: | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| — Exchange differences arising from translation of foreign operations | | <u>3</u> | <u>303</u> |
| Other comprehensive income for the period, net of tax | | <u>3</u> | <u>303</u> |
| Total comprehensive loss for the period | | <u>(28,660)</u> | <u>(31,559)</u> |
| Loss for the period attributable to owners of the Company | | <u>(28,663)</u> | <u>(31,862)</u> |
| Total comprehensive loss for the period attributable to owners of the Company | | <u>(28,660)</u> | <u>(31,559)</u> |
| Loss per share | | | |
| — Basic and diluted | 9 | <u>(3.72) cents</u> | <u>(4.14) cents</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2024

| | | Unaudited At 30 June 2024 <i>HK\$'000</i> | Audited At 31 December 2023 <i>HK\$'000</i> |
|--|--------------|---|---|
| | <i>Notes</i> | | |
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | <i>10</i> | 438 | 482 |
| Right-of-use assets | <i>10</i> | 5,697 | 7,502 |
| Financial assets at fair value through profit or loss | <i>12</i> | 584 | 559 |
| Loan receivables | <i>11</i> | 1,167 | 1,472 |
| | | 7,886 | 10,015 |
| Current assets | | | |
| Inventories | | 43,231 | 56,023 |
| Trade and other receivables, deposits and prepayments | <i>13</i> | 10,291 | 13,727 |
| Loan receivables | <i>11</i> | 5,966 | 15,623 |
| Financial assets at fair value through profit or loss | <i>12</i> | 35,057 | 39,861 |
| Cash and cash equivalents | | 7,005 | 14,421 |
| | | 101,550 | 139,655 |
| Current liabilities | | | |
| Trade and other payables and accrued charges | <i>14</i> | 20,535 | 33,427 |
| Lease liabilities | | 5,075 | 5,790 |
| Borrowings | <i>15</i> | 29,378 | 28,722 |
| Tax payable | | 2,775 | 2,775 |
| Convertible loan notes | | 75,028 | 72,239 |
| | | 132,791 | 142,953 |
| Net current liabilities | | (31,241) | (3,298) |
| Total assets less current liabilities | | (23,355) | 6,717 |

| | | Unaudited | Audited |
|--|--------------|------------------------|-----------------|
| | | At | At |
| | | 30 June | 31 December |
| | | 2024 | 2023 |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| Non-current liabilities | | | |
| Lease liabilities | | 907 | 2,149 |
| Deferred tax liabilities | | – | 170 |
| | | <u>907</u> | <u>2,319</u> |
| Net (liabilities)/assets | | <u>(24,262)</u> | <u>4,398</u> |
| EQUITY | | | |
| Share capital | <i>16</i> | 7,705 | 7,705 |
| Reserves | | <u>(31,967)</u> | <u>(3,307)</u> |
| (Capital deficiency)/total equity | | <u>(24,262)</u> | <u>4,398</u> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosure requirements of Appendix D2 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

These unaudited condensed consolidated interim financial statements are presented in Hong Kong Dollar (“**HK\$**”) and all values are rounded to the nearest thousand (“**HK\$’000**”), unless otherwise stated.

Going concern

During the period ended 30 June 2024, the Group incurred a loss of approximately HK\$28,663,000 and, as of that date, the Group had net liabilities of approximately HK\$24,262,000.

In view of such circumstances, the directors of the Company have given careful consideration to the future liquidity, operating performance of the Group, and are of the opinion that the cash flow generated from operating activities of the Group will be able to meet the funding needs of operations and repay the outstanding interest bearing borrowings and liabilities. In order to improve the Group’s financial position, the directors of the Company have been implementing various measures as follows:

- i. taking active measures to collect loan receivables to improve operating cash flows and its financial position;
- ii. in the process of issuing convertible bonds in a principal amount of HK\$16,800,000 and straight bonds in a principal amount of HK\$55 million to set-off the existing convertible loan notes with outstanding principal amount of approximately HK\$72,300,000 upon its maturity on 10 October 2024. The details were disclosed in the Company’s announcement dated 19 August 2024.
- iii. reviewing its investments and actively considering to realise certain financial assets at fair value through profit or loss, in order to enhance the cash flow position of the Group whenever it is necessary; and
- iv. implementing an active cost-saving measures to control administrative costs through various ways to improve operating cash flows at a level sufficient to finance the working capital requirements of the Group.

The directors of the Company have carried out detail review on the Group’s cash flow projections prepared by management. The cash flow projections cover a period of not less than twelve months from the end of the reporting period. In preparing the cash flow forecast, the directors have considered historical cash requirements of the Group as well as other key factors, including the availability of the loan finance which may impact the operations of the Group during the next twelve-month period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group would have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period.

Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements for the period ended 30 June 2024 on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group’s assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2024 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2023.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2024 for the preparation of the Group’s unaudited condensed consolidated financial statements:

| | |
|--------------------------------------|--|
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current |
| Amendments to HKAS 1 | Non-current Liabilities with Covenants |
| Amendments to HKFRS 16 | Lease Liability in a Sale and Leaseback |
| Hong Kong Interpretation 5 (Revised) | Classification by the Borrower of a Term Loan that |
| Presentation of Financial Statements | Contains a Repayment on Demand Clause (“ HK Int 5 (Revised) ”) |
| Amendments to HKAS 7 and HKFRS 7 | Supplier Finance Arrangements |

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated financial statements.

