

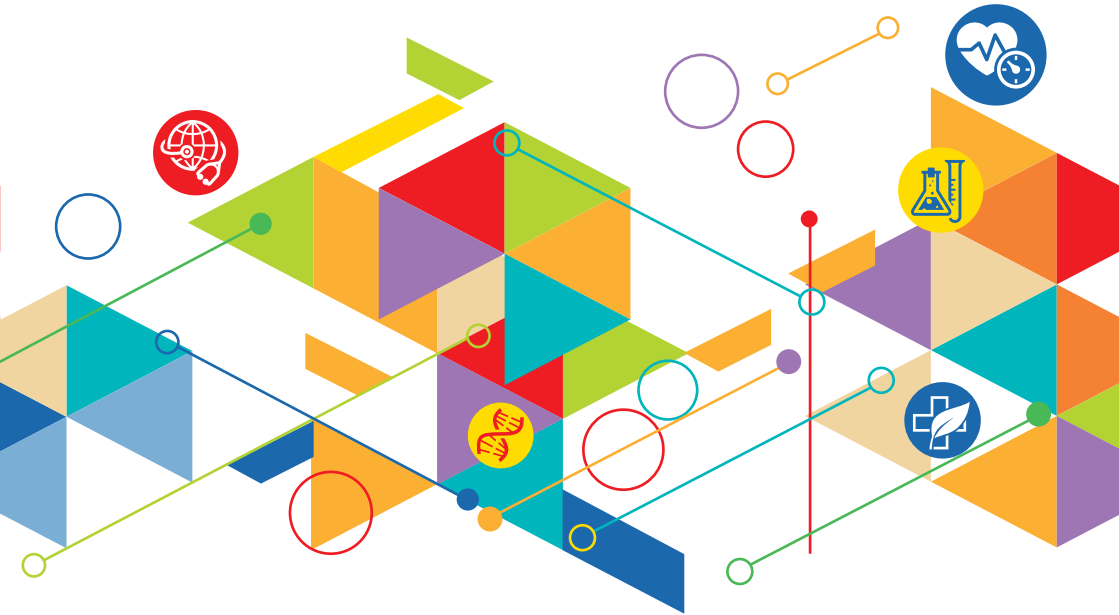


China Health Group Limited 中國衛生集團有限公司

(Carrying on business in Hong Kong as CHG HS Limited)

(Incorporated in Bermuda with limited liability)

Listed on The Stock Exchange of Hong Kong (Stock Code : 673)



2016 INTERIM REPORT

CORPORATE INFORMATION

Directors

EXECUTIVE DIRECTORS

Mr. Weng Yu
Mr. Wang Yongqing
Mr. Chung Ho
Mr. Wang Jingming
Mr. Zhang Fan

NON-EXECUTIVE DIRECTORS

Mr. Ying Wei
Mr. Zhang Song
Ms. Wei Changying
Mr. Xing Yong
Mr. Wang Zili
Mr. Wang Xiaolin
Mr. Wang Yuexiang
Mr. Li Xuguang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xiao Zuhe
Mr. Wang Qingyou
Mr. Zou Lian
Ms. Yang Huimin
Mr. Liang Qi
Mr. Xin Hua
Mr. Jiang Xuejun

COMPANY SECRETARY

Mr. Tsui Siu Hung Raymond

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 801, 8/F
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

PRINCIPAL BANKER

The Bank of East Asia Limited
10 Des Voeux Road Central
Hong Kong

AUDITORS

Elite Partners CPA Limited
10/F, 8 Observatory Road,
Tsim Sha Tsui, Hong Kong

LEGAL ADVISER

K&L Gates
44th Floor,
Edinburgh Tower,
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda)
Limited
The Belvedere Building
66 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

673

COMPANY WEBSITE

<http://www.ch-groups.com>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

		Six months ended 30 September	
	Notes	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	5	701	23,144
Cost of services		–	(18,225)
Gross profit		701	4,919
Other gain		627	486
Selling and distribution expenses		–	(5,012)
Administrative expenses		(45,613)	(22,015)
Finance costs	6	–	(7,283)
LOSS BEFORE TAX	7	(44,285)	(28,905)
Income tax	8	–	(128)
LOSS FOR THE PERIOD		(44,285)	(29,033)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(349)	(2,082)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

