China Health Group Limited
中國衛生集團有限公司

(Carrying on business in Hong Kong as CHG HS Limited)
(Incorporated in Bermuda with limited liability)
(Stock Code: 673)

FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2016

The board (the "Board") of directors (the "Directors") of China Health Group Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2016 together with the comparative figures for the corresponding year ended 31 March 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the year ended 31 March	
		2016	2015
	Notes	***HK$'000***	*HK$'000*
Revenue	*5*	**23,716**	37,823
Cost of services		**(18,225)**	(30,297)
Gross profit		**5,491**	7,526
Other income	*6*	**14,800**	455
Selling and distribution expenses		**(5,012)**	(872)
Administrative expenses		**(55,185)**	(30,879)
Finance costs	*7*	**(7,283)**	(44,461)
Impairment loss on other receivables		**(15,149)**	–
Net loss recognised on de-consolidation of subsidiaries	*14*	**(15,969)**	–

	Notes	For the year ended 31 March **2016** *HK$'000*	2015 *HK$'000*
LOSS BEFORE TAX	*8*	**(78,307)**	(68,231)
Income tax	*9*	**(128)**	(432)
LOSS FOR THE YEAR		**(78,435)**	(68,663)
Attributable to:			
Owners of the Company		**(73,214)**	(55,926)
Non-Controlling interests		**(5,221)**	(12,737)
		(78,435)	(68,663)
LOSS PER SHARE	*10*		
Basic		**(HK3.60 cents)**	(HK5.8 cents)
Diluted		**(HK3.60 cents)**	(HK5.8 cents)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 March	
	2016	2015
	HK$'000	*HK$'000*
LOSS FOR THE YEAR	**(78,435)**	(68,663)
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**5,185**	158
Reclassification adjustment relation to foreign operation de-consolidation during the year	**(21,965)**	–
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(95,215)**	(68,505)
Attributable to:		
Owners of the Company	**(89,994)**	(55,865)
Non-controlling interests	**(5,221)**	(12,640)
	(95,215)	(68,505)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 March	
		2016	2015
	Notes	***HK$'000***	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**238**	62
Goodwill		**–**	742
Other receivables		**17,985**	–
Total non-current assets		**18,223**	804
CURRENT ASSETS			
Trade receivables	*11*	**562**	76,199
Prepayments, deposits and other receivables		**11,169**	94,399
Available-for-sale financial assets		**–**	1,896
Restricted bank balances		**–**	4,730
Cash and bank balances		**205,027**	96,599
Total current assets		**216,758**	273,823
CURRENT LIABILITIES			
Trade payables	*12*	**–**	10,312
Other payables and accrued expenses		**49,889**	32,072
Amounts due to directors		**–**	2,500
Amounts due to de-consolidated subsidiaries		**4,716**	–
Interest-bearing loans from a director and a shareholder		**–**	552
Liability component of convertible bonds		**–**	51,284
Liability component of redeemable convertible cumulative preference shares		**–**	43,857
Tax payables		**–**	3,309
Preference shares dividend payable of a subsidiary		**–**	86,149
Promissory note		**–**	8,000
Total current liabilities		**54,605**	238,035
NET CURRENT ASSETS		**162,153**	35,788
TOTAL ASSETS LESS CURRENT LIABILITIES		**180,376**	36,592
NET ASSETS		**180,376**	36,592

		As at 31 March	
		2016	2015
	Notes	***HK$'000***	*HK$'000*
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*13*	**211,995**	68,329
Reserves		**(31,619)**	(60,176)
		180,376	8,153
Non-controlling interests		**–**	28,439
TOTAL EQUITY		**180,376**	36,592

Notes:

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and principal place of business is located at Unit 801, 8/F., China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.

The principal activity of the Company is investment holding, the principal activities of its subsidiaries are engaged in the provision of B-to-C consumer service (subsidiaries under this activity had been de-consolidated in the current year) and healthcare service.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair value.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is different from the functional currency of the Company, Renminbi ("RMB"). As the Company is listed in Hong Kong, the Directors consider that it is appropriate to present the consolidated financial statements in HK$. The majority of the Company's subsidiaries are operating in the People's Republic of China (the "PRC") with RMB as their functional currency.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiaries and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired, disposed or de-consolidation of during the year are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

De-consolidation of certain subsidiaries of the Group

Following the substantial change in the composition of the Board effective from 18 June 2016, despite repeated verbal and written requests (including legal letters), the Board has been unable to contact the legal representatives, directors and managements of the Group's subsidiaries, namely, a) 上海衛昌投資管理諮詢有限公司 (Shanghai Weichang Investment Management & Consulting Co., Limited*), 上海醫瑞葆健康信息咨詢有限公司 (Shanghai Imperial Care Health Advocate Limited*), and 上海新恒階投資管理諮詢有限公司 (Shanghai New Everstep Investment Management & Consultancy Limited*)(together, the "Healthcare Service Segment"); and b) 德豐網絡有限公司 (Harvest Network Limited), World Success Investments Limited (華世投資有限公司), China Clinical Trials Centre Limited, 上海德意爾投資管理諮詢有限公司 (Shanghai De Yi Er Investment Management Consulting Co., Ltd.*) and 山東德豐移通科技有限公司 (Shandong Harvest Mobile Communication Technology Company Limited*) (together, the "Harvest Network Group") (together with the Healthcare Service Segment is referred to as the "De-consolidated Subsidiaries"). During the preparation of consolidated financial statements for the year ended 31 March 2016, the Directors had been unable to access and obtain the complete set of books and records together with the supporting documents of the De-consolidated Subsidiaries for the period from 1 April 2015 to 31 March 2016 due to the non-cooperation of the management and accounting personnel of the De-consolidated Subsidiaries.

The Group had consolidated the assets and liabilities of the De-consolidated Subsidiaries up to 30 September 2015 and their financial performance for the period from 1 April 2015 to 30 September 2015 based on unaudited management information received. However, in the absence of complete set of books and records and the non-cooperation of the management and accounting personnel of the De-consolidated Subsidiaries, the Directors considered that the Group had lost control over the De-consolidated Subsidiaries and had de-consolidated their financial performance, assets and liabilities from the consolidated financial statements of the Group on 1 October 2015 accordingly.

The de-consolidation of the De-consolidated Subsidiaries had resulted in a net loss on de-consolidation of subsidiaries of approximately HK$15,969,000 including impairment losses on amounts due from the De-consolidated Subsidiaries and investments in the De-consolidated Subsidiaries of approximately HK$26,843,000 for the year ended 31 March 2016. To the best of the knowledge and belief of the Board, the carrying values of the amounts due from the De-consolidated Subsidiaries and investments in the De-consolidated Subsidiaries were not recoverable and, accordingly, an impairment loss of HK$26,843,000 had been recognised in the profit or loss.

The following is the financial information, before intra-group balances and transactions elimination, of the De-consolidated Subsidiaries.

Consolidated financial statements of financial position of the De-consolidated Subsidiaries as at the date of de-consolidation

	Healthcare Service Segment *HK$'000*	**Harvest Network Group** *HK$'000*	**Total** *HK$'000*
Property, plant and equipment	3	5	8
Trade receivables	16,304	70,587	86,891
Prepayment, deposit and other receivables	9,748	55,703	65,451
Restricted bank balances	–	11,757	11,757
Cash and bank balances	1,862	8	1,870
Amount due (to)/from group companies	(13,393)	1,429	(11,964)
Trade payables	(8,987)	–	(8,987)
Accruals and other payables	(3,349)	(8,739)	(12,088)
Amount due to directors	(2,420)	–	(2,420)
Tax payable	(3,035)	(214)	(3,249)
Dividend payables	–	(92,845)	(92,845)
Translation reserve	(5,896)	(16,184)	(22,080)
Non-controlling interests	(1,305)	(21,913)	(23,218)

Transactions of the De-consolidated Subsidiaries included in the consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 March 2016

	Healthcare Service Segment *HK$'000*	**Harvest Network Group** *HK$'000*	**Total** *HK$'000*
Revenue	14,332	8,810	23,142
Cost of services	(13,364)	(4,861)	(18,225)
Gross profit	968	3,949	4,917
Other income	14	35	49
Selling and distribution expenses	–	(5,012)	(5,012)
Administrative expenses	(1,966)	(2,065)	(4,031)
Finance cost	–	(6,696)	(6,696)
Loss before tax	(984)	(9,789)	(10,773)
Income tax	(127)	(1)	(128)
Loss for the year	(1,111)	(9,790)	(10,901)

3. ADOPTION OF NEW AND REVISED STANDARDS AND AMENDMENTS TO THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE (THE "LISTING RULES")

3.1 New and revised standards adopted by the Group

(i) New standards, revisions and amendments to existing standards effective for annual periods beginning 1 April 2015, relevant to the Group's operations and adopted by the Group:

HKAS 19 (Amendment)	Defined Benefit Plans
HKFRSs (Amendment)	Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle

The adoption of the above new standards, revisions and amendments to existing standards did not have any material impact on the preparation of the Group's financial statements.

(ii) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

3.2 New or revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Annual improvement Project	Annual Improvements 2012-2014 Cycle[1]
HKAS 1 (Amendment)	Disclosure Initiative[1]
HKAS 16 and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
HKAS 16 and HKAS 41 (Amendment)	Agriculture: Bearer Plants[1]
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements[1]
HKFRS 9	Financial Instruments[2]
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its associate or Joint Venture[3]
HKFRS 10 and HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception[1]
HKFRS 11 (Amendment)	Accounting for Acquisition of interests in Joint Operations[1]
HKFRS 14	Regulatory Deferral Accounts[1]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Lease[4]

1 Effective for financial years beginning on or after 1 January 2016

2 Effective for financial years beginning on or after 1 January 2018

3 Effective date to be determined

4 Effective for financial years beginning on or after 1 January 2019

The Group has commenced an assessment of the impact of these new and amended standards, but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

The Group intends to adopt the above standards, amendments and interpretations when they become effective.

4. OPERATING SEGMENT INFORMATION

The Group's operating segments, based on information reported to the Directors being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focus on types of goods or services delivered or provided.

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(i) B-to-C consumer service (subsidiaries under this operating segment had been de-consolidated in the current year); and

(ii) healthcare service.

Segment assets excluded available-for-sale financial assets and other corporate assets as these assets are managed on a group basis.

Segment liabilities excluded interest-bearing loans from a director and a shareholder, amounts due to directors, and other corporate liabilities as these liabilities are managed on a group basis.

The following is an analysis of the Group's revenue and results by operating segment for the year ended 31 March 2016 and 2015:

	B-to-C Consumer Service		Healthcare service		Total	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Revenue from external customers	**8,810**	14,877	**14,906**	22,946	**23,716**	37,823
Segment results	**(1,735)**	(4,071)	**(19,909)**	1,464	**(21,644)**	(2,607)
Reconciliation:						
Interest income and unallocated income					**7,893**	455
Corporate and other unallocated expenses					**(40,949)**	(21,618)
Finance costs unallocated					**(7,283)**	(44,461)
Impairment loss on other receivables					**(355)**	–
Net loss recognised on de-consolidation of subsidiaries					**(15,969)**	–
Loss before tax					**(78,307)**	(68,231)
Depreciation and amortisation	**52**	343	**–**	–	**53**	343
Reconciliation:						
Unallocated depreciation and amortisation					**58**	136
					111	479

The following table is an analysis of the Group's assets and liabilities and other segment information for the years ended 31 March 2016 and 2015:

	B-to-C consumer service		Healthcare service		Total	
	2016	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
SEGMENT ASSETS	**–**	97,894	**22,538**	11,857	**22,538**	109,751
Corporate and other unallocated assets					**212,443**	164,876
Total assets					**234,981**	274,627
SEGMENT LIABILITIES	**–**	16,660	**–**	9,452	**–**	26,112
Corporate and other unallocated liabilities					**54,605**	211,923
Total liabilities					**54,605**	238,035

Geographical information

For the years ended 31 March 2015 and 2016, the Group's operations and its non-current assets are principally located in the PRC, accordingly no geographical segment information is presented.