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the 2023 annual financial statements.

4. REVENUE, OTHER INCOME, GAINS AND LOSSES, NET AND SEGMENTAL INFORMATION

The Group is principally engaged in sale of Chinese health products, money lending business and investment in financial instruments. Revenue and other income, gains and losses, net recognised during the period are as follows:

| | Unaudited | |
|---|-------------------|-----------------|
| | For the | For the |
| | six months | six months |
| | ended | ended |
| | 30 June | 30 June |
| | 2024 | 2023 |
| | HK\$'000 | HK\$'000 |
| Revenue from contracts with customers | | |
| — Trading of Chinese health products | 60,426 | 70,259 |
| Revenue from other sources: | | |
| — Interest income | 611 | 5,695 |
| — Dividend income | — | 1,505 |
| — (Loss)/gain on disposal of financial instruments, net | (105) | 3,367 |
| | 60,932 | 80,826 |
| Disaggregation of revenue from contracts with customers: | | |
| Timing of revenue recognition from contracts with customers | | |
| At a point in time | 60,426 | 70,259 |
| Other income, gains and losses, net | | |
| Fair value (loss)/gain on financial assets at | | |
| fair value through profit or loss (“FVTPL”) | (5,431) | 90 |
| Impairment loss on loan receivables under | | |
| expected credit loss (“ECL”) model, net | (5,557) | (28,334) |
| Loss on written off of property, plant and equipment | (2) | — |
| Interest income on bank deposits | 1 | 3 |
| Others | — | 2 |
| | (10,989) | (28,239) |

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's chief operating decision marker (the "CODM") for their assessment of performance and resource allocation. The Group has identified the following reportable segments from its operations:

- Chinese health products: sale of Chinese health products
- Money lending business: granting loans
- Investment in financial instruments: investing in financial instruments

(a) Segment revenue and results

Segment revenue represents revenue generated from external customers. There were no inter-segment sales during the six months ended 30 June 2024 and 30 June 2023. Corporate revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit/(loss) that is used by the CODM for assessment of segment performance.

For the six months ended 30 June 2024

| | Chinese health products <i>HK\$'000</i> (Unaudited) | Money lending business <i>HK\$'000</i> (Unaudited) | Investment in financial instruments <i>HK\$'000</i> (Unaudited) | Reportable segment total <i>HK\$'000</i> (Unaudited) |
|--------------------------------|--|---|---|---|
| Revenue to external customers | <u>60,426</u> | <u>611</u> | <u>(105)</u> | <u>60,932</u> |
| Segment loss before income tax | <u>(1,996)</u> | <u>(13,739)</u> | <u>(6,415)</u> | <u>(22,150)</u> |

For the six months ended 30 June 2023

| | Chinese health products <i>HK\$'000</i> (Unaudited) | Money lending business <i>HK\$'000</i> (Unaudited) | Investment in financial instruments <i>HK\$'000</i> (Unaudited) | Reportable segment total <i>HK\$'000</i> (Unaudited) |
|--|--|---|---|---|
| Revenue to external customers | <u>70,259</u> | <u>5,695</u> | <u>4,872</u> | <u>80,826</u> |
| Segment profit/(loss) before income tax | <u>3,192</u> | <u>(31,270)</u> | <u>4,175</u> | <u>(23,903)</u> |

| | Unaudited | |
|-------------------------------------|---|---|
| | For the six months ended 30 June 2024 HK\$'000 | For the six months ended 30 June 2023 HK\$'000 |
| Reportable segment loss | <u>(22,150)</u> | <u>(23,903)</u> |
| Unallocated finance costs | (2,789) | (2,728) |
| Unallocated corporate expenses | | |
| — Staff costs | (3,420) | (2,055) |
| — Legal and professional fee | — | (105) |
| — Others | <u>(475)</u> | <u>(469)</u> |
| Consolidated loss before income tax | <u><u>(28,834)</u></u> | <u><u>(29,260)</u></u> |

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

| | Unaudited | Audited |
|---------------------------------------|--------------------------------------|---------------------------------|
| | At | At |
| | 30 June 2024 HK\$'000 | 31 December 2023 HK\$'000 |
| Segment assets | | |
| — Chinese health products | 66,129 | 88,690 |
| — Money lending business | 7,333 | 17,647 |
| — Investment in financial instruments | <u>35,650</u> | <u>40,441</u> |
| Segment assets | 109,112 | 146,778 |
| Unallocated corporate assets | | |
| — Cash and cash equivalents | 75 | 992 |
| — Other (<i>Note</i>) | <u>249</u> | <u>1,900</u> |
| Consolidated total assets | <u><u>109,436</u></u> | <u><u>149,670</u></u> |

| | Unaudited | Audited |
|---------------------------------------|-----------------------|-----------------------|
| | At | At |
| | 30 June | 31 December |
| | 2024 | 2023 |
| | HK\$'000 | HK\$'000 |
| Segment liabilities | | |
| — Chinese health products | 28,702 | 50,070 |
| — Money lending business | 4,644 | 1,290 |
| — Investment in financial instruments | 21,719 | 17,883 |
| | <u>55,065</u> | <u>69,243</u> |
| Segment liabilities | 55,065 | 69,243 |
| Unallocated corporate liabilities | | |
| — Convertible loan notes | 75,028 | 72,239 |
| — Others (<i>Note</i>) | 3,605 | 3,790 |
| | <u>78,633</u> | <u>76,029</u> |
| Consolidated total liabilities | <u><u>133,698</u></u> | <u><u>145,272</u></u> |

Note: Other unallocated corporate assets and liabilities include certain other receivables, deposits and prepayments, certain other payables and accrual charges and deferred tax liabilities.

