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**HEALTHCARE**

**华 | 夏 | 健 | 康**

**CHINA HEALTHCARE ENTERPRISE GROUP LIMITED**

**華夏健康產業集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1143)**

## **INTERIM RESULTS 2016 ANNOUNCEMENT**

The board of directors (the “Directors”) (the “Board”) of China Healthcare Enterprise Group Limited 華夏健康產業集團有限公司 (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2016 (the “Period”).

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

		Six months ended 30 June	
	Note	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited) (re-presented)
<b>Continuing operations</b>			
<b>Revenue</b>	3	409,766	506,470
Cost of goods sold		<u>(325,838)</u>	<u>(394,574)</u>
<b>Gross profit</b>		<b>83,928</b>	111,896
Other income		17,109	4,826
Selling and distribution expenses		(24,326)	(28,512)
Administrative expenses		(56,929)	(38,439)
Other operating expenses		<u>(33,459)</u>	<u>(16,474)</u>
<b>(Loss)/profit from operations</b>		<b>(13,677)</b>	33,297
Finance costs	4	(1,818)	(2,784)
Share of loss of a joint venture		<u>–</u>	<u>(116)</u>
<b>(Loss)/profit before tax</b>		<b>(15,495)</b>	30,397
Income tax expense	5	<u>(4,835)</u>	<u>(6,193)</u>
<b>(Loss)/profit for the period from continuing operations</b>	6	<b>(20,330)</b>	24,204
<b>Discontinued operations</b>			
Loss for the period from discontinued operations	7	<u>–</u>	<u>(59,433)</u>
<b>Loss for the period</b>		<u><b>(20,330)</b></u>	<u><b>(35,229)</b></u>
<b>Attributable to:</b>			
Owners of the Company		(18,531)	(4,789)
Non-controlling interests		<u>(1,799)</u>	<u>(30,440)</u>
		<u><b>(20,330)</b></u>	<u><b>(35,229)</b></u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONT'D)***For the six months ended 30 June 2016*

		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2016</b>	2015
		<b>HK\$'000</b>	HK\$'000
		<b>(unaudited)</b>	(unaudited)
			(re-presented)
<b>(Loss)/earnings per share</b>			
From continuing and discontinued operations			
Basic (cents per share)	9	<u><b>(0.374)</b></u>	<u>(0.116)</u>
Diluted (cents per share)		<u><b>N/A</b></u>	<u>(0.116)</u>
From continuing operations			
Basic (cents per share)		<u><b>(0.374)</b></u>	<u>0.618</u>
Diluted (cents per share)		<u><b>N/A</b></u>	<u>0.614</u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

*For the six months ended 30 June 2016*

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(unaudited)</b>	(unaudited) (re-presented)
<b>Loss for the period</b>	<b>(20,330)</b>	(35,229)
<b>Other comprehensive income for the period, net of tax</b>		
<i>Item that will be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	(331)	3,092
Fair value gain on available-for-sale financial assets	<u>34,145</u>	<u>–</u>
<b>Total comprehensive income for the period</b>	<u><b>13,484</b></u>	<u>(32,137)</u>
<b>Attributable to:</b>		
Owners of the Company	15,283	(4,475)
Non-controlling interests	<u>(1,799)</u>	<u>(27,662)</u>
	<u><b>13,484</b></u>	<u>(32,137)</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2016*

	<i>Note</i>	30 June 2016 <i>HK\$'000</i> (unaudited)	31 December 2015 <i>HK\$'000</i> (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		66,638	72,167
Prepaid lease payments		2,884	3,259
Intangible assets		5,094	6,113
Deferred tax assets		13,929	14,046
<b>Total non-current assets</b>		<b>88,545</b>	95,585
<b>Current assets</b>			
Inventories		87,449	130,260
Trade receivables	10	128,105	169,322
Prepayments, deposits and other receivables		174,575	14,834
Derivative financial assets		–	798
Available-for-sale financial assets		198,610	–
Current tax assets		–	1,442
Bank and cash balances		151,498	441,207
<b>Total current assets</b>		<b>740,237</b>	757,863
<b>TOTAL ASSETS</b>		<b>828,782</b>	853,448
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to owners of the Company			
Share capital		4,955	4,955
Reserves		565,148	549,005
		570,103	553,960
Non-controlling interests		(8,617)	(5,958)
<b>Total equity</b>		<b>561,486</b>	548,002
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
License rights payable		17,412	12,209
Deferred tax liabilities		7,634	8,030
<b>Total non-current liabilities</b>		<b>25,046</b>	20,239