Information about major customers

During the year ended 31 March 2016, the Group had transactions with 2 (2015: 2) customers who contributed over 10% of the Group's total net revenue, which is summarised below:

	Year ended 31 March	
	2016	2015
	HK$'000	*HK$'000*
Customer 1	**8,810**	14,877
Customer 2	**14,332**	22,576
	23,142	37,453

5. REVENUE

Revenue, which is also the Group's turnover, represented the commission income earned from provision of B-to-C consumer service and the income from provision of healthcare service. An analysis of revenue is as follows:

	2016	2015
	HK$'000	*HK$'000*
Commission income earned from provision of B-to-C consumer service	**8,810**	14,877
Income from provision of healthcare service	**14,906**	22,946
	23,716	37,823

6. OTHER INCOME

	2016	2015
	HK$'000	*HK$'000*
Gain on investment	**379**	160
Exchange gain	**573**	–
Gain on disposal of property, plant and equipment	**–**	235
Interest income	**1,082**	60
Reversal of other payables	**12,728**	–
Sundry income	**38**	–
	14,800	455

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2016	2015
	HK$'000	*HK$'000*
Dividend payable to convertible preference share issued by a subsidiary	**6,696**	13,392
Effective interest expenses on convertible bonds wholly repayable within five years	**–**	1,649
Effective interest expenses on liability component of redeemable convertible cumulative preference shares wholly repayable within five years	**587**	29,420
	7,283	44,461

8. LOSS BEFORE TAX

Loss before tax is arrived at after charging the following:

	2016	2015
	HK$'000	*HK$'000*
Auditor's remuneration	**1,100**	730
Depreciation of property, plant and equipment	**111**	479
Rental expenses in respect of office premises	**495**	998
Staff costs (including directors' emoluments)		
– Salaries, wages, and other benefits	**10,960**	6,541
– Contributions to defined contribution retirement plans	**212**	479
Loss on embedded derivative upon redemption of redeemable convertible cumulative preference shares	**–**	1,579
Impairment losses on other receivables	**15,149**	–

9. INCOME TAX

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group did not generate any assessable profit arising from Hong Kong for both years.

Subsidiaries established in the PRC are subject to the PRC enterprise income tax at the standard rate of 25% (2015: 25%).

	2016	2015
	HK$'000	*HK$'000*
Current tax – PRC		
Provision for the year	**128**	432

10. LOSS PER SHARE

	2016	2015
	HK$'000	*HK$'000*
Loss attributable to owners of the Company, used in the basis loss per share calculation:	**(73,214)**	(55,926)

Number of shares	**2016**	2015
	'000	*'000*
Weighted average number of ordinary shares in issue during the year	**2,034,809**	971,783

(a) Basic loss per share

For the year ended 31 March 2016, the calculation of basic loss per share amount is based on the net loss for the year of HK$73,214,000 (2015: HK$55,926,000) attributable to the equity holders of the Company, and weighted average of approximately 2,034,809,000 (2015: approximately 971,783,000) ordinary shares in issue during the year.

(b) Diluted loss per share

For the year ended 31 March 2016 and 2015, the convertible financial instruments had an anti-dilutive effect on the basic loss per share and were ignored in the calculation of diluted loss per share. Accordingly, no diluted loss per share has been presented.

11. TRADE RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**562**	76,199

The Group's credit policies for each of its principal activities are as follow:

(i) provision of B to C consumer service pre-charge are with credit terms of 180 days; and

(ii) provision of healthcare service is with credit terms of 90 days.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	2016	2015
	HK$'000	*HK$'000*
Within 1 month	**562**	2,657
1 to 3 months	**–**	5,336
Over 3 months	**–**	68,206
	562	76,199

12. TRADE PAYABLES

An aged analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2016	2015
	HK\$'000	*HK\$'000*
Within 1 month	–	1,869
1 to 3 months	–	2,725
Over 3 months	–	5,718
	–	10,312

The trade payables are non-interest-bearing and normally settled from 30 to 60 day terms.

13. SHARE CAPITAL

	Number of shares	**Share capital** ***HK\$'000***
Authorised:		
Ordinary shares of HK0.1 each		
At 1 April 2014, 31 March 2015, 1 April 2015 and 31 March 2016	100,000,000,000	10,000,000
Issued and fully paid:		
Ordinary shares of HK\$0.1 each		
At 1 April 2014	633,289,695	63,329
Subscription of shares *(note i)*	50,000,000	5,000
At 31 March 2015 and 1 April 2015	683,289,695	68,329
Subscription of shares *(note ii)*	136,657,939	13,666
Issue of shares upon conversion of the convertible bonds *(note iii)*	1,300,000,000	130,000
At 31 March 2016	**2,119,947,634**	**211,995**

Notes:

(i) On 23 May 2014, the Company and the subscribers, who are independent third parties, entered into subscription agreements to subscribe for an aggregate of 50,000,000 shares of the Company, at HK\$0.212 per share. In June 2014, the subscriptions were completed raising net proceeds of HK\$10.4 million which have been used as general working capital for the Group.

(ii) On 13 April 2015, the Company and the two independent subscribers entered into the subscription agreements in relation to subscription of 136,657,939 shares of the Company at a subscription price of HK\$0.28 per share. On 22 April 2015, an aggregate of 136,657,939 subscription shares were successfully allotted and issued to subscribers. The net proceeds of approximately HK\$38,114,000 were used for general working capital of the Group.

(iii) On 3 June 2014, the Company, Lin & Li Investment Limited (as the subscriber) and Mr. Lin Grant Xiao-Bin (as the guarantor) entered into the subscription agreement to subscribe for the zero coupon convertible note at the initial conversion price of HK\$0.15 per share in principal amount of HK\$195,000,000. The convertible notes were issued on 8 January 2015 raising net proceeds of approximately HK\$194,500,000 which have been used for general working capital and/or settlement of outstanding liabilities of the Group. All convertible notes were converted into 1,300,000,000 conversion shares on 22 April 2015 and 5 May 2015.

14. DE-CONSOLIDATION OF SUBSIDIARIES

As mentioned in note 2, the Group's subsidiaries in a) the Healthcare Service Segment, namely, 上海衛昌投資管理諮詢有限公司 (Shanghai Weichang Investment Management & Consulting Co., Limited*), 上海醫瑞葆健康信息咨詢有限公司 (Shanghai Imperial Care Health Advocate Limited*) and 上海新恒階投資管理諮詢有限公司 (Shanghai New Everstep Investment Management & Consultancy Limited*); and b) the Harvest Network Group, namely, 德豐網絡有限公司 (Harvest Network Limited), World Success Investments Limited (華世投資有限公司), China Clinical Trials Centre Limited, 上海德意爾投資管理諮詢有限公司 (Shanghai De Yi Er Investment Management Consulting Co., Ltd.*) and 山東德豐移通科技有限公司 (Shandong Harvest Mobile Communication Technology Company Limited*) have been de-consolidated from the consolidated financial statements of the Group on 1 October 2015 respectively.

Details of the aggregate net assets of the above-mentioned De-consolidated Subsidiaries are set out below.

	Healthcare Service Segment *HK$'000*	**Harvest Network Group** *HK$'000*	**Total** *HK$'000*
Property, plant and equipment	3	5	8
Trade receivables	16,304	70,587	86,891
Prepayment, deposit and other receivables	9,748	55,703	65,451
Restricted bank balances	–	11,757	11,757
Cash and bank balances	1,862	8	1,870
Amount due (to)/from group companies	(13,393)	1,429	(11,964)
Trade payables	(8,987)	–	(8,987)
Accruals and other payables	(3,349)	(8,739)	(12,088)
Amount due to directors	(2,420)	–	(2,420)
Tax payable	(3,035)	(214)	(3,249)
Dividend payables	–	(92,845)	(92,845)
Net assets/(liabilities) in de-consolidated subsidiaries	(3,267)	37,691	34,424
Impairment losses on investments in de-consolidated subsidiaries and amounts due from the de-consolidated subsidiaries	14,299	12,544	26,843
Translation reserve	(5,896)	(16,184)	(22,080)
Non-controlling interests	(1,305)	(21,913)	(23,218)
Net loss on de-consolidation	3,831	12,138	15,969

15. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in the sections headed "Review of the Group's operations", "Future prospect" and "Material litigations" below, there were no material events after the reporting period for the year ended 31 March 2016.

EXTRACT FROM INDEPENDENT AUDITOR'S REPORT

The following is an extract of the report from the independent auditors, Elite Partners CPA Limited, on the Group's annual audited financial statements for the year ended 31 March 2016.

"BASIS FOR DISCLAIMER OF OPINION

1. De-consolidation of certain subsidiaries during the year ended 31 March 2016

As disclosed in note 2 to the consolidated financial statements, the directors of the Company (the "Directors") were unable to obtain complete set of books and records together with the supporting documents of the Group's certain subsidiaries, namely a) 上海衛昌投資管理諮詢有限公司 (Shanghai Weichang Investment Management & Consultancy Co., Limited*), 上海醫瑞葆信息諮詢有限公司 (Shanghai Imperial Care Health Advocate Limited*) and 上海新恒階投資管理諮詢有限公司 (Shanghai New Everstep Investment Management & Consultancy Limited*) (the "Healthcare Service Segment"); and b) 德豐網絡有限公司 (Harvest Network Limited), 華世投資有限公司 (World Success Investments Limited), China Clinical Trials Centre Limited, 上海德意爾投資管理諮詢有限公司 (Shanghai De Yi Er Investment Management Consulting Co., Ltd.*) and 山東德豐移通科技有限公司 (Shandong Harvest Mobile Communication Technology Company Limited*) (the "Harvest Network Group") (together referred to as the "De-consolidated Subsidiaries"), due to the non-cooperation of the management and accounting personnel of the De-consolidated Subsidiaries.

Due to the non-cooperation of the directors and management of the De-consolidated Subsidiaries, the Directors were unable to access to the books and records of the De-consolidated Subsidiaries. Accordingly, the Directors resolved that the Group no longer had the power to govern the financial and operating policies of the De-consolidated Subsidiaries, and the control over the De-consolidated Subsidiaries was lost. In this connection, the financial results, assets and liabilities of the De-consolidated Subsidiaries have been de-consolidated from the consolidated financial statements of the Group with effect from 1 October 2015.

The de-consolidation of the De-consolidated Subsidiaries had resulted in a net loss of approximately HK$15,969,000. As disclosed in note 2 to the consolidated financial statements, the Company included the transactions of the De-consolidated Subsidiaries for the period from 1 April 2015 to 30 September 2015 in the consolidated statement of profit or loss and other comprehensive income of the Group for the year ended 31 March 2016.

We have not been provided with sufficient information and explanations on the de-consolidation of the De-consolidated Subsidiaries and there were no alternative audit procedures that we could perform to satisfy ourselves as to whether it was appropriate to deconsolidate the assets and liabilities of the De-consolidated Subsidiaries and cease recording its results of operations from the consolidated financial statements during the year ended 31 March 2016.

Due to the lack of books and records of the De-consolidated Subsidiaries, we were unable to obtain sufficient appropriate audit evidence and explanation to the transactions and balances included in the financial statements of the Group before and after the de-consolidation of the De-consolidated Subsidiaries, the financial performance and cash flow for the period of the De-consolidated Subsidiaries, the loss on de-consolidation of subsidiaries and the resulting movement recorded in the reserves. We were therefore unable to carry out satisfactory audit procedures to obtain reasonable assurance regarding the completeness, accuracy, existence or occurrence, valuation, ownership, classification and disclosures of the transactions undertaken by the De-consolidated Subsidiaries. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above transactions and balances were free from material misstatement. Consequently, we were unable to carry out audit procedures that we consider necessary to satisfy ourselves as to the completeness and existence or occurrence of any other significant transactions, inter-group transactions, contingent liabilities, commitments, related party transactions and event after the reporting period relating to the De-consolidated Subsidiaries.

Any adjustments that might have been found to be necessary in respect of the above would have a consequential significant effect on the Group's net assets as at 31 March 2016 and the financial performance and cash flows of the Group for the year ended 31 March 2016 and may have resulted in additional information being disclosed in the consolidated financial statements as to the nature of the transactions and any contingent liabilities, commitments, related party transactions and significant non-adjusting subsequent events relating to the De-consolidated Subsidiaries.