(c) Information about the Group's revenue by geographical region

| | Unaudited | |
|--|-------------------|-----------------|
| | For the | For the |
| | six months | six months |
| | ended | ended |
| | 30 June | 30 June |
| | 2024 | 2023 |
| | HK\$'000 | HK\$'000 |
| Hong Kong | 60,932 | 80,773 |
| The People's Republic of China (the "PRC") | — | 53 |
| | <u>60,932</u> | <u>80,826</u> |

Note: Revenue from trading of Chinese health products, interest income and sale of financial instruments are disclosed by location of operations and location where the products are delivered.

(d) Information on major customers

For the six months ended 30 June 2024 and 2023, no external customer contributed 10% or more to the Group's revenue.

5. FINANCE COSTS

| | Unaudited | |
|------------------------------------|---|---|
| | For the six months ended 30 June 2024 HK\$'000 | For the six months ended 30 June 2023 HK\$'000 |
| Interest on borrowings | 1,535 | 1,411 |
| Interest on lease liabilities | 334 | 348 |
| Interest on convertible loan notes | <u>2,789</u> | <u>2,728</u> |
| | <u><u>4,658</u></u> | <u><u>4,487</u></u> |

6. INCOME TAX CREDIT/(EXPENSE)

| | Unaudited | |
|-------------------------------|---|---|
| | For the six months ended 30 June 2024 HK\$'000 | For the six months ended 30 June 2023 HK\$'000 |
| Deferred tax credit/(expense) | <u>171</u> | <u>(2,602)</u> |

Hong Kong Profits Tax is calculated at 8.25% on the estimated assessable profits up to HK\$2,000,000 and 16.5% on any part of the estimated assessable profits over HK\$2,000,000. No Hong Kong Profits Tax was provided for the Company's subsidiaries in Hong Kong for the six months ended 30 June 2024 and 2023 as they either did not derive any assessable profits from Hong Kong or had estimated tax losses brought forward to offset against the estimated assessable profits.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%. No Enterprise Income Tax has been provided as the Company's subsidiary in the PRC did not derive any assessable profits from the PRC for the six months ended 30 June 2024 and 2023.

7. LOSS FOR THE PERIOD

| | Unaudited | |
|--|---|---|
| | For the six months ended 30 June 2024 HK\$'000 | For the six months ended 30 June 2023 HK\$'000 |
| Loss before income tax is stated after charging the following: | | |
| Cost of inventories sold | 41,271 | 47,172 |
| Depreciation of right-of-use assets | 3,357 | 2,465 |
| Depreciation of property, plant and equipment | 183 | 213 |
| Loss on written off of property, plant and equipment | <u>2</u> | <u>–</u> |

8. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: Nil).

9. LOSS PER SHARE

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

| | Unaudited | |
|--|---|---|
| | For the six months ended 30 June 2024 HK\$'000 | For the six months ended 30 June 2023 HK\$'000 |
| Loss | | |
| Loss for the purpose of basic and diluted loss per share | <u>(28,663)</u> | <u>(31,862)</u> |

| | Unaudited | |
|--|--|---|
| | For the six months ended 30 June 2024 | For the six months ended 30 June 2023 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | <u>770,480,836</u> | <u>770,480,836</u> |

The computation of diluted loss per share for six months ended 30 June 2024 and 2023 does not assume the conversion of the Company's outstanding convertible loan notes since their assumed exercise would result in a decrease in loss per share.

10. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the six months ended 30 June 2024, the Group acquired property, plant and equipment with a cost of HK\$141,000 (six months ended 30 June 2023: HK\$9,000). The Group has entered into lease for retail shops and offices in Hong Kong during the six months ended 30 June 2024 and accordingly additional right-of-use assets amounted to approximately HK\$1,552,000 (six months ended 30 June 2023: HK\$5,807,000) have been recognised during the current period.

11. LOAN RECEIVABLES

| | Unaudited | Audited |
|--|------------------|-----------------|
| | At | At |
| | 30 June | 31 December |
| | 2024 | 2023 |
| | HK\$'000 | HK\$'000 |
| Loan receivables arising from money lending business | 306,908 | 311,313 |
| Less: allowance for ECL | (299,775) | (294,218) |
| | 7,133 | 17,095 |

All loans are denominated in HK\$. The loan receivables are unsecured and carry effective interest ranging from 8%–13% per annum (31 December 2023: 8%–13% per annum). A maturity profile of the loan receivables (net of allowance for ECL) at the end of the reporting periods, based on the maturity date is as follows:

| | Unaudited | Audited |
|-----------------|------------------|-----------------|
| | At | At |
| | 30 June | 31 December |
| | 2024 | 2023 |
| | HK\$'000 | HK\$'000 |
| Within one year | 5,966 | 15,623 |
| Over one year | 1,167 | 1,472 |
| | 7,133 | 17,095 |

Included in the loan receivables is a loan to the ultimate holding company of a substantial shareholder of the Company amounted to HK\$4,761,000 (31 December 2023: HK\$8,858,000).