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)***As at 30 June 2016*

		<b>30 June 2016</b>	31 December
	<i>Note</i>	<b>HK\$'000</b>	2015
		<b>(unaudited)</b>	<b>HK\$'000</b>
			<b>(audited)</b>
<b>Current liabilities</b>	<i>11</i>		
Trade payables		<b>73,579</b>	116,528
Accruals and other payables		<b>144,961</b>	143,709
Amounts due to non-controlling shareholders of subsidiaries		<b>304</b>	135
License rights payable		<b>10,147</b>	15,043
Product warranty provisions		<b>4,505</b>	4,298
Current tax liabilities		<b>8,754</b>	5,494
<b>Total current liabilities</b>		<b>242,250</b>	285,207
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>828,782</b>	853,448

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

These condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited.

These condensed financial statements should be read in conjunction with the 2015 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2015 except for the addition of accounting policies of investment properties set out below.

#### **Investment properties**

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

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

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2016. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant effect on the condensed financial statements.

### 3. REVENUE AND SEGMENT INFORMATION

The Group has three reportable segments as follows:

EMS	—	Electronic manufacturing services
Distribution of Communications Products	—	Marketing and distribution of communications products
Securities and Other Assets Investment	—	Securities and other assets investment

A new operating segment, Securities and Other Assets Investment has been formed during the period. The Company and certain subsidiaries formerly under EMS Segment form the constituents of this new operating segment.

Two operations (Multimedia Products and Computer Accessories and Gaming Products and Toy) were disposed of in the year ended 31 December 2015. Part of the EMS and Distribution of Communications Products operations were also disposed of in the year ended 31 December 2015. The segment information reported does not include any amounts for these discontinued operations.

### 3. REVENUE AND SEGMENT INFORMATION (CONT'D)

	EMS <i>HK\$'000</i> (unaudited)	Distribution of Communications Products <i>HK\$'000</i> (unaudited)	Securities and Other Assets Investment <i>HK\$'000</i> (unaudited)	Total <i>HK\$'000</i> (unaudited)
<b>6 months ended 30 June 2016:</b>				
Revenue from external customers	368,473	41,293	–	409,766
Intersegment revenue	14,368	–	–	14,368
Segment profit/(loss)	21,452	(7,002)	(14,786)	(336)
<b>As at 30 June 2016:</b>				
Segment assets	427,100	48,648	209,152	684,900
Segment liabilities	219,522	62,058	110	281,690
	EMS <i>HK\$'000</i> (unaudited)	Distribution of Communications Products <i>HK\$'000</i> (unaudited)	Securities and Other Assets Investment <i>HK\$'000</i> (unaudited)	Total <i>HK\$'000</i> (unaudited)
<b>6 months ended 30 June 2015: (re-presented)</b>				
Revenue from external customers	449,710	56,760	–	506,470
Intersegment revenue	54,459	–	–	54,459
Segment profit/(loss)	32,331	(2,935)	–	29,396
	(audited)	(audited)	(audited)	(audited)
<b>As at 31 December 2015:</b>				
Segment assets	784,052	87,201	–	871,253
Segment liabilities	233,866	92,568	–	326,434