2. Transactions of the Group during the year ended 31 March 2016

Following the substantial change in the composition of the Board effective from 18 June 2016, the Directors were unable to locate the supporting documents for certain transactions entered into during the year ended 31 March 2016, details of which were set out below:

Balances included in the consolidated financial statements of financial position

	HK$'000
Cash and bank balances	3,341

Transactions included in the consolidated statement of profit or loss

	HK$'000
Other income	12,728
Administrative expenses	34,417
Impairment loss on other receivables	15,149

Due to the lack of supporting documents of the above transactions, we were unable to obtain sufficient appropriate audit evidence and explanation to the above transactions included in the consolidated financial statements of the Group and the resulting movement in the reserves. We were therefore unable to carry out satisfactory audit procedures to obtain reasonable assurance regarding the completeness, accuracy, existence or occurrence, valuation, ownership, classification and disclosures of the transactions undertaken by the Group. Also, as there was inadequate documentary evidence available for us to verify the nature of the above transactions, we were unable to carry out any substantive procedures in relation to the above transactions. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the above transactions and balances were free from material misstatement. Consequently, we were unable to carry out audit procedures that we consider necessary to satisfy ourselves as to the completeness and existence or occurrence of any other significant transactions, inter-group transactions, contingent liabilities, commitments, related party transactions and subsequent events relating to the Group. Any adjustments that might have been found to be necessary in respect of the above would have a consequential significant effect on the Group's net assets as at 31 March 2016 and the financial performance and cash flows of the Group for the year ended 31 March 2016 and may have resulted in additional information being disclosed in the consolidated financial statements as to the nature of the transactions.

3. Deposit for the possible acquisition

Included in the Group's prepayment, deposits and other receivables as at 31 March 2016 was an earnest money paid for the possible acquisition with a total amount of approximately HK$10,000,000 (the "Earnest Money").

As disclosed in the announcement of the Company dated 22 January 2016, the Company entered a framework agreement (the "Framework Agreement") for the possible acquisition on 30 April 2015. Pursuant to the Framework Agreement, the Company has paid the Earnest Money to the procurers under the Framework Agreement, which was intended to be applied to set off part of the cash consideration of the possible acquisition if the formal agreement was concluded. According to the terms of the Framework Agreement, in the event that the formal agreement is not concluded due to reasons caused by the procurers or the vendors, the Earnest Money shall be refunded to the Company and the procurers shall pay an additional compensation of HK$10,000,000 to the Company. In case the formal agreement is not concluded due to reasons caused by the purchaser or the Company, the Earnest Money shall be forfeited. If the formal agreement is not concluded due to reasons caused by other third parties, the Earnest Money shall be refunded to the Company. On 31 December 2015, the Framework Agreement lapsed. The Company has been in negotiation with the vendors and the procurers for a mutually acceptable settlement for the Earnest Money. Up to 31 March 2016, no conclusion on the settlement of the Earnest Money has been reached by the parties to the Framework Agreement yet.

We were unable to obtain sufficient appropriate audit evidence regarding the Earnest Money because: (i) we were unable to carry out effective confirmation procedures in relation to the Earnest Money for the purpose of our audit; (ii) there was inadequate documentary evidence available for us to satisfy ourselves as to the recoverability of the Earnest Money was appropriate; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Earnest Money were free from material misstatement. Any adjustments found to be necessary would have an effect on the Group's net position as at 31 March 2016 and consequently, the net loss and cash flows of the Group for the year then ended, and the related disclosures thereof in the consolidated financial statements.

4. Dividend payable on redeemable convertible cumulative preference shares

Included in other payables and accrued expenses was a dividend payable on redeemable convertible cumulative preference shares (the "Dividend Payable") of approximately HK$30,894,000. As disclosed in note 14 to the Company's interim report dated 30 November 2015, the Company issued a promissory note in the principal amount of US$4,000,000 (equivalent to approximately HK$30,894,000) to settle the balance of the Dividend Payable (the "Promissory Note"). However, following the substantial change in the composition of the Board effective from 18 June 2016, the Directors were unable to locate and verify the supporting documents for the issuance of the Promissory Note. Accordingly, the Company reclassified the Promissory Note as the Dividend Payable (the "Re-classification").

Due to the lack of relevant documentation of the issuance of the Promissory Note, we were unable to validate the existence and validity of the Promissory Note and justify whether the Re-classification are properly accounted for.

No alternative audit procedures in relation to the Dividend Payable could be performed to satisfy ourselves as to whether the accuracy, classification and disclosures of Dividend Payable as at 31 March 2016 were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balance of the Group's net financial position as at 31 March 2016 and the financial performance and cash flows of the Group for the year ended 31 March 2016, and the related disclosures thereof in the consolidated financial statements.

5. Contingent liabilities and commitment

Due to the lack of books and records of the De-consolidated Subsidiaries and the incomplete records of Group, we were unable to obtain sufficient appropriate audit evidence and explanations as to whether the contingent liabilities and commitments committed by the Group were properly recorded and accounted for and in compliance with the requirements of applicable Hong Kong Financial Reporting Standards, including HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and HKAS 39 "Financial Instruments: Recognition and Measurement". There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the contingent liabilities and commitments were free from material misstatements. Any adjustments that might have been found necessary may have a consequential effect on the Group's net assets as at 31 March 2016 and consequently the financial performance and cash flows of the Group for the year ended 31 March 2016, and the related disclosures thereof in the consolidated financial statements.

6. Events after the reporting period

Due to the lack of books and records of the De-consolidated Subsidiaries and the incomplete records of the Group, we have not been able to obtain sufficient appropriate audit evidence as to whether the events after the reporting period were properly recorded and accounted for and in compliance with the requirements of applicable Hong Kong Financial Reporting Standards including Hong Kong Accounting Standard 10 "Events after the Reporting Period". There were no practical alternative procedures that we could perform over the significant transactions which occurred during the period from 1 April 2016 to the date of this auditors' report. Any adjustments that might have been found necessary may have a consequential effect on the Group's net assets as at 31 March 2016 and consequently the financial performance and cash flows of the Group for the year ended 31 March 2016, and the related disclosures thereof in the consolidated financial statements.

7. Related parties transactions

Due to the lack of books and records of the De-consolidated Subsidiaries and the incomplete records of the Group, we have not been able to obtain sufficient appropriate audit evidence as to whether the related party disclosures were properly recorded and accounted for and in compliance with the requirements of applicable Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standard 24 "Related Party Disclosures". There were no practical alternative procedures that we could perform over the related party transactions which occurred during the year ended 31 March 2016. Any adjustments that might have been found necessary may have a consequential effect on the Group's net assets as at 31 March 2016 and consequently the financial performance and cash flows of the Group for the year ended 31 March 2016, and the related disclosures thereof in the consolidated financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the paragraphs of the Basis for Disclaimer of Opinion above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the financial position of the Group as at 31 March 2016 and the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

Report on matters under section 407(2) and 407(3) of the Hong Kong Companies Ordinance

In respect alone of the inability to obtain sufficient appropriate audit evidence regarding item (1) to (5) above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

- we were unable to determine whether proper books of account had been kept."

FINAL DIVIDEND

The Directors do not recommend the payment of any final dividend to the shareholders (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the year ended 31 March 2016, the Group reported a turnover of approximately HK$23.7 million, representing a decrease of 37% as compared to HK$37.8 million for the previous financial year. The Group's loss attributable to shareholders for the year was approximately HK$73.2 million as compared to a net loss of approximately HK$55.9 million for the previous financial year. The decrease in turnover was mainly due to no revenue from the De-consolidated Subsidiaries from October 2015 to March 2016 was recognised for the year ended 31 March 2016 upon de-consolidation of the De-consolidated Subsidiaries on 1 October 2015 as detailed in note 2 to the financial statements. The increase in net loss was mainly attributable to decrease in turnover as stated above and significant increase in legal and professional fees and related expenses incurred in relation to the legal proceedings and disputes among shareholders and previous management of the Group during the year ended 31 March 2016. Basic loss per share for the year was HK3.60 cents (2015: HK5.8 cents).

Business Review

During the year, the Group has made substantial progress in business transformation, successfully obtained an operating right of 承德市雙灤區人民醫院暨承德市精神病醫院 (Shuangluan District, Chengde City Hospital (Chengde City Psychiatric Hospital*)) ("Shuangluan Hospital") in Hebei Province for a period of 30 years. The Group has also successfully raised funds of approximately HK$225 million to provide sufficient financial resources for the business transformation of the Company.

However, the former Board did not grasp the opportunity and did not effectively utilise resources to promote the business development of the Company. They ignored the interest of the Company and filed a series of lawsuits against the shareholders and investors. That not only greatly damaged the interest and image of the Company (please refer to the court judgment set out in the announcement of the Company dated 23 June 2016), but also led to the missing of business opportunities for the Company. Fortunately, remarkable achievement has been made under the adherence and tireless efforts of the management team of Shuangluan Hospital.

Shuangluan Hospital

The Group took over the operation management of Shuangluan Hospital in September 2015 and introduced a new management model to the hospital. Through the introduction of information technology system, the reorganization of management structure, and the implementation of full cost performance appraisal and meticulous management, the hospital has achieved significant improvement since March 2016. Subsequent to the balance sheet date, the operating income of the hospital increased significantly compared with last year.

Shuangluan Hospital relocated to a new site on 28 August 2016. The new hospital covers an area of 46 acres, with completed construction area of 37,000 square meters and 400 beds for the first phase. The second phase construction has commenced. With the expansion of hospital scale, the revenue of the hospital is expected to grow exponentially next year and therefore the Group can also capture satisfactory revenue from managing the hospital.

Analysis of financial position

During the year, the Group successfully raised approximately HK$225 million by issuance of the convertible notes with an aggregate principal amount of HK$225 million. As at the date of this announcement, the abovementioned convertible notes with an aggregate principal amount of HK$165 million had been converted into ordinary shares of the Company, which further expanded the equity base of the Company.

The Group faced a series of lawsuits mainly arising from disputes among shareholders and previous management of the Group in the second half of the year, incurring significant legal and professional fees of over HK$30 million. These expenses are considered non-recurring in nature.

Despite suffering from such lawsuits and incurring significant expenses, the Group still has resources to maintain general operation and business development. Subsequent to the balance sheet date, the Company obtained additional operations rights of Anping Bo'ai Hospital in Hebei province and Dingnang Chinese Medicine Hospital in Jiangxi province, and continued to fulfill obligations of the agreements with providing loans to Shuangluan Hospital and Anping Bo'ai Hospital.

Board reorganization

The Company received request of certain shareholders ("Requisition Notice") during the year to convene a special general meeting to reorganize the Board. The special general meeting was scheduled to be held in Hong Kong on 10 March 2016, but it was cancelled as the Company filed with the Supreme Court of Bermuda for an interlocutory injunction against those shareholders to restrain the convening or the holding of the special general meeting pursuant to the Requisition Notice with a period of 7 days (please refer to the announcements of the Company dated 31 December 2015 and 11 March 2016).

Subsequent to the balance sheet date, the Company received request of those requisition shareholders again to convene a special general meeting to remove all the existing Directors and appoint new Directors. The special general meeting held on 5 June 2016 was considered adjourned as ruled by the High Court of Hong Kong ("Court"). It was reconvened on 18 June 2016 and shareholder resolutions were passed such that, except for Mr. Chung Ho ("Mr. Chung") and Mr. Wang Jingming, the other eight Directors, namely Mr. Jia Hong Sheng, Dr. Li Zhong Yuan ("Dr. Li"), Mr. Zhou Bao Yi, Mr. Zhao Kai, Mr. Mu Xiang Ming, Dr. Yan Shi Yun, Mr. Jiang Bo and Mr. Zhao Hua, were all removed from the Board, and 20 new Directors were appointed with immediate effect (please refer to the announcement of the Company dated 19 June 2016).

REVIEW OF THE GROUP'S OPERATIONS

During the year, the Group is principally engaged in the below principal activities:

– provision of medical and healthcare services through its operating subsidiaries in the PRC, namely:

    1. Beijing Zhongwei Kanghong Hospital Management Co. Ltd.* ("Beijing Zhongwei") which is principally engaged in hospital management for Shuangluan Hospital under an agreement entered into between the Company and Shuangluan Hospital on 23 July 2015 (the "Shuangluan Agreement");

    2. Shanghai Imperial Care Health Advocate Limited* ("Shanghai Imperial") which is principally engaged in provision of insurance services;

    3. Shanghai Weichang Investment Management and Consulting Co., Limited* ("Shanghai Weichang") which is principally engaged in investment management and provision of consultancy service and holds a 51% interest in Shanghai Imperial; and

    4. Shanghai New Everstep Investment Management and Consultancy Limited* ("Shanghai New Everstep") which is principally engaged in the provision of maternal and fetal care service.