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Unaudited At 30 June 2024 <i>HK\$'000</i> | Audited At 31 December 2023 <i>HK\$'000</i> |
|---------------------------------------|---|---|
| Listed equity securities in Hong Kong | | |
| — Current | <u>35,057</u> | <u>39,861</u> |
| Unlisted equity securities | | |
| — Non-current | <u>584</u> | <u>559</u> |
| | <u>35,641</u> | <u>40,420</u> |

Fair value of listed equity securities is determined based on quoted bid prices in the Stock Exchange. Fair value of unlisted equity securities is determined based on valuation using asset-based approach.

13. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | Unaudited At 30 June 2024 <i>HK\$'000</i> | Audited At 31 December 2023 <i>HK\$'000</i> |
|--------------------------------|---|---|
| Trade receivables | 4,963 | 6,137 |
| Less: allowance for ECL | <u>(616)</u> | <u>(616)</u> |
| | 4,347 | 5,521 |
| Deposits and other receivables | 1,840 | 4,880 |
| Prepayments | <u>4,104</u> | <u>3,326</u> |
| | <u>10,291</u> | <u>13,727</u> |

The ageing analysis of the trade receivables is as follows:

| | Unaudited | Audited |
|-------------|------------------|-----------------|
| | At | At |
| | 30 June | 31 December |
| | 2024 | 2023 |
| | HK\$'000 | HK\$'000 |
| 0–90 days | 2,311 | 5,517 |
| 91–180 days | 2,036 | 4 |
| | 4,347 | 5,521 |

The Group's sales are on open account terms. Credit terms are reviewed on a regular basis. The credit period ranges from 30 to 90 days but business partners with strong financial backgrounds may be offered longer credit terms.

14. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

| | Unaudited | Audited |
|------------------------------------|------------------|-----------------|
| | At | At |
| | 30 June | 31 December |
| | 2024 | 2023 |
| | HK\$'000 | HK\$'000 |
| Trade payables | 8,601 | 23,268 |
| Other payables and accrued charges | 11,934 | 10,159 |
| | 20,535 | 33,427 |

The ageing analysis of the trade payables is as follows:

| | Unaudited | Audited |
|---------------|------------------|-----------------|
| | At | At |
| | 30 June | 31 December |
| | 2024 | 2023 |
| | HK\$'000 | HK\$'000 |
| 0–90 days | 7,525 | 23,129 |
| Over 365 days | 1,076 | 139 |
| | 8,601 | 23,268 |

15. BORROWINGS

| | Unaudited | Audited |
|--------------------------------------|------------------|-----------------|
| | At | At |
| | 30 June | 31 December |
| | 2024 | 2023 |
| | HK\$'000 | HK\$'000 |
| Margin loans from securities brokers | 18,944 | 15,108 |
| Other loan | 10,434 | 13,614 |
| | 29,378 | 28,722 |

At 30 June 2024, the Group had margin loans from securities brokers of HK\$18,944,000 (31 December 2023: HK\$15,108,000). The margin loans are interest-bearing from 8% to 10% (31 December 2023: 8% to 10%) per annum, repayable on demand and are secured by a portfolio of listed equity securities with carrying amounts of HK\$35,057,000 (31 December 2023: HK\$39,861,000).

At 30 June 2024, the Group had other loan of HK\$10,434,000 (31 December 2023: HK\$13,614,000). The other loan is interest-bearing at 12% (31 December 2023: Hong Kong Prime Rate (as quoted by the designated bank) plus 4%) per annum, secured by share charge over issued shares in a subsidiary of the Group and guaranteed by the Company. As the other loan contains a repayable on demand clause, the entire outstanding balance of the other loan was classified under current liabilities.

16. SHARE CAPITAL

| | Authorised | | | |
|--|--|---|-----------------------------|------------------|
| | Convertible cumulative redeemable preference shares of US\$100,000 each | Ordinary shares of HK\$0.01 each | | |
| | <i>Number of shares</i> | <i>Number of shares</i> | <i>Number of shares</i> | |
| | <i>US\$'000</i> | <i>'000</i> | <i>HK\$'000</i> | |
| At 31 December 2023 (audited), 1 January 2024 and 30 June 2024 (unaudited) | <u>40</u> | <u>4,000</u> | <u>150,000,000</u> | <u>1,500,000</u> |
| | Issued and fully paid | | | |
| | Convertible cumulative redeemable preference shares of US\$100,000 each | Ordinary shares of HK\$0.01 each | | |
| | <i>Number of shares</i> | <i>Number of shares</i> | <i>Number of shares</i> | |
| | <i>US\$'000</i> | <i>'000</i> | <i>HK\$'000</i> | |
| At 31 December 2023 (audited), 1 January 2024 and 30 June 2024 (unaudited) | <u>–</u> | <u>–</u> | <u>770,481</u> | <u>7,705</u> |

17. CONTINGENT LIABILITIES

At 30 June 2024 and 31 December 2023, the Group had no contingent liabilities.

18. RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2024 and 30 June 2023, the Group had the following transactions with related parties:

| Related party relationship | Types of transaction | Unaudited | |
|--|--|---|---|
| | | For the six months ended 30 June 2024 HK\$'000 | For the six months ended 30 June 2023 HK\$'000 |
| Ultimate holding company of a substantial shareholder of the Company | Interest income | 380 | 140 |
| Fellow subsidiary of a substantial shareholder of the Company | Expenses relating to short-term leases | <u>796</u> | <u>828</u> |

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

19. EVENT AFTER THE REPORTING PERIOD

Subsequent to 30 June 2024 and up to the date of this announcement, the Group had the following material event:

On 19 August 2024, the Company and Heng Tai Finance Limited (the “**Subscriber**”) entered into a subscription agreement (the “**Subscription Agreement**”), pursuant to which the Subscriber has conditionally agreed to subscribe, and the Company has conditionally agreed to issue the Convertible Bonds (as define below) and the Straight Bonds (as define below) (collectively, the “**Bonds**”) in an aggregate amount of HK\$72.3 million, which include (i) the unsecured convertible bonds (at the conversion price of HK\$0.088 and convertible into 190,909,090 conversion shares, representing approximately 24.78% of the existing issued share capital of the Company) in the principal amount of HK\$16.8 million to be issued by the Company (the “**Convertible Bonds**”); and (ii) the unsecured straight bonds in the principal amount of HK\$55.5 million to be issued by the Company (the “**Straight Bonds**”).

The issue of the Bonds is to set off in full the outstanding amount of the principal under the convertible bonds in the aggregate principal amount of HK\$120.0 million, which is unsecured and was issued by the Company to the Subscriber on 11 October 2018 and to be matured on 10 October 2024, of which HK\$72.3 million remains outstanding and held by the Subscriber as at the date of this announcement. As such, no proceeds will be received by the Company from the issue of the Bonds.

The conditions precedent under the Subscription Agreement have not been satisfied as at the date of this announcement. For further details, please refer to the Company’s announcement dated 19 August 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2024 (2023: Nil).

RESULTS, BUSINESS REVIEW AND PROSPECTS

Results

For the six months ended 30 June 2024 (the “**Period**”), the Group’s revenue decreased by approximately (“**approx.**”) 25% to approx. HK\$61 million, compared with approx. HK\$81 million for the six months ended 30 June 2023 (the “**Corresponding Period**”). Gross profit margin for the Period was approx. 32% compared to approx. 42% in the Corresponding Period. Overall, the loss attributable to owners of the Company was approx. HK\$29 million compared with the loss attributable to the owners of the Company of approx. HK\$32 million in the Corresponding Period.

Business Review

The Group recorded a decrease in revenue by approx. 25% for the Period compared to the revenue of the Group for the Corresponding Period because of (1) the decrease in revenue from the Chinese health products segment from approx. HK\$70 million in the Corresponding Period to approx. HK\$60 million in the Period; (2) the decrease in revenue from the money lending segment from approx. HK\$6 million in the Corresponding Period to approx. HK\$1 million in the Period; and (3) the decrease in revenue from the investment in financial instrument segment from gain of approx. HK\$5 million in the Corresponding Period to loss of approx. HK\$0.1 million in the Period.

The gross profit margin decreased to approx. 32% from approx. 42% of the Corresponding Period mainly because of the decrease in contribution from the investment in financial instruments segment and the money lending segment which generated higher gross profit margin, comparing with the Chinese health products segment.

The Group recorded a loss for the Period of approx. HK\$29 million during the Period compared with the loss for the period of the Corresponding Period of approx. HK\$32 million. The decrease in loss is mainly due to the net effect of (1) the decrease in gross profit from approx. HK\$34 million in the Corresponding Period to approx. HK\$20 million in the Period as mentioned above; (2) the decrease in the impairment loss in respect of loan receivables from approx. HK\$28 million in the Corresponding Period to approx. HK\$6 million in the Period; and (3) the increase in the fair value loss on financial assets at fair value through profit or loss from gain of approx. HK\$5 million in the Corresponding Period to loss of approx. HK\$0.1 million in the Period.

Chinese Health Products

Ace Season Holdings Limited (“**Ace Season**”) and its subsidiaries are principally engaged in the sales of Chinese and other pharmaceutical products, health products, ginseng and dried seafood products to wholesaler and retailer. One of the subsidiaries of Ace Season, Nam Pei Hong Sum Yung Drugs Company Limited engages in the business of trading and retail of “Sum Yung” (參茸) and dried seafood products since 1977 and the brand name of “Nam Pei Hong” (南北行) is highly recognised in Hong Kong and Southern Mainland China.

During the Period, this segment had contributed revenue of approx. HK\$60 million (2023: approx. HK\$70 million) and a loss of approx. HK\$2 million (2023: profit of approx. HK\$3 million). The decrease in the segment revenue and the change from segment profit to segment loss was mainly due to the challenging retail environment with shifts in consumer spending patterns from luxury goods and stricter mainland customs controls on the carriage of luxury products such as bird’s nest, shark’s fin, and ginseng, which have reduced travelers’ desire to purchase. As at 30 June 2024, there were 10 retail shops of Nam Pei Hong (2023: 10 retail shops).