### 3. REVENUE AND SEGMENT INFORMATION (CONT'D)

	<b>Six months ended 30 June</b>	
	<b>2016</b> <i>HK\$'000</i> <b>(unaudited)</b>	<b>2015</b> <i>HK\$'000</i> <b>(unaudited)</b> (re-presented)
<b>Reconciliations of segment profit or loss from continuing operations:</b>		
Total (loss)/profit of reportable segments	(336)	29,396
Intersegment elimination	779	1,117
Unallocated amounts:		
Consultancy fee	(10,417)	–
Directors' emoluments	(1,480)	–
Legal and professional fee	(2,788)	–
Other unallocated head office and corporate expenses	(1,253)	–
Share of loss of a joint venture	–	(116)
	<u>–</u>	<u>(116)</u>
Consolidated (loss)/profit before tax for the period from continuing operations	<u>(15,495)</u>	<u>30,397</u>

### 4. FINANCE COSTS

	<b>Six months ended 30 June</b>	
	<b>2016</b> <i>HK\$'000</i> <b>(unaudited)</b>	<b>2015</b> <i>HK\$'000</i> <b>(unaudited)</b> (re-presented)
<b>Continuing operations</b>		
Bank loans interest	–	528
Interest on import/export loans	–	96
Other interest expense	1,818	2,160
	<u>1,818</u>	<u>2,784</u>

### 5. INCOME TAX EXPENSE

	<b>Six months ended 30 June</b>	
	<b>2016</b> <i>HK\$'000</i> <b>(unaudited)</b>	<b>2015</b> <i>HK\$'000</i> <b>(unaudited)</b> (re-presented)
<b>Continuing operations</b>		
Current tax		
— Hong Kong Profits Tax	3,780	6,167
— Overseas	1,334	1,163
	<u>5,114</u>	<u>7,330</u>
Deferred tax	(279)	(1,137)
	<u>4,835</u>	<u>6,193</u>

Hong Kong Profits Tax has been provided at a rate of 16.5% (2015: 16.5%) based on the estimated assessable profit for the period.

## 5. INCOME TAX EXPENSE (CONT'D)

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

## 6. (LOSS)/PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS

The Group's (loss)/profit for the period from continuing operations is arrived at after charging/(crediting):

	<b>Six months ended 30 June</b>	
	<b>2016</b> <i>HK\$'000</i> <b>(unaudited)</b>	<b>2015</b> <i>HK\$'000</i> (unaudited) (re-presented)
Amortisation of intangible assets (included in selling and distribution expenses)	<b>1,019</b>	1,838
Consultancy fee	<b>11,284</b>	21
Cost of goods sold		
Cost of inventories sold	<b>325,032</b>	393,367
Allowance for inventories	<b>4,328</b>	7,755
Reversal of allowance for inventories ( <i>Note (i)</i> )	<b>(3,522)</b>	(6,548)
	<b>325,838</b>	394,574
Depreciation	<b>8,914</b>	8,951
Loss/(gain) on derivative instruments	<b>475</b>	(2,321)
Fair value loss on an investment property (included in other operating expenses)	<b>18,345</b>	–
Impairment loss on amount due from a joint venture (included in other operating expenses)	–	48
(Gain)/loss on disposal of property, plant and equipment	<b>(38)</b>	5
Operating lease charges — Land and buildings	<b>8,836</b>	9,323
Research and development expenditures (including in other operating expenses) ( <i>Note (ii)</i> )	<b>14,637</b>	16,427
Employee benefits expense including directors' emoluments		
Salaries, bonus and allowances	<b>96,660</b>	106,448
Equity-settled share based payments	–	934
Retirement benefit scheme contributions	<b>6,949</b>	2,428
	<b>103,609</b>	109,810

*Notes:*

- (i) The Group makes allowance for inventories under respective aging criteria in different operating segments. The reversal of allowance represents the amount of inventories subsequently used in production or sold.
- (ii) During the six months period ended 30 June 2016, research and development expenditure includes approximately HK\$13,572,000 (2015: HK\$14,803,000) relating to employee benefits expense which is also included in the respective total amount as disclosed separately above.

## 7. DISCONTINUED OPERATIONS

On 22 May 2015, the Company entered into the disposal agreement (as supplemented on 7 August 2015), pursuant to which the Company has agreed to sell the equity interests of a group of subsidiaries and associates (the “Disposal”) to Dragon Fortune International Limited, a former controlling shareholder of the Company, at a consideration of HK\$169,800,000. The Disposal was completed on 7 October 2015. The presentation of comparative information in respect of the six months ended 30 June 2015 has been reclassified to conform to the current period’s presentation.