– B-to-C consumer services through its operating subsidiaries in the PRC, namely:

1. Shanghai De Yi Er Investment Management Consulting Co., Ltd.* ("Shanghai De Yi Er") which is principally engaged in investment and consultancy; and

2. Shangdong Harvest Mobile Communication Technology Company Limited* ("Shangdong Harvest") which is principally engaged in distribution of consumer services.

Following the substantial change in the composition of the Board effective from 18 June 2016, the Group could not access and obtain the complete set of books and records together with the supporting documents of the above companies due to non-cooperation of the former management and accounting personnel of these companies as detailed in the section headed "Addressing all concerns raised by the Company's auditors" below. The new Board needed time to familiarise themselves with various aspects of the Group's affairs. In August 2016, the Company had appointed a qualified personnel as the new financial controller of the Company to oversee the financial matters of the Group. The Company had also engaged other professional parties such as accountants to assist the Group in reviewing its internal control system; and legal advisers to assist in dealing with the Group's litigations as well as the change in legal representatives, directors and management of the De-consolidated Subsidiaries as further explained below.

De-consolidated Subsidiaries

In June 2016, the Company engaged a PRC lawyer to assist in regaining control of Shanghai Imperial, Shanghai Weichang, Shanghai New Everstep, Shanghai De Yi Er and Shangdong Harvest.

From August 2016 to the date of this announcement, the PRC lawyer issued various legal letters to each of the above companies requesting, among others, its books and records and supporting documents from 1 April 2015 to 31 March 2016. However, as at the date of this announcement, there were no responses from each of the above companies. The PRC lawyer is of view that it is difficult for the Company to take control of these companies in the short term. In this connection, it is considered that the Group had lost control over these subsidiaries and had de-consolidated their financial results, assets and liabilities from the consolidated financial statements of the Group with effect from 1 October 2015 accordingly. The Company continues to take actions to recover control and books and records of these companies including legal actions.

On 7 November 2016, a civil lawsuit brought by Shanghai Weichang against the then existing director and legal representative of Shanghai Weichang requesting for the return of company chop and other corporate properties of Shanghai Weichang has been formally registered with the People's Court of Xuhui District of Shanghai Municipality. The PRC legal adviser of the Company has also been in communication with the then existing director and legal representative with a view to reaching a settlement or compromise before the court hearing. In early February 2017, the director and legal representative of Shanghai Weichang was changed to Mr. Weng Yu, an executive Director. Shanghai Weichang shall commence the necessary legal procedures to change the director and legal representative of Shanghai Imperial.

The Company is assessing the circumstances concerning the remaining De-consolidated Subsidiaries and will take appropriate actions to regain control thereof if there are reasonable prospects of success. Once the Group can regain control on the De-consolidated Subsidiaries, the Company will engage auditors to conduct audit on the financial statements for the De-consolidated Subsidiaries and consider any prior-year adjustment if necessary. The Group is optimistic about regaining control of these companies in future.

Beijing Zhongwei

On 23 May 2016, Beijing Zhongwei filed a copy of resolution (the "May Resolution") with Dongcheng District Beijing Municipality Bureau of Commerce and Administrative Management (the "Bureau") regarding the removal of Mr. Wang Jingming and Mr. Chung as directors of Beijing Zhongwei, removal of Mr. Fan Shuiping as supervisor of Beijing Zhongwei, and appointment of new directors and supervisor. The changes have been registered with the Bureau. The May Resolution is believed to be forgedly signed in the name of Mr. Chung.

On 9 June 2016, Zhongwei Kanghong Investment Limited ("Zhongwei Kanghong"), the indirect wholly-owned subsidiary of the Company and the immediate holding company of Beijing Zhongwei, passed shareholder resolutions (the "June Resolution") to approve the removal of former directors, supervisor and legal representative of Beijing Zhongwei and the appointment of new directors, supervisor and legal representative comprising the members of the existing Board (the "Change"). However, the Change has not been registered with the Bureau as the company chop and seal, which are needed for the purpose of making the registration, had been withheld by the previous management of Beijing Zhongwei.

On 6 July 2016, Zhongwei Kanghong filed a civil lawsuit ("Civil Lawsuit I") at the People's Court of Dongcheng District Beijing Municipality (the "Dongcheng District Court") against Beijing Zhongwei, Mr. Jia Hong Sheng, Mr. Zhao Kai, Mr. Wang Jingyan and Ms. Zhang Tiantian (collectively, the "Zhongwei Defendants"). Zhongwei Kanghong claimed for ruling that (i) the Zhongwei Defendants shall hand over the original business license and its copies, license for opening accounts, common seal, stamp for financial affairs, stamp of the legal person and stamp for contract of Beijing Zhongwei to Zhongwei Kanghong; (ii) the Zhongwei Defendants shall hand over the accounting books and records, financial information, original vouchers and related contracts of Beijing Zhongwei from its establishment date, being 25 November 2014, to the date when the handover to Zhongwei Kanghong is actually completed; (iii) the Zhongwei Defendants shall hand over the premise leased by Beijing Zhongwei which is located at Unit 1, 15th Floor, Tower E2, Oriental Plaza, No.1 Dong Chang An Avenue, Dong Cheng District, Beijing to Zhongwei Kanghong; and (iv) the Zhongwei Defendants shall be liable for costs of the Civil Lawsuit I. On 15 August 2016, the Dongcheng District Court informed Zhongwei Kanghong that the Civil Lawsuit I met statutory prosecution conditions and was formally registered. Details of the above were disclosed in the announcement of the Company dated 1 September 2016. On 8 November 2016, the Civil Lawsuit I has been discontinued by the Company.

On 31 October 2016, an administrative lawsuit (the "Administrative Lawsuit") was filed with the Dongcheng District Court against the Bureau for the revocation of the May Resolution. The Administrative Lawsuit has since been transferred to the court in Beijing Haidian District ("Haidian Court") for processing. Up to the date of this announcement, the Administrative Lawsuit has not been heard and no notices from the Haidian Court have been received.

On 30 November 2016, Zhongwei Kanghong filed another civil lawsuit ("Civil Lawsuit II") at the Dongcheng District Court against Beijing Zhongwei seeking confirmation on the validity and enforcement of the June Resolution. It is expected that a judgment in respect of the Civil Lawsuit II will be obtained by the end of June 2017.

In light of the above, the PRC legal adviser of the Company is of the view that the June Resolution is legally binding and the Change became effective from 9 June 2016 pursuant to the Company Law of the PRC and the provisions of the articles of association of Beijing Zhongwei despite the registration procedures with the Bureau have not been completed. In addition, the day to day operations of Beijing Zhongwei, which is responsible for the management of Shuangluan Hospital under the Shuangluan Agreement, is managed by personnel appointed by the existing Board under the close supervision of Mr. Wang Jingming who is an executive Director, legal representative of Beijing Zhongwei based on the June Resolution and current president of Shuangluan Hospital. On this basis, the Company's PRC legal adviser is of the view that the Company has legal control, both in terms of shareholding and board composition, as well as operational control over Beijing Zhongwei notwithstanding the pending lawsuits and non-completion of registration of the Change. To reflect such control, the Board considered it is appropriate to consolidate the results of Beijing Zhongwei into the financial statements of the Group for the year ended 31 March 2016. Beijing Zhongwei is the only operating subsidiary of the group as at 31 March 2016.

Analysis of the annual results of the Group

The results of the Group for the year ended 31 March 2016 are analysed as below:

	De-consolidated Subsidiaries *HK$'000*	**Remaining Group** *HK$'000*	**Total** *HK$'000*
Revenue	23,142	574	23,716
Cost of services	(18,225)	–	(18,225)
Gross profit	4,917	574	5,491
Other income	49	14,751	14,800
Selling and distribution expenses	(5,012)	–	(5,012)
Administrative expenses	(4,031)	(51,154)	(55,185)
Finance cost	(6,696)	(587)	(7,283)
Impairment loss on assets	–	(15,149)	(15,149)
Net loss recognised on de-consolidation of subsidiaries	–	(15,969)	(15,969)
Loss before tax	(10,773)	(67,534)	(78,307)
Income tax	(128)	–	(128)
Loss for the year	(10,901)	(67,534)	(78,435)

Note: The above "De-consolidated Subsidiaries" mainly represents Shanghai Imperial, Shanghai Weichang, Shanghai New Everstep, Shanghai De Yi Er Shangdong Harvest and other companies which are not under control of the Group, while the "Remaining Group" mainly represents the Company, Beijing Zhongwei and other subsidiaries which are under control of the Group.

Pursuant to the Shuangluan Agreement, Beijing Zhongwei was granted an operation right for the management and operation of Shuangluan Hospital for a term of 30 years from 1 August 2015 to 31 July 2045 and is entitled to 3% of the annual revenue of Shuangluan Hospital before Shuangluan Hospital starts to generate any net profit. Once Shuangluan Hospital starts to generate net profit, the management fee shall be increased to 6% of the annual revenue of Shuangluan Hospital. In the event that the annual audited net profit margin of Shuangluan Hospital exceeds 15%, Beijing Zhongwei shall be entitled to a bonus in an amount equivalent to 40% of the excess profit. The turnover of HK$574,000 included in the "Remaining Group" represented management fee calculated based on 3% of the annual revenue of Shuangluan Hospital from September 2015 to March 2016 (representing entitlement of management fees for around 7 months only) and it is expected that the management fee will increase through the measures implemented by Shuangluan Hospital under the management of Beijing Zhongwei as stated above.

FUTURE PROSPECT

Faced with enormous medical health demand brought by significant urbanization and aging population in the PRC, as well as the overall inadequate and structural imbalance of medical supplies, the PRC government has launched a new series of healthcare reform, including the reform of public hospitals, public-private partnership hospital management, government procurement services, establishment of grading clinics and a series of major measures, creating tremendous business opportunities for our future. With the business potential in healthcare industry in the PRC, the Group is actively seeking other business opportunities to expand the medical-related operation of the Group and has made substantial progress as detailed below.

On 12 September 2016, the Company, Zhongwei Health Industries (Shenzhen) Co., Ltd.* (the "Management Company", a wholly-owned subsidiary of the Company), Mr. Sang Shiwen ("Mr. Sang"), Mr. Han Jianbin ("Mr. Han") and Anping Bo'ai Hospital entered into an agreement (as supplemented on 29 September 2016), pursuant to which Mr. Sang and Mr. Han have agreed to grant the Company an operation right to manage and operate Anping Bo'ai Hospital through the Management Company for a term of 20 years commencing on 1 October 2016 at a consideration of RMB15,000,000 (equivalent to HK$17,400,000) payable by the Management Company. In addition, the Company has agreed to provide Anping Bo'ai Hospital with loan in an aggregate principal amount of no more than RMB10,000,000 (equivalent to HK$11,600,000) for Anping Bo'ai Hospital to improve medical and health care conditions and expand operation. In addition, the Management Company and Mr. Sang entered into an assets transfer agreement in relation to acquisition of properties at a consideration of RMB15 million (equivalent to HK$17.4 million). The Management Company will be entitled to a monthly operation and management income in an amount equal to 90% of the total monthly revenue generated from the business operation of Anping Bo'ai Hospital. Meanwhile, the Management Company will bear all expenses of Anping Bo'ai Hospital during the term of management and operation of Anping Bo'ai Hospital excluding (1) depreciation, repair and maintenance expenses and equipment upgrade and renovation cost to be incurred from the existing equipment available as stipulated in the agreement; (2) rental expenses; (3) finance cost; and (4) any legal and professional fees arising from legal proceeding against Anping Bo'ai Hospital. Completion of grant of the operation right to the Group to operate Anping Bo'ai Hospital took place on 29 September 2016. Further details of the transactions were disclosed in the announcement of the Company dated 12 September 2016 and 29 September 2016.

On 4 November 2016, the Management Company, Mr. Zheng Ruiyuan and Dingnang Chinese Medicine Hospital entered into an agreement, pursuant to which Dingnang Chinese Medicine Hospital conditionally agreed to grant and the Management Company conditionally agreed to accept an operation right to manage and operate Dingnang Chinese Medicine Hospital for a term of 15 years commencing on 1 November 2016. The Management Company will pay RMB3,000,000 (equivalent to HK$3,420,000) to Dingnang Chinese Medicine Hospital on the date agreed in the agreement. Further details of the above were disclosed in the announcement of the Company dated 7 November 2016.

On 7 March 2017, the Management Company and Shenzhen Gaoxinqi Hosin Investment Fund Management Co., Ltd entered into a limited partnership agreement, pursuant to which the Management Company has committed to invest RMB20,000,000 (equivalent to approximately HK$22,400,000) in a healthcare industry investment fund as a limited partner. Further details of the above were disclosed in the announcement of the Company dated 7 March 2017.