The gross profit margin of the segment slightly decrease to approx. 32% during the Period from approx. 33% in the Corresponding Period. The selling expense of the segment slightly increase to approx. HK\$15 million in the Period from approx. HK\$14 million in the Corresponding Period.

Money Lending

During the Period, the Group's money lending business generated interest income on loans in the amount of approx. HK\$1 million (2023: HK\$6 million), and reported a segment loss (before taxation) of approx. HK\$14 million (2023: HK\$31 million). The interest income decreased, mainly because loan receivables with principal of approx. HK\$124 million classified under stage 3 (credit impaired) in 2023 has ceased to generate interest income during the Period. A decrease in segment loss of the Group's money lending business was mainly due to the decrease in the impairment loss in respect of loan receivables to approx. HK\$6 million (2023: HK\$28 million).

During the Period, the Group did not grant any new loan but extended the final repayment date of one loan to a customer with principal amount of approx. HK\$9 million. The Group's customers did not make any drawings under existing and new loans, and repaid approx. HK\$4 million to the Group.

At 30 June 2024, eleven loans remained outstanding, out of which (i) two loan receivables with the aggregate gross balance of approx. HK\$7 million were classified under stage 1 (initial recognition); and (ii) nine loan receivables with the aggregate gross balance of approx. HK\$300 million were classified under stage 3 (credit impaired). During the Period, one loan receivable with gross balance of approx. HK\$6 million was transferred from stage 1 (initial recognition) to stage 3 (credit impaired) as the customer, which was named Customer L of the Company's annual report for the year ended 31 December 2023, failed to settle the principal for more than three months.

At the end of the Period, the directors performed an impairment assessment on the Group's loan receivables. The impairment assessment measured impairment on loan receivables using the "expected credit loss model" established by HKFRS 9 Financial Instruments.

Based on the impairment assessment, a total of approx. HK\$300 million accumulated allowance for ECL on loan receivables was made as at 30 June 2024, representing an increase of approx. HK\$6 million as compared to 31 December 2023. Of the total accumulated allowance for ECL, approx. HK\$1 million (31 December 2023: HK\$1 million) was recognised for loan receivables classified under stage 1 (initial recognition), nil (31 December 2023: nil) was recognised for loan receivables classified under stage 2 (significant increase in credit risk) and approx. HK\$299 million (31 December 2023: HK\$293 million) was recognised for loan receivables classified under stage 3 (credit impaired) as at 30 June 2024.

Allowance for ECL for the loan receivables classified under stage 3 (credit impaired) increased from approx. HK\$293 million as at 31 December 2023 to approx. HK\$299 million as at 30 June 2024, mainly attributable to the overdue of interest and principal of a stage 3 loan for more than three months.

Reference is made to the loan receivables classified under stage 3 (credit impaired) as referred to on pages 198 to 201 of the Company's annual report for the year ended 31 December 2023. Set out below is the latest development of the recovery of these loan receivables:

(1) CUSTOMER A

Since December 2023, the Group has been negotiating the terms of the settlement with Customer A, but has yet to finalise the terms.

(2) CUSTOMER E

In August 2023, Customer E paid HK\$4 million to the Group to settle part of the unpaid interest on the loan. On 30 November 2023, the Group commenced legal proceedings against Customer E in Hong Kong. Customer E has put her residential property and two car parking spaces in Hong Kong on the market for sale, and has made arrangements to enable the Group to share the disposal proceeds with the loan lenders.

(3) CUSTOMER I

On 31 May 2022, the court handed down the judgement in favour of the Group. On 19 September 2023, Customer I withdrew the appeal.

The Group was recently approached by an independent third party purchaser proposing to acquire the loan receivable due from Customer I and the accrued and unpaid interest thereon by transferring the ownership of a number of properties located in Guangzhou, Mainland China, to the Group. The Group is currently discussing the terms and conditions of such proposal with the purchaser.

(4) CUSTOMER J

Customer J has paid HK\$2.4 million in March 2023 and HK\$5 million in August 2023. The Group is trying to negotiate a settlement arrangement with Customer J.

(5) CUSTOMER G

In August 2023, Customer G repaid HK\$3 million. The Group is trying to negotiate a settlement arrangement with Customer G.

(6) CUSTOMER F

The Group has been negotiating with Customer F on the repayment of the loan receivables with a view to entering into a binding settlement agreement. During the negotiation, in November 2023, Customer F repaid HK\$1.7 million. The negotiation is still ongoing.

(7) CUSTOMER K

The Group has been in negotiation with Customer K on the repayment of the loan receivables with a view to entering into a binding settlement agreement. In December 2023, Customer K repaid HK\$0.2 million.

(8) CUSTOMER M

The Group has been in negotiation with Customer M on the repayment of the loan receivables with a view to entering into a binding settlement agreement.

(9) CUSTOMER L

In March 2024, Customer L failed to settle the principal and accrued interest to the Group. The Company and Customer L has entered into a deed of settlement in May 2024, of which Customer L will settle the outstanding loan receivables by 11 instalments in 5 years commencing from 31 July 2024. The first installment of HK\$600,000 was received on 29 July 2024. The loan receivable from Customer L was transferred from stage 1 to stage 3.