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$’000</b>	<b>HK\$’000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Loss for the period from discontinued operations:</b>		
Revenue	–	260,811
Cost of goods sold	–	(226,468)
	<u>–</u>	<u>(226,468)</u>
Gross profit	–	34,343
Other income	–	6,740
Selling and distribution expenses	–	(29,725)
Administrative expenses	–	(51,811)
Other operating expenses	–	(16,578)
	<u>–</u>	<u>(16,578)</u>
Loss from operations	–	(57,031)
Finance costs	–	(3,423)
Share of profit of an associate	–	29
	<u>–</u>	<u>29</u>
		(60,425)
Income tax credit	–	992
	<u>–</u>	<u>992</u>
Loss for the period from discontinued operations	<u>–</u>	<u>(59,433)</u>
Loss for the period from discontinued operations include the following:		
Depreciation and amortisation	–	7,263
Cash flows from discontinued operations:		
Net cash outflows from operating activities	–	(20,584)
Net cash outflows from investing activities	–	(3,809)
Net cash inflows from financing activities	–	5,252
	<u>–</u>	<u>5,252</u>
Net cash outflows	<u>–</u>	<u>(19,141)</u>

## 8. DIVIDENDS

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$’000</b>	<b>HK\$’000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Final dividend of Nil for the year ended 31 December 2015 (31 December 2014: HK\$0.015) per ordinary share paid	–	6,176
	<u>–</u>	<u>6,176</u>

## 9. (LOSS)/EARNINGS PER SHARE

### From continuing and discontinued operations

The calculation of the basic and diluted loss per share from continuing and discontinued operations is based on the following:

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
		<b>(re-presented)</b>
<b>Loss</b>		
Loss attributable to owners of the Company, used in the basic and diluted loss per share calculation	<u>(18,531)</u>	<u>(4,789)</u>
	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
		<b>(re-presented)</b>
<b>Number of shares — Basic</b>		
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	<u><b>4,955,311,400</b></u>	<u>4,117,140,000</u>

The weighted average number of ordinary shares for current and prior periods has been adjusted as if the share subdivision had occurred at the beginning of the earliest period presented.

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
		<b>(re-presented)</b>
<b>Number of shares — Diluted</b>		
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	<u><b>4,955,311,400</b></u>	<u>4,117,140,000</u>
Effect of dilutive potential ordinary shares arising from share options issued by the Company	<u>—</u>	<u>22,461,790</u>
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share	<u><b>4,955,311,400</b></u>	<u>4,139,601,790</u>

No diluted loss per share from continuing and discontinued operations is presented as the Company did not have any dilutive potential ordinary shares for the six months ended 30 June 2016.

## 9. (LOSS)/EARNINGS PER SHARE (CONT'D)

### From continuing operations

The calculation of the basic and diluted (loss)/earnings per share from continuing operations is based on the following:

	Six months ended 30 June	
	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited) (re-presented)
(Loss)/earnings attributable to owners of the Company, used in the basic and diluted (loss)/earnings per share calculation	<u>(18,531)</u>	<u>25,432</u>

The weighted average numbers of ordinary shares used as denominators in calculating the basic and diluted (loss)/earnings per share are the same as set out above.

No diluted loss per share from continuing operation is presented as the Company did not have any dilutive potential ordinary shares for the six months ended 30 June 2016.

### From discontinued operations

Basic and diluted earnings per share from discontinued operations are not applicable for the six months ended 30 June 2016. The basic and diluted loss per share from discontinued operations for the six months ended 30 June 2015 are HK0.734 cents and HK0.730 cents respectively. Basic and diluted loss per share calculation is based on the loss for the period ended 30 June 2015 from discontinued operations attributable to the owners of the Company of HK\$30,221,000 and the denominators used are the same as those detailed above.