On 30 March 2017, the Company and Miss Hao Mengmeng entered into the agreement in relation to granting of the rights to operate the Red Cross Hospital of Luanping County* (灤平縣紅十字醫院) and the Hong Fu Eldercare and Nursing Home of Luanping County* (灤平縣鴻福養老護理院) to the Company for a term of 30 years from April 2017 to March 2047. Further details of the above were disclosed in the announcement of the Company dated 31 March 2017.

In addition to the above acquisitions and investments, the Group is also carrying out medical machinery equipment trading business and financing services for hospitals through a trading company with medical equipment procurement and supply licenses in Beijing and a finance leasing company in the Shenzhen Qianhai Free Trade Area, respectively.

It is expected that these new businesses will also bring in stable revenue to the Group. The Directors believe the commencement of these new businesses could facilitate the sourcing and supplying of high quality equipment and provision of financial liquidity to the hospitals managed by the Company, which could in turn streamline the hospital operations, maintain quality of services provided by the Group, and improve performance of the hospital management business accordingly.

In light of the successful experience of the Group in managing hospitals, we have laid a foundation to carry out cooperation with public hospitals and launch primary healthcare service system. In the future, the Group will fully utilise the competitive edge of management model and human resources to cooperate with public hospitals through ways of merger and acquisition and/or reconstruction, and establish regional medical care service system together. Under the leadership of the new Board, the Group has entered into a rapid and healthy development track, and gradually forming a hospital chain group in the next few years to create maximum value for the shareholders.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Proposed acquisition of medical projects

On 30 September 2014, the Group entered into a framework agreement (the "2014 Framework Agreement") with certain independent third parties targeting to acquire the assets and operating rights of a general hospital and nine treatment centers in the PRC at a total consideration of HK$2,380 million. As there were fundamental changes on the terms of the possible acquisition contemplated under the 2014 Framework Agreement, the parties to the 2014 Framework Agreement agreed to terminate the 2014 Framework Agreement on 30 April 2015.

Subsequent to the termination of the 2014 Framework Agreement, on 30 April 2015, the Group entered into the framework agreement (the "2015 Framework Agreement") in relation to the possible acquisition of healthcare management service business and the relevant management service contracts and/or cooperation agreements of five cancer diagnosis and treatment centers in hospitals located in the PRC at a total consideration of HK$1,325 million. The Company paid an earnest money of HK$10 million pursuant to the 2015 Framework Agreement which was intended to be applied to set off part of the cash consideration for the possible acquisition if the formal agreement was concluded. As no formal agreement was concluded by the parties to the 2015 Framework Agreement, the 2015 Framework Agreement lapsed on 31 December 2015.

Details of the above were set out in the announcements of the Company dated 30 September 2014, 28 November 2014, 30 January 2015, 16 March 2015, 30 April 2015, 30 June 2015, 28 August 2015, 30 October 2015 and 22 January 2016.

Discloseable transaction – Shuangluan Hospital

On 23 July 2015, the Company, Beijing Zhongwei and Shuangluan Hospital entered into the Shuangluan Agreement, pursuant to which the People's Government of Shuangluan District, Chengde City has agreed to grant an operating right to the Company for the management and operation of Shuangluan Hospital by Beijing Zhongwei for a period of 30 years, commencing from 1 August 2015. Meanwhile, the Company has agreed to provide a loan in an aggregate principal amount of RMB50 million (equivalent to approximately HK$62.5 million) on agreed dates to Shuangluan Hospital for the purposes of setting up the information technology system, purchasing equipments and settling the construction fee of the hospital.

RMB15 million (equivalent to approximately HK$18.4 million) had been provided to Shuangluan Hospital in accordance with the Shuangluan Agreement during the year. As at the date of this announcement, loan of RMB50 million (equivalent to approximately HK$58.9 million) has been provided to Shuangluan Hospital under the Shuangluan Agreement by utilising internal financial resources of the Group. Details of the above transaction was set out in the announcement of the Company dated 24 July 2015.

Proposed major transaction

On 20 September 2015, the Company, 天津市天主教愛國會 (Tianjin Catholic Patriotic Association*) and 天津益瑞康科技發展有限公司 (Tianjin Yi Rui Kang Technology Development Co., Ltd.*) entered into an agreement, pursuant to which the parties to the agreement have agreed to grant an operation right to the Company for the management and operation of Sheng You Hospital for a period of 20 years, commencing from the date of operation of Sheng You Hospital. Meanwhile, the Company has agreed to provide a loan in an aggregate principal amount of RMB100 million (equivalent to HK$125 million) to Sheng You Hospital for the purpose of its reconstruction and operation. The agreement lapsed during the year. Details of the proposed major transaction were set out in the announcements of the Company dated 21 September 2015 and 27 January 2016.

Strategic Cooperation Framework Agreement

On 14 August 2015, the Company entered into a strategic cooperation framework agreement with 中國航空國際建設投資有限公司 (China Aviation International Construction And Investment Co., Ltd.*) ("AVIC-AIC") in relation to healthcare projects in the PRC. AVIC-AIC is a state-owned engineering construction company in the group of 中國航空工業集團公司 (Aviation Industry Corporation of China*) and possesses qualifications on architectural engineering, civil aviation design, engineering construction, mechanical and electrical engineering and intelligent building engineering. Details of the above transaction were set out in the announcement of the Company dated 14 August 2015. No formal agreement had been entered into as at the date of this announcement.

Letter of intent

On 13 January 2016, the Company entered into a letter of intent with 今晚傳媒集團有限公司 (Jinwan Media Group Limited*), which is engaged in media business, elderly care and medical business, trading and logistics business and cultural and arts business in the PRC, for the cooperation in development of elderly care and medical service business in the PRC. Details of the above transaction were set out in the announcement of the Company dated 13 January 2016. No formal agreement had been entered into as at the date of this announcement.

Save as disclosed above, there were no other significant investments, material acquisitions and disposals during the year.

FUND RAISING ACTIVITIES

The Company has conducted the following fund raising activities during the year:

Subscription of convertible notes

Pursuant to the subscription agreements dated 8 April 2014, the first supplemental agreements dated 30 September 2014, the second supplemental agreements dated 30 January 2015, the third supplemental agreements dated 30 April 2015, the fourth supplemental agreements dated 30 June 2015, the fifth supplemental agreements dated 28 August 2015, the sixth supplemental agreements dated 18 September 2015 and the seventh supplemental agreements dated 13 October 2015 ("Subscription Agreements") entered into between the Company and two independent subscribers (namely Zheng Hua Investment Limited ("Zheng Hua") and Pacas Worldwide Limited ("Pacas")), the Company has conditionally agreed to issue, and the subscribers have conditionally agreed to subscribe for, the convertible notes in an aggregate principal amount of HK$225 million which are convertible into new shares of the Company at the initial conversion price of HK$0.15 per share (subject to adjustments).

The Company has further agreed to grant the options to the subscribers, pursuant to which the subscribers have the right to request the Company to issue the option convertible notes with a maximum aggregate principal amount of HK$225 million to them. On 13 October 2015, all parties to the subscription agreements agreed to cancel the above grant of options given that the Company's immediate funding need had been reduced.

The subscription agreements were approved by the shareholders of the Company on 3 November 2015 and convertible notes with an aggregate principal amount of HK$225,000,000 which are convertible into 1,500,000,000 shares at a conversion price of HK$0.15 per share were issued in November 2015. Details of the above were set out in the announcements of the Company dated 8 April 2014, 30 September 2014, 15 January 2015, 30 January 2015, 15 April 2015, 30 April 2015, 30 June 2015, 28 August 2015, 15 September 2015, 18 September 2015 and 30 September 2015 and circular of the Company dated 19 October 2015.

The net proceeds from the subscription (after deducting all related expenses) were HK$224.4 million (representing the net conversion price for each conversion share of HK$0.15) which were intended to be used as to (i) approximately HK$43.8 million for the provision of loans to Shuangluan Hospital in accordance with the Shuangluan Agreement; (ii) approximately HK$125.0 million for the provision of loans to Sheng You Hospital; (iii) approximately HK$25.0 million for general working capital of the Group; and (iv) approximately HK$30.6 million for the possible acquisition of five grade-one hospitals in Tianjin, the PRC.

Subsequent to the year end, convertible notes with principal amount of HK$30,000,000 and HK$135,000,000 were converted into 200,000,000 shares and 900,000,000 shares on 21 June 2016 and 23 August 2016 by holders thereof respectively. As at the date of this announcement, convertible notes with principal amount of HK$60,000,000 which can be converted into 400,000,000 shares are outstanding.

From the date of issue of convertible notes to the date of this announcement, (i) approximately HK$40.5 million (equivalent to RMB35 million) has been used for the provision of loans to Shuangluan Hospital in accordance with the Shuangluan Agreement; (ii) approximately HK$17.4 million (equivalent to RMB15 million) has been used for payment for grant of operating right of Anping Bo'ai Hospital; (iii) approximately HK$2.3 million (equivalent to RMB2 million) has been used for provision of loan to Anping Bo'ai Hospital; (iv) approximately HK$11.9 million (equivalent to RMB10.5 million) has been used for partial payment of acquisition of properties of Anping Bo'ai Hospital; (v) approximately HK$31 million (equivalent to US$4 million) has been used as security deposit as stated in item 9 in "Material litigations" below; (vi) approximately HK$22.6 million (equivalent to RMB20 million) has been used to invest in a fund; and (vii) approximately HK$92.7 million has been used for general working capital of the Group (including legal and professional fees of over HK$30 million mainly arising from disputes among shareholders and previous management of the Group). The remaining amount of the unutilised net proceeds of approximately HK$6 million (together with the above security deposit of HK$31 million which is expected to refund in 2nd quarter 2017) will be applied as to (i) approximately HK$14.1 million (equivalent to RMB12.5 million) to finance the transactions in relation to provision of loan and acquisition of properties relating to Anping Bo'ai Hospital; and (ii) approximately HK$22.9 million for general working capital of the Group and expansion of the Group's existing business and/or potential acquisition in futures when opportunities arise.

Subscription of shares

On 13 April 2015, the Company and two independent subscribers entered into the subscription agreements in relation to subscription of 136,657,939 shares of the Company at a subscription price of HK$0.28 per share. On 22 April 2015, an aggregate of 136,657,939 subscription shares were successfully allotted and issued to subscribers. The net proceeds of approximately HK$38,114,000, representing a net subscription price per subscription share of approximately HK$0.279, were used for general working capital of the Group. Details of the subscription were set out in the announcements of the Company dated 13 April 2015 and 22 April 2015.

LIQUIDITY AND CAPITAL RESOURCES

The Group mainly financed its day to day operations by internally generated cash flow and fund raising as stated above during the year.

As at 31 March 2016, the Group's cash and cash equivalents amounted to approximately HK$205 million (2015: HK$101.3 million). In 2015, cash balance of HK$4.7 million, which was held in Harvest Network Ltd. ("Harvest"), was restricted for Harvest's working capital and other purpose only.

As at 31 March 2016, the current assets and net current assets of the Group are approximately HK$216.8 million (2015: HK$273.8 million) and HK$162.2 million (2015: HK$35.8 million) respectively, representing a current ratio of 3.97 (2015: 1.15).

As at 31 March 2016, a dividend payable on redeemable convertible cumulative preference shares in the sum of US$4,000,000 (equivalent to approximately HK$30.9 million), which is in dispute as disclosed in the section headed "Material litigations" below, was included in other payables and accrued expenses. As at 31 March 2015, the Group's total borrowings which represented liability component of convertible bonds, liability component of redeemable convertible cumulative preference shares and promissory note amounted to about HK$103.1 million.

As at 31 March 2016, the gearing ratio was 0.17 (2015: 12.65), calculated by dividing dividend payable on redeemable convertible cumulative preference shares (representing debt owed by the Company) by shareholders' equity of HK$180.4 million (2015: HK$8.2 million).

The Group conducted its continuing operational business transactions mainly in Renminbi and Hong Kong dollars. The Group did not arrange any forward currency contracts for hedging purposes.