At the end of the reporting period, the directors assessed the recoverability of the loan receivables. An accumulated allowance for ECL on loan receivables of approx. HK\$300 million (31 December 2023: HK\$294 million) was recognised based on an impairment assessment prepared by the Directors. Such allowance for ECL was made in accordance with the impairment model of HKFRS 9 Financial Instruments and had no effect on the Group's cash flow.

Investment in Financial Instruments

During the Period, the Group's investment in financial instruments business reported a segment loss of approx. HK\$6 million (2023: segment profit of approx. HK\$4 million) arising from the net effect of the change in fair value of financial assets at fair value through profit or loss and realised gain recognised upon disposal of financial assets at fair value through profit or loss. The change from segment profit to segment loss was mainly due to the net realised loss of approx. HK\$5 million recognised during the Period, as compared to the net realised gain and dividend income of approx. HK\$5 million in the Corresponding Period.

Movements in the equities held by the Group during the six months ended 30 June 2024 and the year ended 31 December 2023 are as follows:

| | Unaudited 30 June 2024 <i>HK\$'000</i> | Audited 31 December 2023 <i>HK\$'000</i> |
|--------------------------------------|--|---|
| At beginning of period/year | 40,420 | 57,313 |
| Acquisitions | 1,866 | 5,104 |
| Loss arising on change in fair value | (5,431) | (10,344) |
| Disposals | (1,214) | (11,653) |
| | <hr/> | <hr/> |
| At end of period/year | 35,641 | 40,420 |
| | <hr/> <hr/> | <hr/> <hr/> |

Details of the significant listed equities held by the Group at 30 June 2024 are as follows:

| Name of Hong Kong listed equities | Principal activities | Cost of shares at 30 June 2024 <i>HK\$'000</i> | Number of shares held at 30 June 2024 <i>'000</i> | Percentage of shareholding held by the Group at 30 June 2024 <i>%</i> | Fair value at 30 June 2024 <i>HK\$'000</i> | Fair value as compared to the consolidated total assets of the Group at 30 June 2024 | Fair value gain recognised in the six months ended 30 June 2024 |
|---|--|---|--|--|---|--|---|
| | | | | | | <i>%</i> | <i>HK\$'000</i> |
| Huanxi Media Group Limited (stock code: 1003) | Media and entertainment related businesses, which include development and investment in film and TV programmes rights, as well as operation of an online video platform | 34,894 | 21,580 | 0.59% | 12,301 | 11% | (2,158) |
| Ocean Line Port Development Limited (stock code: 8502) | Port operation in Chizhou City, Anhui Province, the PRC | 8,400 | 31,588 | 3.95% | 9,003 | 8% | (1,895) |
| Yunfeng Financial Group Limited (stock code: 376) | Long term assurance business, the provision of securities brokerage, consultancy and advisory services and investment research, wealth management, employee stock ownership plan administration and principal investment | 34,959 | 7,206 | 0.19% | 6,485 | 6% | (721) |

The Group had made investments with a short to long term perspective with the objective of making capital gain as well as income from dividend. The Group invested in a diversified portfolio of listed equity securities in various industries. The directors believe that the future performance of the Hong Kong listed equities held by the Group is largely affected by economic factors, investor sentiment, demand and supply balance of an investee company's shares and fundamentals of an investee company, such as investee company's news, business fundamentals and development, financial performance and future prospects. Accordingly, the directors closely monitor the above factors, particularly the fundamentals of each individual investee company in the Group's equity portfolio, and proactively adjust the Group's equity portfolio mix in order to improve its performance.

PLANS AND PROSPECTS

Chinese Health Products

In view of the increasing awareness in health and the aging of population in Hong Kong, demand for health care products, especially Chinese medicine, "Sum Yung" (參茸) and dried seafood in Hong Kong has grown steadily in recent years. The Group will also strengthen the promotion on health care products, such as cordyceps sinensis (冬蟲夏草), ginseng (人參), tianqi (田七), and dendrobium nobile (石斛) etc. In order to cope with the rapid pace of life of modern people, the Group also provides products like ginseng powder, energy drink, probiotics capsules and ganoderma capsules.

To take advantage of the shift to online shopping since the outbreak of COVID-19, the Group will continue to develop online sales channels for our Chinese health products. Recently, more people are concerned about their healthcare and prevention from being infected. We concentrated on the promotion of all types of healthcare products that can safeguard our health and enhance immunity.

With the shifts in consumer spending patterns from luxury goods such as cordyceps sinensis (冬蟲夏草), abalone (鮑魚), ginseng (人參) and bird's nest (燕窩) which have reduced travelers' desire to purchase, the Group will actively maintain relationships with local customers by conducting seasonal health and wellness promotions regularly and launching sales initiatives for festivals to attract different customer groups. The Group will also introduce coupons on food delivery or customers' review platforms in mainland China and collaborate with service providers to conduct live-streaming sales to broaden customers base.

The Group also actively attracts corporate customers. During the Period, our marketing campaign successfully attracted certain charitable organisations and institutional customers to order products such as healthy tea bags, nutritious stew series and gift hampers, which generated a higher gross profit margin.