## 10. TRADE RECEIVABLES

The aging analysis of trade receivables as at the end of the reporting period, based on invoice date, and net of allowance, is as follows:

	30 June 2016 <i>HK\$'000</i> (unaudited)	31 December 2015 <i>HK\$'000</i> (audited)
0–90 days	113,914	157,997
91–180 days	8,921	10,132
181–365 days	5,270	210
Over 365 days	–	983
	<u>128,105</u>	<u>169,322</u>

## 11. TRADE PAYABLES

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

	<b>30 June</b> <b>2016</b> <i>HK\$'000</i> <b>(unaudited)</b>	31 December 2015 <i>HK\$'000</i> (audited)
0–90 days	<b>70,745</b>	113,546
91–180 days	<b>313</b>	393
181–365 days	<b>606</b>	811
Over 365 days	<b>1,915</b>	1,778
	<b>73,579</b>	116,528

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS OVERVIEW**

The Group's reporting segments are strategic business units that offer different products and services and also carry out specific function. During the current period, there are three broad groups of business units for segment accounting purpose, EMS, Distribution of Communications Products and the new reporting segment, namely the Securities and Other Assets Investment. In EMS segment, there are two main groups of products, namely communication and non-communications products whereas non-communication products mainly include appliances and appliances control products and multimedia products. Distribution of Communications Products segment represents the marketing and distribution of communications products. During the current period, the Group has formed a new reporting segment, the Securities and Other Assets Investments, so as to carry out effective financial management function. Meanwhile, the Group will continue to explore and consider any other investment and business opportunities which are principally engaged in the medical and healthcare industry.

For the six months ended 30 June 2016, the Group recorded total revenue of approximately HK\$409.8 million (2015: HK\$506.5 million from the continuing operations). Gross profit totalled HK\$84.0 million (2015: HK\$111.9 million from the continuing operations), while loss attributable to owners of the Company reached HK\$18.5 million (2015: HK\$4.8 million).

The Group has continued to maintain a healthy cash flow during the reporting period, with cash and cash equivalents of HK\$151.0 million (2015: HK\$107.2 million).

### **Review of Operations**

The revenue from EMS decreased by 18.1% to HK\$368.5 million (2015: HK\$449.7 million from the continuing operations), whereas the revenue from Distribution of Communications Products decreased by 27.3% to HK\$41.3 million (2015: HK\$56.8 million from the continuing operations). The decline in the revenue generated was mainly due to shrinking demand as a result from poor consumers' sentiment and worldwide economic slowdown.

### **Geographical Analysis**

Revenue contributions from the major European countries (the United Kingdom, Switzerland, Poland, France and Russia) totalled HK\$168.6 million (2015: HK\$215.4 million from the continuing operations), and accounted for 41.1% of the Group's total turnover for the six months ended 30 June 2016 (2015: 42.5%). The United States ("US") market contributed HK\$92.0 million (2015: HK\$109.8 million from the continuing operations) in revenue, and accounted for 22.4% of total turnover (2015: 21.7%). The People's Republic of China (the "PRC") (mainly Hong Kong) and other countries accounted for HK\$43.2 million and HK\$106.0 million respectively (2015: HK\$101.8 million and HK\$79.5 million from the continuing operations respectively).

## **FINANCIAL HIGHLIGHTS**

### **Revenue**

For the period ended 30 June 2016, the Group recorded total revenue of HK\$409.8 million (2015: HK\$506.5 million from the continuing operations).

### **Cost of goods sold**

Cost of goods sold decreased by 17.4% from HK\$394.6 million in 2015 from the continuing operations to HK\$325.8 million in 2016 corresponded to the level of revenue of the Period.

### **Gross Profit**

Gross profit decreased by 25.0% from HK\$111.9 million in 2015 from the continuing operations to HK\$84.0 million in 2016, while the gross profit margin slightly decreased from 22.1% in 2015 to 20.5% in 2016.

### **Other income**

Other income increased substantially by HK\$12.3 million to HK\$17.1 million for the current period (2015: HK\$4.8 million from the continuing operations). The major components of the other income are represented by gain on disposal of a subsidiary holding an investment property of HK\$6.4 million, gain on disposal of available-for-sale financial assets of HK\$4.7 million, net exchange gain of HK\$1.7 million and consultancy fee income of HK\$1.3 million.