MATERIAL LITIGATIONS

Save for certain lawsuits in respect of Shanghai Weichang and Beijing Zhongwei as detailed in the section headed "Review of the Group's Operations" above, the Group had the following material litigations during the year and up to date of this announcement:

1. On 11 December 2015, the Company issued a writ of summons against each of Mr. Chung, a Director, Zheng Hua and Pacas (both are holders of convertible notes) in the Court claiming for, among others, declarations in relation to the Subscription Agreements dated 8 April 2014 for subscription of convertible notes which were procured by Mr. Chung in breach of his fiduciary duties owed to the Company, and that such breach was known to each of Zheng Hua and Pacas. Accordingly, the Subscription Agreements and the related transaction(s) including the convertible note(s) should be voidable. The litigation was discontinued by mutual consent of the parties to the actions on 7 November 2016. Further details of the above were disclosed in the announcements of the Company dated 11 December 2015 and 30 March 2017.

2. On 14 December 2015, Pacas issued a writ of summons against the Company in the Court claiming for, among others, an order that the Company do allot and issue forthwith to Pacas shares in the share capital of the Company representing the entire amount of the conversion shares of the HK$30,000,000 convertible notes issued to Pacas by the Company pursuant to the Subscription Agreement entered into between Pacas and the Company on 8 April 2014 (as subsequently amended); and alternatively, damages to be assessed.

   On 18 May 2016, the Court of First Instance of the Court granted a summary judgment against the Company (the "Judgment"), under which the Company was required to allot and issue to Pacas shares in the share capital of the Company representing the entire amount of the conversion shares of the HK$30,000,000 convertible notes issued to Pacas by the Company.

On 17 June 2016, the Court of First Instance of the Court ordered, among other matters, that the Company shall allot and issue to Pacas shares in the share capital of the Company representing the entire amount of the conversion shares of the HK$30,000,000 convertible notes issued to Pacas by the Company by 4:00 p.m. on 22 June 2016 pursuant to the Judgment. On 21 June 2016, the Company allotted and issued 200,000,000 shares, representing the entire amount of the conversion shares of the HK$30,000,000 convertible notes issued to Pacas.

Further details of the above were disclosed in the announcements of the Company dated 16 December 2015, 24 May 2016, 17 June 2016 and 23 June 2016.

3. On 23 December 2015, Zheng Hua issued a writ of summons against the Company in the Court claiming, among others, for an order that the Company do allot and issue forthwith to Zheng Hua shares in the share capital of the Company representing the amount of the conversion shares of the HK$135,000,000 of the principal amount of the HK$195,000,000 convertible notes issued to Zheng Hua by the Company pursuant to the Subscription Agreement entered into between Zheng Hua and the Company on 8 April 2014 (as subsequently amended); and alternatively, damages to be assessed. Further details of the above were disclosed in the announcement of the Company dated 27 December 2015.

   It was ordered by the Court on 2 June 2016, among other things that unless by 4:00 p.m. on 30 June 2016, the Company do file and serve its defence and/or counterclaim (if any), the Company be debarred from doing so and Zheng Hua as plaintiff be at liberty to apply for judgment to be entered against the Company with costs. Subsequent to this order, no further action has been taken by either party to the action to date.

   On 23 August 2016, the Company allotted and issued 900,000,000 shares upon conversion of convertible notes in the principal amount of HK$135,000,000 by Zheng Hua.

4. On 25 February 2016, the Company issued a writ of summons against each of Lin & Li Investment Limited ("LL"), Speedy Brilliant Investments Limited ("Speedy"), Mr. Ying Wei and Mr. Chung in the Court claiming for, among other reliefs: (a) a declaration that the transfer of convertible notes issued in January 2015 to Speedy and Mr. Ying Wei (the "LL Convertible Notes Transfers") were null and void; alternatively, an order that the LL Convertible Notes Transfers from LL to Speedy and Mr. Ying Wei be rescinded and set aside; (b) a declaration that the purported issue and allotment of shares to Speedy and Mr. Ying Wei was null and void; further or alternatively, an order that the purported issue and allotment of shares to Speedy and Mr. Ying Wei be rescinded and set aside; (c) an order that LL, Speedy, Mr. Ying Wei and Mr. Chung take all necessary steps including the delivery to the Company of any such share certificate(s) in the Company for cancellation; and (d) damages and/or equitable compensation. The litigation was discontinued by mutual consent of the parties to the actions on 21 September 2016. Further details of the above were disclosed in the announcements of the Company dated 26 February 2016 and 3 November 2016.

5. On 26 February 2016, the Company issued a writ of summons against Mr. Chung in the Court claiming for, among other reliefs: (a) an order that Mr. Chung do deliver up and return documents and records to the Company, including but without limitation to the original of the agreement dated 20 September 2015; (b) an order that Mr. Chung is to indemnify the Company for any loss and damage that may arise as a result of Mr. Chung's failure to return to the Company any of the documents and records; and (c) damages and/or equitable compensation. The litigation was discontinued by mutual consent of the parties to the actions on 7 October 2016. Further details of the above were disclosed in the announcements of the Company dated 14 January 2016, 26 February 2016 and 3 November 2016.

6. On 6 April 2016, Speedy served a petition (the "Petition") against the Company and Mr. Jia Hong Sheng ("Mr. Jia"), former chairman of the Board, in relation to special general meeting of the Company convened by Speedy. In relation to the Petition, Speedy also issued an inter parte writ of summons on 6 April 2016 against the Company and Mr. Jia, seeking interim relief that, among other matters, the Company be restrained, whether by their directors, servants, agents or otherwise howsoever from obstructing preventing or otherwise interfering with the requisitioning by Speedy of the special general meeting of the Company or obstructing or otherwise interfering with the conduct of any special general meeting of the Company which may be convened by Speedy. Further details of the above were disclosed in the announcement of the Company dated 8 April 2016.

   Upon the joint application of the parties to the action on 20 September 2016, scheduled court hearings were vacated. There has been no further action from the action parties since the hearings were vacated.

7. The Board noted an unauthorized remittance of approximately HK$4.5 million from the bank account of World Success Investments Limited ("World Success"), a non-wholly owned subsidiary of the Company, to a personal bank account of Mr. Mu Xiang Ming, a former Director, on 8 June 2016. Such remittance was instructed and operated by another former Director, namely Dr. Li. The Company stopped the payment and issued an originating summons against Dr. Li in the Court of First Instance of the Court on 21 June 2016 claiming for, among other reliefs, an injunction order to prohibit Dr. Li from transacting and/or conducting and/or purporting to transact and/or conduct the business and affairs of World Success including without prejudice to the generality of the foregoing, operating any bank accounts of World Success.

   On 21 June 2016, the Court of First Instance of the Court ordered that, among other matters, Dr. Li be restrained, whether by himself, his servants, agents or otherwise however from transacting and/or conducting and/or purporting to transact and/or conduct the business and affairs of World Success including, without prejudice to the generality of the foregoing, operating any bank accounts of World Success until Friday, 8 July 2016. Details of the above have been set out in the announcement of the Company dated 24 June 2016.

Upon the application made by the Company by way of summons on 5 July 2016 and various affirmations were filed with the Court over the period from June to October 2016, and upon the Company undertaking to procure CHC Investment Holdings Limited (a wholly-owned subsidiary of the Company) to make an application in the British Virgin Islands for leave to commence derivative action for and on behalf of Harvest Network Limited ("Derivative Action") against World Success and without admission of any liability, upon Dr. Li undertaking that he would utilize the funds of World Success only in accordance with World Success' ordinary course of business or as authorised by the shareholder(s) of World Success in general meeting, it was by consent order amongst other things on 12 October 2016 that there be leave for payment out of the funds paid into the Court inclusive of any interests to World Success or its nominated solicitors. An application for leave to commence the Derivative Action in the British Virgin Islands by the Company was filed on 2 November 2016 and amended on 15 December 2016 ("Application"). On 17 February 2017, the Company was given to understand that Dr. Li will make an opposition to the Application by way of an affirmation as soon as practicable.

8. On 31 August 2016, CHC Investment Holdings Limited issued a writ of summons in the Court against each of Dr. Li (a former Director), Mr. Zhou Bao Yi (a former Director), Shanghai Huiqu E-commence Company Limited, Harvest Network Limited, World Success, Shanghai De Yi Er and 上海德豐信息網絡技術有限公司 (Shanghai Harvest Network Technology Co., Ltd.*) in respect of a very substantial disposal of the Company which was completed in November 2011. Further details of the above were disclosed in the announcement of the Company dated 1 September 2016. As at the date of this announcement, there is no judgment in respect of the above lawsuit.

9. On 12 September 2016, the Company has received a statutory demand (the "Statutory Demand") from Li Hong Holdings Limited ("Li Hong") in respect of repayment of dividend payable on redeemable convertible cumulative preference shares in the sum of US$4,000,000 (equivalent to approximately HK$30,894,000) (the "Alleged Outstanding Sum"). Such amount has been included in other payables and accrued expenses in consolidated balance sheet as at 31 March 2016.

   An originating summons (the "Originating Summons") has been issued in the Court by the Company against Li Hong on 27 September 2016. Pursuant to the Originating Summons, the Company is seeking, amongst others, the reliefs against Li Hong (i) an order that the Li Hong be restrained from presenting any petition for the winding up of the Company based on the Alleged Outstanding Sum; and (ii) costs.

   A hearing took place on 30 September 2016 at the Court, during which Li Hong has undertaken not to file a winding up petition against the Company based on the Alleged Outstanding Sum and the Company has undertaken (i) to pay the sum of US$4,000,000 or its equivalent into the Court within 21 days from the date of the hearing; and (ii) to comply with any order the Court may make if the Court later finds that Li Hong's undertaking has caused loss to Li Hong or any other party and decides that Li Hong or that other party should be compensated for that loss.

On 8 February 2017, another Court hearing took place and it was ordered at the hearing, among other things, that (i) Li Hong be restrained from presenting any petition for the winding up of the Company based on the Alleged Outstanding Sum; and (ii) the sum of US$4,000,000 or its equivalent paid into the Court be released to the Company.

Pursuant to the reasons for judgement handed down by the Court dated 29 March 2017, it was concluded that the Company has shown that there is bona fide dispute of the Alleged Outstanding Sum on substantial grounds and the presentation of a winding-up petition by Li Hong would be an abuse of process. The Court further commented that new information filed for the Company lend credence to the Company's case that the Promissory Note was in fact issued by the Company pursuant to a backdoor arrangement made or participated in by Dr. Li for his benefit, though not necessarily for his sole or exclusive benefit, and that Li Hong was Dr. Li's nominee for the purpose of receiving the Promissory Note. As stated in the judgment, it follows that it must at least be open to serious argument that the Promissory Note is not enforceable by Li Hong against the Company, because the issue of the Promissory Note by the Company to Dr. Li's nominee (Li Hong) would involve a breach of fiduciary duty on Dr. Li's part of which Li Hong had knowledge. It was also mentioned in the judgment that Li Hong clearly does not have a valid cause of action against the Company based on a letter dated 31 July 2015 issued by Capital Foresight Limited and/or an agreement dated 23 November 2012 between the Company and Capital Foresight Limited being alleged evidence for the Statutory Demand as Li Hong is not a party to either of those documents and neither of those documents give rise to any contract or claim enforceable by Li Hong against the Company. Details of the above have been set out in the announcements of the Company dated 28 September 2016, 3 October 2016 and 30 March 2017.

10. On 23 September 2016, a writ of summons (the "Writ") has been issued by the Company, Wisdom Profit Investment Limited and China HealthCare Holdings (Hong Kong) Limited against Dr. Li, Mr. Zhou Bao Yi and World Success (collectively, the "Transfer Defendants") in the Court. As set out in the Writ, on 8 March 2016, certain bank transfers were made or procured to be made by Dr. Li and Mr. Zhou Bao Yi. The Company is of the view that the aforesaid transfers which served no discernable commercial purpose, were not made in the best interests of the Group, were procured by Dr. Li and Mr. Zhou Bao Yi in breach of their fiduciary or other duties owed to the Group, and constituted misappropriation of the assets belonging to the Group. Pursuant to the Writ, the Group are seeking, amongst others, various reliefs against the Transfer Defendants declarations that the Transfer Defendants hold the sums received in respect of the transfers. Details of the above have been set out in the announcement of the Company dated 27 September 2016. A defence and counterclaim of Dr. Li was filed in the Court on 6 February 2017. An affirmation of Dr. Li was filed into the Court on 7 February 2017

Further announcement(s) will be made by the Company as and when appropriate to keep the shareholders informed of any material developments in the above matters.

CONTINGENT LIABILITIES

As at 31 March 2016, there were no material contingent liabilities of the Group (2015: nil).