The retail industry is still challenging given that the inflation, recruitment difficulties, increasing ongoing cost and rent. Despite facing many challenges, we will take advantage from technology and data to optimize operations, such as considering the use of Customer Relationship Management System (“CRM”) to understand the needs of consumers. Participate in shopping promotions organized by the Hong Kong Retail Management Association, Manufacturers Association, and payment platforms (such as Alipay) to increase brand exposure and enhance popularity.

Money lending business

The Group expects the business environment for money lending to be challenging and difficult because the Hong Kong Dollar interest rate is still expected to remain in a relatively high level in 2024 and the heightened geopolitical tension between the United States of America and China. The Group will closely monitor the repayment pattern of our customers and formulate an action plan of recovery should the risk of default increases. Our recovery strategy can involve a wide range of actions, which includes the revising of repayment terms, adding of collaterals/guarantees, reaching of settlement, the commencement of legal actions against the customers, and/or enforcement on collaterals/guarantees, etc. The Group will also be more cautious by strengthening its credit policy and risk control policy.

Investment in financial instruments

The Group will closely monitor various factors such as global economy, investment sentiment and fundamentals of investors and their future prospects and protectively adjust our portfolio in order to improve our performance. The Group will change our equity portfolio mix from time to time and realise the equities held by the Group into cash as and when appropriate.

Business Portfolio Management

The current business strategies of the Group with an aim to achieve the best use of its resources and improve its overall performance and portfolio diversification have been continuously evaluated. The Group has been actively looking to diversify the revenue sources of the Group in order to create shareholders’ value through making investments and/or acquiring business or projects that have promising outlooks and prospects.

GROUP RESOURCES AND LIQUIDITY

As at 30 June 2024, the Group's cash and bank balances were approx. HK\$7 million (31 December 2023: approx. HK\$14 million). The Group's total borrowings and convertible loan notes were approx. HK\$104 million (31 December 2023: approx. HK\$101 million). Gearing ratio, calculated as the total borrowings and convertible loan notes divided by total assets, was approx. 95% (31 December 2023: approx. 67%). As at 30 June 2024, the Group recorded total current assets of approx. HK\$102 million (31 December 2023: approx. HK\$140 million) and total current liabilities of approx. HK\$133 million (31 December 2023: HK\$143 million). The current ratio of the Group, calculated by dividing the total current assets by the current liabilities, was approx. 0.77 (31 December 2023: approx. 0.98). The Group recorded an decrease in shareholders' fund from approx. HK\$4 million as at 31 December 2023 to a net liabilities position of approx. HK\$24 million as at 30 June 2024. The decrease was mainly due to the operating loss during the Period.

Inventories recorded a decrease of approx. 23% compared to previous year end date of 31 December 2023 and the value of stock in warehouse decreased from approx. HK\$56 million as at 31 December 2023 to approx. HK\$43 million as at 30 June 2024 as winter is the industry traditional peak season.

Trade receivables remained stable as at 30 June 2024 at approx. HK\$5 million, compared with approx. HK\$6 million as at 31 December 2023.

Overall, the Group will continue to review its existing business on a regular basis and is committed to improving the business operations and financial position of the Group, while trying to identify potential business and investment opportunities to expand its source of income. Despite the uncertain and challenging business environments in Hong Kong, we will try our best to leverage our brand and network in order to improve our financial positions for our shareholders and stakeholders.

FOREIGN CURRENCY RISKS

The Group's exposure to currency risk attributable to trade and other receivables, bank balances and trade and other payables, are denominated in currencies other than the functional currency of the entity to which they related. The Group currently does not have a foreign currency hedging policy. However, the Management will monitor the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

CAPITAL STRUCTURE

The Group did not have any change to the capital structure of the Company during the Period.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

The Group did not have any significant investments or acquisitions or sales of subsidiaries during the Period.

EMPLOYEES

As at 30 June 2024, the Group had approx. 80 employees and contract workers based in Hong Kong headquarters and PRC offices. The number of employees of the Group varies from time to time depending on production needs and they are remunerated based on industry practices.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2024, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

In the opinion of the Board, the Company has complied with all code provisions of the Corporate Governance Code as set out in Appendix C1 of the Listing Rules throughout the six months ended 30 June 2024.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code set out in Appendix C3 of the Listing Rules. The Company has made specific enquiry of its Directors. All Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the accounting period covered by this interim financial statements.

AUDIT COMMITTEE

The Company has an Audit Committee in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process including review of the unaudited condensed interim financial statements for the six months ended 30 June 2024, the interim report and the Group's risk management and internal control systems.

On behalf of the Board of
China Healthwise Holdings Limited
Lei Hong Wai
Chairman and Executive Director

Hong Kong, 26 August 2024

As at the date of this announcement, the Executive Directors are Mr. Lei Hong Wai (Chairman), Mr. Cheung Kwok Wai Elton (Vice Chairman), Mr. Leung Alex, Ms. Lo Ming Wan, Mr. Tse Chi Keung and Mr. Yuan Huixia; and the Independent Non-executive Directors are Mr. Lai Hok Lim, Mr. Lien Wai Hung and Mr. Tsang Chin Pang.