### **Selling and distribution expenses**

Selling and distribution expenses of HK\$24.3 million (2015: HK\$28.5 million from the continuing operations) accounted for approximately 5.9% in 2016 and 5.6% in 2015 of the Group's revenue respectively. The decrease is mainly caused by the decrease in advertising campaign and marketing expenses of HK\$1.6 million, decrease in commission expenses of HK\$1.0 million and reduction of carriage costs of HK\$1.1 million comparing with last period.

### **Administration expenses**

Administration expenses of HK\$56.9 million (2015: HK\$38.4 million from the continuing operations) accounted for approximately 13.9% in 2016 and 7.6% in 2015 of the Group's revenue respectively. Increase is mainly contributed by the increase in consultancy fee of HK\$11.3 million and increase in staff costs of HK\$6.3 million.



### **Other operating expenses**

Other operating expenses increased by HK\$17.0 million from HK\$16.5 million in 2015 from the continuing operations to HK\$33.5 million in 2016. The increase was mainly attributable to the fair value loss on an investment property of HK\$18.3 million off set by the slight decrease in research and development costs of HK\$1.8 million.

### **Finance costs**

The Group's finance costs is HK\$1.8 million in 2016 and HK\$2.8 million in 2015 from the continuing operations, represented approximately 0.4% and 0.6% of the revenue in 2016 and 2015 respectively.

### **Income tax expense**

The Group's income tax expense represents amounts of income tax paid by the Group, at the applicable tax rates in accordance with the relevant laws and regulations in Hong Kong, the PRC, US and Japan. The Group had no tax payable in other jurisdictions during the periods ended 30 June 2016 and 2015.

The Group's effective income tax rates for the periods ended 30 June 2016 and 2015, was approximately -31.2% and 20.4%, respectively.

### **Discontinued operations**

The loss from the discontinued operations for the period ended 30 June 2015 was of HK\$59.4 million.

### **Loss attributable to owners of the Company**

The loss attributable to owners of the Company is of HK\$18.5 million for the period ended 30 June 2016 (2015: HK\$4.8 million). The Group's net loss margin attributable to owners of the Company for the period ended 30 June 2016 was -4.5% (2015: -0.9%).

### **Loss for the period attributable to non-controlling interests**

The loss attributable to non-controlling interests amounts to HK\$1.8 million for the period ended 30 June 2016 (2015: HK\$30.4 million). The decrease in the loss was primarily caused by the disposal of major loss making distribution business units on 7 October 2015.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group generally finances its operations and capital expenditure by internally generated cashflows.

The Group's current ratio remains in a healthy position at 3.06 times (2015: 2.66 times). As at 30 June 2016, the cash and cash equivalents amounted to HK\$151.0 million, representing an increase of HK\$43.8 million from 2015. During the six months ended 30 June 2016, HK\$25.4 million was generated from the operating activities, whilst HK\$18.2 million was generated from investing activities. No movement for financing activities as there is no bank borrowings was incurred since 31 December 2015 and up to 30 June 2016. Net cash inflow from investing activities was mainly arising from the cash balance transferred from margin account of a brokerage firm of HK\$333.5 million and net sales proceeds from the disposal of available-for-sale financial assets of HK\$127.9 million offset by the purchase of available-for-sale financial assets of HK\$244.0 million, deposit paid for the proposed acquisition of a target group of HK\$140.0 million and purchase of an investment property of HK\$55.6 million.

There is no interest-bearing bank borrowing as at 30 June 2016 and 31 December 2015.

## **CAPITAL STRUCTURE**

As at 30 June 2016, the total number of issued shares of the Company is 4,955,311,400 shares with a nominal value of HK\$0.001 each.