CHARGE ON GROUP'S ASSETS

As at 31 March 2016, there was no charge on the Group's assets (2015: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2016, total staff cost including Directors' emoluments was HK$11 million as compared to HK$6.1 million for the previous year.

The Group continues to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Staff benefits include contributions to the Mandatory Provident Fund Schemes and a discretionary bonus payment which is linked to the profit performance of the Group and individual performance. A share option scheme has also been established for employees of the Group. No share option was granted nor exercised during the year. There were 5,970,000 outstanding share options as at 31 March 2016.

CHANGES OF COMPANY'S NAME AND LOGO

The Company changed its English name from "China HealthCare Holdings Limited" to "China Health Group Limited" and adopted "中國衛生集團有限公司" as the secondary name of the Company to replace then existing name in Chinese of "中國衛生控股有限公司" (which was adopted for identification purpose only). The logo of the Company also changed accordingly upon the change of company name became effective. Such change was approved by shareholders of the Company on 29 September 2015.

The Certificate of Incorporation on Change of Name and Certificate of Secondary Name issued by the Registrar of Companies in Bermuda certifying that the change of name of the Company from "China HealthCare Holdings Limited" to "China Health Group Limited" and adoption of "中國衛生集團有限公司" as the secondary name of the Company to replace then existing name in Chinese of "中國衛生控股有限公司" (which was adopted for identification purpose only) were both registered respectively and both took effect on 13 October 2015.

However, during conduct of the necessary filing procedures in relation to the change of name of the Company in Hong Kong, it was found that another company (which is unrelated to the Group) with the English name "China Health Group Co., Limited" has already been registered as a Hong Kong company with the Registrar of Companies in Hong Kong. In order to avoid confusions relating to the English name of the Company, "China Health Group Limited (carrying on business in Hong Kong as CHG HS Limited)" has been adopted as the name of the Company for carrying on business in Hong Kong. The Certificate of Registration of Alternation of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 14 January 2016 certifying the new name of the Company has been registered in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The Company will also apply to the Stock Exchange for a new stock short name. As at the date of this announcement, the change for new stock short name is not yet completed. Details of the changes of Company's name and logo were set out in the circular of the Company dated 7 September 2015 and announcement of the Company dated 18 January 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year ended 31 March 2016.

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied with the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year, except for the below deviations:

1. Under paragraph A.1.8 of the Code, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. The Company was unable to find any insurance company to provide insurance cover during the year and will continue to seek insurance companies to comply with the Code.

2. Under the A.4.1 of the Code, the non-executive Directors should be appointed for a specific term, subject to re-election. Currently, none of the non-executive Directors and independent non-executive Directors is appointed for a specific term, but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-laws. The Board considers that sufficient measures were taken to ensure the corporate governance practices of the Company are not less than those in the Code.

3. Under the A6.5 of the Code, Directors should provide a record of the training they received to the Company. The Company did not receive the training records from the former Directors namely Mr. Jia Hong Sheng, Dr. Li, Mr. Zhou Bao Yi, Mr. Zhao Kai, Mr. Mu Xiang Ming, Mr. Jiang Bo, Dr. Yan Shi Yun and Mr. Zhao Hua. Nevertheless, the Company will be responsible for arranging and funding suitable training for Directors in future.

NON-COMPLIANCE WITH LISTING RULE 3.10A

The number of independent non-executive Directors falls below the minimum number required under Rule 3.10A of the Listing Rules upon the appointment of 20 Directors and removal of 8 Directors on 18 June 2016 and change of Directors on 16 December 2016. Following appointment of an independent non-executive Director and resignation of 3 non-executive Directors on 21 February 2017, the Company has fulfilled the requirement under Rule 3.10A of the Listing Rules.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS (THE "MODEL CODE")

The Company has adopted the Model Code (Appendix 10 to the Listing Rules) as its own code of conduct regarding securities transactions by directors. Having made specific enquiry of all Directors, Mr. Chung Ho and Mr. Wang Jingming declared that they have complied with the Model Code during the year. The Company did not receive the said confirmations from former Directors, namely Mr. Jia Hong Sheng, Dr. Li, Mr. Zhou Bao Yi, Mr. Zhao Kai, Dr. Yan Shi Yun, Mr. Mu Xiang Ming, Mr. Jiang Bo and Mr. Zhao Hua.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held on Monday, 22 May 2017 (the "AGM"). A notice convening the AGM will be published and despatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 17 May 2017 to Monday, 22 May 2017, both days inclusive, during which period no transfer of the shares can be registered. Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 16 May 2017.

REVIEW OF ANNUAL RESULTS

The Group's Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the auditing, internal controls and financial reporting matters including the review of the Group's audited results for the year ended 31 March 2016.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITOR

The figures in respect of the Group's results for the year ended 31 March 2016 as set out in the preliminary results announcement have been agreed by the Company's independent auditor, Elite Partners CPA Limited ("Elite Partners") to the amounts set out in the Group's consolidated financial statements. The work performed by Elite Partners 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 Elite Partners on this preliminary results announcement.

ADDRESSING ALL CONCERNS RAISED BY THE COMPANY'S AUDITORS

The consolidated financial statements of the Company for the year ended 31 March 2016 had been subject to the disclaimer of opinion of Elite Partners CPA Limited, the auditor of the Company for the year ended 31 March 2016, on the basis as set out in the section headed "Extract from independent auditor's report" above. The matters which gave rise to such disclaimer of opinion related to (1) de-consolidation of the De-consolidated Subsidiaries during the year ended 31 March 2016; (2) lack of supporting documents for certain transactions entered into during the year ended 31 March 2016; (3) no sufficient appropriate audit evidence for the deposit for the possible acquisition of HK$10,000,000 and its recoverability; (4) lack of supporting documents for dividend payable on redeemable convertible cumulative preference shares of HK$30,894,000 (equivalent to USD4,000,000); (5) no sufficient appropriate audit evidence and explanations for contingent liabilities and commitment; (6) no sufficient appropriate audit evidence and explanations for events after the reporting period; and (7) no sufficient appropriate audit evidence and explanations for related parties transactions.

The Directors are of the view that all the matters which gave rise to the disclaimer of opinion for the year ended 31 March 2016 are solely due to the lack of books and records of the De-consolidated Subsidiaries and the incomplete records of the Group as a result of non-cooperation of the former management and accounting personnel of the Company following the substantial change in the composition of the Board effective from 18 June 2016 as detailed below.

Loss of accounting supporting documents

The book-keeping function of the Group was previously performed by the accounting team of the Group stationed in the PRC. All supporting documents for transactions of the Company and its subsidiaries in Hong Kong were passed to the accounting team in the PRC who was responsible for preparing vouchers, maintaining the books of the Group and preparing the accounts of the Group under the supervision of the Company's former Directors.

After the change of the Board composition on 18 June 2016, the accounting team in the PRC and the former Directors did not provide the books and records and supporting documents of the Group to the existing Directors and management of the Company (the "Existing Management") despite their repeated requests. In addition, the former Directors and legal representative of Beijing Zhongwei have not handed over all the licenses, stamps and books and records of Beijing Zhongwei to the Existing Management.

In order to retrieve the books and records and supporting documents of the Group, the Existing Management has (a) changed the bank signatories for all significant bank accounts and obtained bank statements and cheque copies and remittance records from the banks to verify the bank transactions and identify nature of transactions during the year; (b) obtained financial information provided by the former management of the Company to the auditors such as breakdown of major balances, management accounts and ledgers; (c) attempted to contact counterparties in respect of these transactions and request for supporting documents; and (d) taken legal actions to retrieve the missing documents from the former Directors. Nevertheless, such process takes considerable time, and the Existing Management still makes every endeavor to complete the process. The Existing Management had only been able to identify the nature of certain transactions from copies of supporting documents. The lack of originals of supporting documents and the inability to perform satisfactory alternative audit procedures have caused the disclaimer of audit opinion on the financial statements for the year ended 31 March 2016.

As explained in more detail below, the balances of which the Company is unable to provide original supporting documents for audit purposes related substantially to transactions conducted prior to 18 June 2016 and those of the De-consolidated Subsidiaries. The existing Directors consider this is caused solely by a colluded action of non-cooperative former accounting team and former Directors and that the loss of books and records and supporting documents of the Group is an isolated incident.

Details and implications of disclaimer of audit opinion

Set out below are the details of the transactions which are subject to the disclaimer of opinion and its implications:

(1) De-consolidation of the De-consolidated Subsidiaries

As explained in the section headed "Review of the Group's operation", the PRC lawyer is of view that it is difficult for the Company to take control of the De-consolidated Subsidiaries in the short term. In this connection, it is considered that the Group had lost control over the De-concolidated Subsidiaries and their financial results, assets and liabilities had been de-consolidated from the consolidated financial statements of the Group with effect from 1 October 2015 accordingly.

The Company is in progress of regaining control of the De-consolidated Subsidiaries as at the date of this announcement. Once the Group can regain control on the De-consolidated Subsidiaries, the Company will engage auditors to conduct audit on the financial statements for the De-consolidated Subsidiaries and consider any prior-year adjustment if necessary.

(2) Transactions of the Group without supporting documents

(i) Cash and bank balances

The cash and bank balances of approximately HK$205 million as at 31 March 2016 comprised bank balances of the Company, Beijing Zhongwei and two non-PRC subsidiaries of approximately HK$201.7 million, HK$3.2 million and HK$0.1 million respectively.

The Group's bank balances as at 31 March 2016 which were subject to disclaimer of audit opinion relate to certain bank balances of the Company and the bank balances of Beijing Zhongwei and two non-PRC subsidiaries. The aggregate balances of the aforesaid bank accounts of the Company and the two non-PRC subsidiaries were less than HK$30,000 and approximately HK$0.1 million respectively. As these bank accounts of the Company and non-PRC subsidiaries have immaterial balances and are not active, the Company took the view that there was no urgency to change the authorized signatories of these bank accounts at the time when the Existing Management took over the management of the Group. The change has now been requested and is being processed by the banks. In addition, the Company considers closing down the inactive bank accounts of the Company and non-PRC subsidiaries with immaterial balances of less than HK$1,000. As no original bank statements could be obtained and no audit confirmation can be arranged for the purpose of the audit, the auditors issued disclaimer of opinion on these account balances.

Beijing Zhongwei has bank accounts in two different banks and the former management of Beijing Zhongwei are the authorised signatories of these accounts. As the seal and company chop of Beijing Zhongwei are still being kept by its former management, the Existing Management is unable to change the bank signatories of these bank accounts despite passing of the June Resolution regarding the Change in June 2016 and filing of lawsuits by the Group as described in the section headed "Review of the Group's operations". The aggregate balance of these bank accounts was HK$3.2 million as at 31 March 2016 and was subject to disclaimer of audit opinion as mentioned above. The Existing Management is unable to obtain the original copies of statements of these bank accounts for a certain period within the financial year ending 31 March 2017 (the "Next Financial Year") and no supporting documents are available to verify the movements in these bank accounts for transactions conducted before 18 June 2016. To minimise the risk to the Group, the Group has ceased to use these bank accounts except for payment of certain operating expenses through one of these bank accounts, and shift the receipt of all income from Shuangluan Hospital to and payment of most operating expenses of Beijing Zhongwei from the bank accounts of the Group's other PRC subsidiaries. The Group will continue to make every endeavour including legal actions to complete the procedures to effect the change of authorised signatories for Beijing Zhongwei's bank accounts as soon as practicable.

As no original copies of bank records of Beijing Zhongwei's accounts are available for a certain period within the Next Financial Year and no bank confirmations can be arranged before the change of bank signatories takes place, there could be disclaimer of opinion on the closing balance of these bank accounts for the Next Financial Year, in addition to the carrying effect of the qualifications on the opening balance and comparative figure in the financial statements for the Next Financial Year.

(ii) Other income and impairment loss on other receivables

The other income comprised mainly write back of payables and accrued charges of the Company and subsidiaries in Hong Kong, and Beijing Zhongwei of approximately HK$7.6 million and HK$5.1 million respectively. As no supporting documents can be located and there has not been any material claims or requests for payment since the Existing Management took over the management of the Group on 18 June 2016, the Existing Management considered it appropriate to write back these payables and accruals. The impairment on other receivables mainly relates to receivables from certain assets management company and technology service providers of Beijing Zhongwei. The qualification has no carrying effect on the financial statements of the Next Financial Year save for qualification on the comparative figure.