## **EXCHANGE RISK EXPOSURE**

The Group has transactional currency exposures. Such exposures arise from the business operations in the PRC and Hong Kong denominated in Renminbi ("RMB") and US dollars respectively. As at 30 June 2016, the Group had minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities were principally denominated in the respective functional currencies, i.e. RMB and US dollars, used by the respective group entities, or in US dollars for the respective group entities with HK dollars being the functional currency. As HK dollars is pegged to US dollars, the Group considers the risk of movements in exchange rates between HK dollars and US dollars to be insignificant for transactions denominated in US dollars. The RMB is not freely convertible into other foreign currencies and conversion of the RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. As at 30 June 2016, the Group does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Group had no investment in any financial derivatives, foreign exchange contracts, interest or currency swaps, hedging or other financial arrangements for hedging purposes to reduce any currency risk nor made any over-the-counter contingent forward transactions. The Group will closely monitor its foreign currency exposure and will consider using hedging instruments in respect of significant foreign currency exposure as and when appropriate.

## **CAPITAL EXPENDITURE AND COMMITMENTS**

Capital expenditure for the period ended 30 June 2016 amounted to HK\$4.1 million and the capital commitments as at 30 June 2016 amounted to HK\$2.4 million. Both the capital expenditure and capital commitments were mainly related to the acquisition of plant and machinery and leasehold improvements to cope with the requirement of the EMS operation.

## **CONTINGENT LIABILITIES**

As at 30 June 2016, the Group had an outstanding guarantee (“the Guarantee”) to one of the suppliers of an overseas subsidiary (“Disposed Subsidiary”), which was disposed under the Disposal, for payment in relation to a sum of USD2.6 million (equivalent to approximately HK\$20.3 million) representing a trade balance under dispute between the Disposed Subsidiary and the supplier. The Disposed Subsidiary had issued counter guarantee to the Company to indemnify the Company for any loss in relation to the Guarantee. Apart from the above, the Group and Company did not have any significant contingent liabilities.

## **PLEDGE OF ASSETS**

As at 30 June 2016 and 2015, none of the Group’s assets was pledged.

## **ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT**

As at 30 June 2016, the Group was holding listed equity investments at a fair value of approximately HK\$198.1 million, which were classified as available-for-sale financial assets of the Group. Due to the upward movements of the share prices, net unrealised gain in respect of such investments of approximately HK\$34.1 million was recorded in other comprehensive income during the six months ended 30 June 2016.

During the period under review, there was no other material acquisition, disposal or investment by the Group that should be notified to the shareholders of the Company.

## **HUMAN RESOURCES**

As at 30 June 2016, the Group had approximately 2,000 employees in various operating units in Hong Kong, the US, and the PRC. In order to attract and retain high quality talents to ensure smooth operation and cater for the Group’s constant expansion, it offers competitive remuneration packages, with reference to market conditions and individual qualifications and experience.

There is no outstanding share option as at 30 June 2016 and 31 December 2015. In addition, no share option was granted, cancelled or lapsed during the six months ended 30 June 2016.

## PROSPECTS

The management is of the view that the China's healthcare sector is appealing with significant room for growth. It is the Company's business strategy to shift its business focus on the medical and healthcare industry. The Company has been exploring and identifying suitable targets in the medical and healthcare industry and begins to capture opportunities in the healthcare industry.

On 7 April 2016, the Company entered into a memorandum of understanding with China Huarong International Holdings Limited and Kingston Financial Group Limited in relation to the setting up of the general partner. The funds will be private funds with a focus in the healthcare industry with the maximum aggregate capital commitments of the funds will not exceed USD20 billion. The proposed investment strategy of the funds is to target specific acquisitions globally to take advantage of the growing demand for healthcare and medical products in the PRC market. Details can be found from the Company's announcements dated 7 April 2016.

While on 22 June 2016, the Company entered into a memorandum of understanding with the vendor of Lung Hang Investments Limited (the "Target Company") for acquisition of the entire issued share capital of the Target Company which in turn indirectly holds 60% equity interest in the Anhui Huayuan Pharmaceutical Company Limited (the "PRC Company")(the "Proposed Acquisition"). The PRC Company owns various subsidiaries in the PRC which are engaged in proprietary Chinese medicines, chemical raw materials, biochemical products, chemical medicine preparation and healthy food. The Group have paid a refundable amount of HK\$140 million as earnest money after the signing of the memorandum of understanding up to the date of this report under terms and conditions thereof. The Proposed Acquisition is under due diligence process at the date of this interim result announcement. Details of the Proposed Acquisition can be found from the Company's announcements dated 22 June 2016 and 29 June 2016.