(iii) Administrative expenses

Based on copies of bank statements and cheques available to the Existing Management, the Existing Management has been able to identify the nature of the majority of the administrative expenses, which mainly comprised legal and professional fees and consultancy fee incurred by the Company of approximately HK$16.4 million in relation to the various litigations and disputes between shareholders and the then management before 18 June 2016; and expenses incurred by Beijing Zhongwei of approximately HK$13.4 million. The auditors were however unable to verify the said expenses due to lack of supporting documents. The qualification has no carrying effect on the financial statements of the Next Financial Year save for qualification on the comparative figure.

(3) Deposit for the possible acquisition

The amount represents the earnest money of HK$10 million (the "Earnest Money") paid by the Company for the possible acquisition as detailed in the paragraph headed "Proposed acquisition of medical projects" under the section headed "Significant investments, material acquisitions and disposals". According to the terms of the 2015 Framework Agreement, in the event that the formal agreement is not concluded due to reasons caused by the procurers or the vendors, the Earnest Money shall be refunded to the Company and the procurers shall pay an additional compensation of HK$10 million to the Company. In case the formal agreement is not concluded due to reasons caused by the purchaser or the Company, the Earnest Money shall be forfeited. If the formal agreement is not concluded due to reasons caused by other third parties, the Earnest Money shall be refunded to the Company. The 2015 Framework Agreement lapsed on 31 December 2015 as no formal agreement was concluded by the parties thereto due to the inability to obtain certain information and documents of the target requested by the Company (as purchaser). In this connection, the Existing Management is of the view that the formal agreement was not concluded due to reasons caused by parties other than the Company and the Earnest Money should have been refunded to the Company pursuant to the terms of the 2015 Framework Agreement.

The Company identified the payment from copies of bank statements and scanned copy of remittance order retrieved from the bank and matched the same against the 2015 Framework Agreement. However, due to absence of the correspondence address of the procurers and the vendors, the auditors were unable to arrange direct confirmation to the procurers and the vendors on the balance and there is uncertainty about the recoverability of the Earnest Money which is not yet settled as at date of this announcement. The Company will continue to negotiate with the vendors and the procurers on the settlement of the Earnest Money and seek legal advice on whether legal actions would be appropriate. In the event the Company considers the amount to be not recoverable after any action (including possible legal action(s)) to be taken in future, the Company will consider writing off the amount and the qualification will be removed in the financial statements for the Next Financial Year. The qualification will have a carrying effect on the opening balance and comparative figure in the financial statements of the Group for the Next Financial Year.

(4) Dividend payable on redeemable convertible cumulative preference shares

The auditors were able to verify the issuance of the Promissory Note as settlement of the Dividend Payable against a copy of the executed settlement agreement. However, the party to which the Promissory Note was first issued as stated in the agreement is not Li Hong, the company which filed a statutory demand against the Company for repayment of the Promissory Note as detailed in item (9) under the section headed "Material Litigations". In the circumstances, the auditors are unable to perform satisfactory alternative procedures to ascertain whether the Promissory Note is valid and the reclassification of the Promissory Note as Dividend Payable is appropriate. In addition, the Group has not accounted for overdue interests on the Dividend Payable which may be accrued according to the terms of the preference shares. As a result, there is a disclaimer of audit opinion on the re-classification and the amount of the Dividend Payable.

Li Hong was ordered by the Court to restrain from presenting any petition for the winding up of the Company. The written judgment of the Court for this case has been handed down on 29 March 2017. It was concluded that the Company has shown that there is bona fide dispute of the Alleged Outstanding Sum on substantial grounds and the presentation of a winding-up petition by Li Hong would be an abuse of process (please also refer to item (9) under the section headed "Material Litigations" above for further details on the written judgement). After receiving the judgement, the Company is now in the course of consulting its legal adviser if any further legal action is needed.

This qualification will have a carrying effect on the opening balance and comparative figure in the financial statements of the Group for the Next Financial Year. The Company and the auditors however are not able to assess at this stage whether there will be other qualification concerning this balance in the Next Financial Year as it will depend on the accounting treatment for the balance after receiving the Court written judgment.

(5) Contingent liabilities and commitment

The disclaimer of audit opinion on contingent liabilities and commitment was caused by the lack of books and records of the De-consolidated Subsidiaries and incomplete records of the Group, resulting in the inability of the auditors to perform satisfactory audit procedures. For the purpose of ascertaining the contingent liabilities of the Group as at 31 March 2016, the Existing Management had considered the relevant accounting standards relating to contingent liability; and had reviewed information and documents available to the Group including the status of material litigations of the Group. In addition, the Company has been managed by the Existing Management after the change of Board composition on 18 June 2016. The changes in the Board composition and the disputes between shareholders and the previous management had been made known to the public by means of announcements. The Existing Management believed that it would be reasonable to expect that any potential creditors with material claims would have approached the Company and filed claims as soon as they became aware of the chaotic situation faced by the Group at that time. Now that the Existing Management has taken over the management of the Group for more than eight months up to date of this announcement, the Group has not received any material claims from any parties other than the demand from Li Hong in respect of the Dividend Payable on the redeemable preference shares of US$4 million as stated above. On this basis and coupled with the results of the review of the documents available to the Group and the status of the litigations, the Existing Management believed that all material contingent liabilities (if any) have been identified despite it is not able to access certain books and records of the Group. It is not likely that the financial statements for future reporting periods would contain similar qualifications.

(6) Events after the reporting period and related parties transactions

The disclaimer of audit opinion on events after the reporting period and related parties transactions were caused by the lack of books and records of the De-consolidated Subsidiaries and incomplete records of the Group, resulting in the inability of the auditors to perform satisfactory audit procedures. As mentioned above, the existing Board is not aware of any material claims and events (other than those already disclosed above) after the change in composition of the Board and the disputes between the shareholders and former management have been made known to public. After the Existing Management took over the management of the Group, the accounting personnel and financial controller of the Company review all material transactions conducted by the Group from time to time to identify whether they are related party transactions. A related party register is being compiled and updated with a view to enabling the Company to identify the related party transactions more efficiently. In addition, all the accounting records and supporting documents of the Group have been properly maintained after 18 June 2016, save for those relating to the bank accounts of Beijing Zhongwei as mentioned above. On this basis, the Existing Management believes that all material events and related parties transactions of the Group have been identified since it took over the management and that barring unforeseen circumstances, it is not likely that the financial statements for future reporting periods would contain similar qualifications.

Transactions during the Next Financial Year

The Next Financial Year covers the period from 1 April 2016 to 31 March 2017, during which the Existing Management only took over the management of the Group in June 2016. Accordingly, the Existing Management may not be able to retrieve and provide supporting documents or explanations for transactions conducted during April to June 2016. In addition, as explained above, the Existing Management is at present unable to retrieve documents to verify the transactions of the bank accounts of Beijing Zhongwei for the first few months of the Next Financial Year. Depending on the progress of the various legal actions concerning Beijing Zhongwei and the ability of the auditors to perform appropriate audit procedures at the time of the audit, there may be qualifications on certain income statement balances for the Next Financial Year concerning transactions conducted during the period from April to June 2016.

Measures taken by the Existing Management

(1) Financial reporting and book-keeping

As explained above, the audit qualifications are principally due to the loss of accounting books and records caused solely by a colluded action of non-cooperative former accounting team and former Directors. The Existing Management do not consider this implicates a material deficiency in the Group's internal control. Nevertheless, in order to mitigate the risk of occurrence of similar incident in future, the Group has implemented new procedures on financial reporting and book-keeping described below:

(i) after the change of Board composition on 18 June 2016, the Company has appointed a qualified accountant as the financial controller in Hong Kong to oversee the financial matters of the Group. In addition, the Company has engaged an independent professional accounting firm (the "Accounting Firm") to perform the book-keeping function for the Company and its non-PRC subsidiaries instead of relying solely on the accounting team of the Group in the PRC;

(ii) the accounting staff of the Company in Hong Kong collects all supporting documents for transactions of the Company and its non-PRC subsidiaries and passes them to the Accounting Firm for book-keeping and preparation of vouchers, ledgers and management accounts of the Company and its non-PRC subsidiaries on a monthly basis; and

(iii) after preparing the accounting vouchers, ledgers and management accounts of the Company and its non-PRC subsidiaries, the Accounting Firm will send the accounting vouchers, ledgers and management accounts to the financial controller of the Company for review.

The Board considers that it is more reliable and effective to engage an independent professional accounting firm in Hong Kong than solely relying on the accounting team in the PRC to handle book-keeping and financial reporting functions of the Company and its non-PRC subsidiaries, especially during the transition period when the Exisiting Management first took over the management of the Group in June 2016, and believes that the risk of loss of books and records of the Company and its non-PRC subsidiaries due to colluded actions would be reduced.

Currently, the Company has 4 major operating subsidiaries in PRC. The Existing Management considers that it would be appropriate to maintain the accounting records and perform the bookkeeping function of these subsidiaries by the local onsite accounting team. Given the voluminous supporting document involved, it would be impractical to transport all the accounting records to Hong Kong for bookkeeping purpose, which is not time and cost efficient and exposes the Company to the risk of loss of supporting documents in transit. In addition, the local PRC accounting team comprises mostly personnel recruited after the change of management or unrelated to those departed non-cooperative personnel. The Existing Management believes the loss of books and records was an isolated event and it is not justified to relocate all the book-keeping and financial reporting functions of the PRC subsidiaries to Hong Kong solely because of this one-off incident.

The Group has established an accounting team in its Shenzhen office to assist the financial controller stationed in Hong Kong to oversee the financial reporting function of all of its PRC subsidiaries. Monthly management accounts as well as copies of supporting documents for material transactions will be sent to the accounting team in Shenzhen and the financial controller in Hong Kong for review and back up. The Shenzhen accounting team shall pay visits to the offices of the operating subsidiaries from time to time to supervise the work of the onsite accounting teams. The Board considers the accounting team in Shenzhen can assist the financial controller to review the books and records of the PRC subsidiaries more closely and maintain back-up copies of supporting documents for material transactions.

(2) Making payments

After the change of Board composition on 18 June 2016, the Existing Management had immediately changed the bank signatories for all major bank accounts of the Group and examined all significant bank payment records. Save for the cash transfers made by the former management of the Company in breach of their fiduciary duties as disclosed in the section headed "Material litigations" above, the Existing Management has not identified other material payments which were of similar nature. In addition, the existing Board had also reviewed the then asset composition of the Group and noted that cash and bank balances represented a significant portion of the Group's total assets. Having considered the nature of the Group's assets and the results of the examination of bank payment records, the Board believed that all other material assets had been properly maintained by the Group.

The Board is of view that the aforesaid transfers were isolated events solely due to misbehavior of certain former Directors. After discovering the transfers, the Existing Management has taken steps to strengthen the internal control measures on making payments as described below:

(i) the accounting staff of the Company in Hong Kong keeps the cheque books and remittance forms for the bank accounts of the Company. The staff is responsible for preparing "Cash/cheque requisition form" based on invoices received, issuing cheques and preparing bank remittance forms;

(ii) the financial controller of the Company reviews the full set of bank payment documents prepared by the accounting staff;

(iii) all payments are then approved by the executive Director(s), who is/are authorised signatory(ies) of the Company's bank accounts. Two Directors' signatures are needed for any payments of over a prescribed limit; and

(iv) the accounting staff is also responsible for dispatching the cheques or remittance forms after obtaining approval of the Director(s). All documents in respect of the payments are passed to the Accounting Firm for preparation of vouchers and bookkeeping on a monthly basis as stated above.

The Board will continue to review the above measures taking into consideration of the Group's situation and development from time to time.

By order of the Board
China Health Group Limited
Weng Yu
Executive Director

Hong Kong, 3 April 2017

As at the date of this announcement, the Board comprises five executive Directors, namely, Mr. Weng Yu, Mr. Wang Yongqing, Mr. Chung Ho, Mr. Wang Jingming and Mr. Zhang Fan; eight non-executive Directors, namely, Mr. Ying Wei, Mr. Zhang Song, Ms. Wei Changying, Mr. Xing Yong, Mr. Wang Zili, Mr. Wang Xiaolin, Mr. Wang Yuexiang and Mr. Li Xuguang; and seven independent non-executive Directors, namely, Mr. Xiao Zuhe, Mr. Wang Qingyou, Mr. Zou Lian, Ms. Yang Huimin, Mr. Liang Qi, Mr. Xin Hua and Mr. Jiang Xuejun.

* *For identification purpose only*