Furthermore, the Company entered into a strategic cooperation memorandum of understanding ("Strategic Cooperation MOU") with Anhui Province Taihe County People's Government ("Taihe Government") in relation to the proposed cooperation in promoting of the business development of the Group and Taihe Government (collectively, "Parties") on 20 July 2016. According to the Strategic Cooperation MOU, the Parties intend to cooperate by way of the State-owned Assets Administration Bureau of Taihe County transferring its legally and beneficially owned 29.04% equity interest of the PRC Company to the Company. Taihe Government shall assist the Company to acquire the remaining equity interest of the PRC Company at market value, recommend potential cooperation opportunities to the Company and assist the Company to negotiate for investments. The Strategic Cooperation MOU is effective for 5 years. Details of the Strategic Cooperation Memorandum of Understanding can be found from the Company's announcements dated 20 July 2016.

The Company will continue to explore and consider any other investment and business opportunities that may arise in the market from time to time that the Company considers value-enhancing to shareholders of the Company and/or otherwise in best interest of the Company and its subsidiaries.

## **ADVANCE TO ENTITY**

Pursuant to Rule 13.13 of the Listing Rules, a disclosure obligation arises where an advance to an entity exceeds 8% of the total assets of the Group. Pursuant to Rule 13.20 of the Listing Rules, details of the advance as defined under Rule 13.15 of the Listing Rules which remained outstanding as at 30 June 2016 were set out below.

On 29 June 2016, the Group paid a refundable amount of HK\$140 million as earnest money after signing of the memorandum of understanding for the Proposed Acquisition of the PRC Company. Details can be found from the Company's announcements dated 29 June 2016.

## **OTHER INFORMATION**

### **Interim Dividend**

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

### **Purchase, Sale or Redemption of Listed Shares**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

### **Events after the reporting period**

There was no significant event after the reporting period up to the date of this announcement.

### **Model Code for Securities Transactions**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions throughout the six months ended 30 June 2016 and up to the date of this interim results announcement.

### **Corporate Governance**

The Directors are of the opinion that the Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") under Appendix 14 of the Listing Rules throughout the six months ended 30 June 2016, except for the deviation from code provision A.2.1 of the Code as described below.

#### **Code Provision A.2.1**

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not have any officer with the title of "chief executive officer" and this is deviated from the code provision A.2.1 of the Code.

Mr. Gong Shaoxiang, who acts as the Chairman and an executive Director of the Company since 4 November 2015, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. The roles of the respective executive Directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to operate efficiently.

The Company understands the importance to comply with the code provision A.2.1 and will continue to consider the feasibility to comply with the said code provision. If compliance with the said provision is determined, appropriate persons will be nominated to assume the different roles of chairman and chief executive officer.

### **Audit Committee**

The audit committee of the Board (the “Audit Committee”) and review of interim results currently has three members comprising Mr. Wong Chun Hung (Chairman), Mr. Bao Jinqiao and Mr. Leung Pok Man, all being independent non-executive Directors. The composition and members of the Audit Committee complies with the requirements under Rules 3.21 of the Listing Rules.

The Audit Committee has reviewed together with the management the accounting principles and policies adopted by the Group and the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2016. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2016 have also been reviewed by RSM Hong Kong, the external auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

By Order of the Board  
**CHINA HEALTHCARE ENTERPRISE GROUP LIMITED**  
**Gong Shaoxiang**  
*Chairman and Executive Director*

Hong Kong, 25 August 2016

*As at the date of this announcement, the Board comprises Mr. Gong Shaoxiang (Chairman) and Mr. Lee Chi Hwa Joshua as executive Directors, Mr. Cao Yuyun as non-executive Director and Mr. Bao Jinqiao, Mr. Wong Chun Hung and Mr. Leung Pok Man as independent non-executive Directors.*