	Six months ended 30 September	
Notes	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF INCOME TAX OF NIL	(349)	(2,082)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(44,634)	(31,115)
Loss for the period attributable to:		
Owners of the Company	(44,285)	(23,812)
Non-controlling interests	–	(5,221)
	(44,285)	(29,033)
Total comprehensive loss for the period attributable to:		
Owners of the Company	(44,634)	(25,356)
Non-controlling interests	–	(5,759)
	(44,634)	(31,115)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY		
9		
Basic and diluted:		
– For loss for the period (HK cents)	(1.22)	(1.23)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2016

	Notes	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		189	238
Intangible asset		17,434	–
Other receivables		28,921	17,985
		<hr/>	<hr/>
Total non-current assets		46,544	18,223
CURRENT ASSETS			
Trade receivables	10	1,239	562
Prepayments, deposits and other receivables		27,670	11,169
Cash and bank balances		129,021	205,027
		<hr/>	<hr/>
Total current assets		157,930	216,758
CURRENT LIABILITIES			
Other payables and accrued expenses		64,085	49,889
Amounts due to deconsolidated subsidiaries		4,647	4,716
		<hr/>	<hr/>
Total current liabilities		68,732	54,605

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	30 September 2016	31 March 2016
<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
	(Unaudited)	(Audited)
NET CURRENT ASSETS	<u>89,198</u>	<u>162,153</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>135,742</u>	<u>180,376</u>
NET ASSETS	<u><u>135,742</u></u>	<u><u>180,376</u></u>
EQUITY		
Equity attributable to owners of the Company		
Issued capital	11 321,995	211,995
Reserves	<u>(186,253)</u>	<u>(31,619)</u>
TOTAL EQUITY	<u><u>135,742</u></u>	<u><u>180,376</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2016

	Attributable to owners of the Company										
	Share capital	Share premium	Contributed surplus	Statutory reserves	Convertible bonds reserve	Foreign currency translation reserve	Share options reserve	Accumulated losses	Total	Non-controlling interests	Total equity/ (Deficiency in assets)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2015 (Audited)	68,329	331,960	57,124	1,047	198,592	15,635	1,656	(666,190)	8,153	28,439	36,592
Loss for the period	-	-	-	-	-	-	-	(23,812)	(23,812)	(5,221)	(29,033)
Other comprehensive loss for the period	-	-	-	-	-	(1,544)	-	-	(1,544)	(538)	(2,082)
Total comprehensive loss for the period	-	-	-	-	-	(1,544)	-	(23,812)	(25,356)	(5,759)	(31,115)
Subscription of shares	13,666	24,598	-	-	-	-	-	-	38,264	-	38,264
Repayment of convertible bonds	-	-	-	-	(3,592)	-	-	3,592	-	-	-
Issue of share upon the conversion of convertible bonds	130,000	65,000	-	-	(195,000)	-	-	-	-	-	-
At 30 September 2015 (Unaudited)	<u>211,995</u>	<u>421,558*</u>	<u>57,124*</u>	<u>1,047*</u>	<u>-*</u>	<u>14,091*</u>	<u>1,656*</u>	<u>(686,410)*</u>	<u>21,061</u>	<u>22,680</u>	<u>43,741</u>
At 1 April 2016 (Audited)	211,995	421,558	57,124	-	225,000	(1,145)	1,656	(735,812)	180,376	-	180,376
Loss for the period	-	-	-	-	-	-	-	(44,285)	(44,285)	-	(44,285)
Other comprehensive loss for the period	-	-	-	-	-	(349)	-	-	(349)	-	(349)
Total comprehensive loss for the period	-	-	-	-	-	(349)	-	(44,285)	(44,634)	-	(44,634)
Issue of shares upon conversion of convertible bonds	110,000	55,000	-	-	(165,000)	-	-	-	-	-	-
Lapse of share options	-	-	-	-	-	-	(1,656)	1,656	-	-	-
At 30 September 2016 (Unaudited)	<u>321,995</u>	<u>476,558*</u>	<u>57,124*</u>	<u>-</u>	<u>60,000*</u>	<u>(1,494)*</u>	<u>-*</u>	<u>(778,441)*</u>	<u>135,742</u>	<u>-</u>	<u>135,742</u>

* These reserve amounts comprise the consolidated deficiency in reserves of approximately HK\$186,253,000 (2015: HK\$190,934,000) in the consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2016

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(58,154)	(44,545)
NET CASH FLOWS (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(17,434)	1,896
NET CASH FLOWS USED IN FROM FINANCING ACTIVITIES	<u>–</u>	<u>(27,722)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(75,588)	(70,371)
Effect of foreign exchange rate changes, net	(418)	(667)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>205,027</u>	<u>101,329</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>129,021</u>	<u>30,291</u>
Analysis of cash and cash equivalents:		
Restricted bank balances	129,021	11,757
Cash and bank balances	<u>–</u>	<u>18,534</u>
	<u>129,021</u>	<u>30,291</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

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 26 Burnaby 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.

2. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The accounting policies and the basis of preparation adopted in the preparation of these interim condensed consolidated financial statements are consistent with those adopted in the annual consolidated financial statements of the Group for the year ended 31 March 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) issued by 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 unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except for when otherwise indicated.

3. IMPACT OF NEW AND REVISED HKFRSs

In the Period, the Group has applied the following amendments to HKFRSs and a new interpretation issued by the HKICPA:

Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle
Amendments to HKAS 1	Presentation of financial statements: Disclosure initiative

The application of the above new interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

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 organized 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 for the year ended 31 March 2016); and
- (ii) healthcare service.

Segment assets excluded cash and bank balances except for restricted bank balances and corporate assets as these assets are managed on a group basis.

Segment liabilities excluded 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 six months ended 30 September 2016 and 2015.

	B-to-C consumer services		Healthcare service		Total	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Segment revenue						
Revenue from external customers	-	8,811	701	14,333	701	23,144
Segment results	-	(3,093)	(5,147)	508	(5,147)	(2,585)
Reconciliation:						
Interest income and unallocated gains					9	486
Corporate and other unallocated expenses					(39,147)	(19,523)
Finance costs-unallocated					-	(7,283)
Loss before tax					(44,285)	(28,905)
Depreciation and amortisation	-	53	49	-	49	53
Reconciliation:						
Unallocated depreciation and amortisation					-	1
					49	54

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

4. OPERATING SEGMENT INFORMATION (Continued)

The following tables are an analysis of the Group's assets as at 30 September 2016 and 31 March 2016:

	As at 30 September 2016 (Unaudited)		
	B-to-C consumer services HK\$'000	Healthcare service HK\$'000	Total HK\$'000
SEGMENT ASSETS	-	101,642	101,642
Corporate and other unallocated assets			102,832
Total assets			204,474

	As at 31 March 2016 (Audited)		
	B-to-C consumer services HK\$'000	Healthcare service HK\$'000	Total HK\$'000
SEGMENT ASSETS	-	22,538	22,538
Corporate and other unallocated assets			212,443
Total assets			234,981

5. REVENUE

Revenue, which is also the Group's turnover, represented the commission income earned from provision of B-to-C consumer services and the income from provision of healthcare service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

6. FINANCE COSTS

	Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Effective interest expenses on convertible bonds wholly repayable within five years	–	587
Dividend payable to convertible preference share issued by a subsidiary	–	6,696
	<u>–</u>	<u>6,696</u>
	<u>–</u>	<u>7,283</u>

7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Depreciation of property, plant and equipment	49	54
Interest income	(627)	(51)
	<u>–</u>	<u>3</u>

8. INCOME TAX

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

Subsidiaries established in the People's Republic of China (the "PRC") are subject to the PRC enterprise income tax at the standard rate of 25% (2015: 25%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

8. INCOME TAX (Continued)

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax – PRC	–	128

9. LOSS PER SHARE

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company, used in the basic loss per share calculation	(44,285)	(23,812)
Number of shares	2016	2015
Weighted average number of ordinary shares for the purpose of basic loss per share	3,619,947,634	1,942,285,660

For the period ended 30 September 2016 and 30 September 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.

10. TRADE RECEIVABLES

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

- (i) provision of B-to-C consumer service pre-charge are with credit terms of 180 days; and
- (ii) provision of healthcare service are with credit terms of 90 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

10. TRADE RECEIVABLES (Continued)

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

	30 September 2016	31 March 2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within 1 month	677	562
1 to 3 months	–	–
over 3 months	562	–
	1,239	562

11. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Authorised:		
Ordinary shares of HK0.1 each		
At 1 April 2015, 31 March 2016, 1 April 2016 and 30 September 2016	100,000,000,000	10,000,000
Issued and fully paid:		
Ordinary shares of HK\$0.1 each		
At 1 April 2015	683,289,695	68,329
Subscription of shares (<i>note i</i>)	136,657,939	13,666
Issue of shares upon conversion of the convertible bonds (<i>note ii</i>)	1,300,000,000	130,000
At 31 March 2016 and 1 April 2016	2,119,947,634	211,995
Issue of shares upon conversion of the convertible bonds (<i>note iii</i>)	1,100,000,000	110,000
At 30 September 2016	3,219,947,634	321,995

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

11. SHARE CAPITAL

Notes:

- (i) 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.
- (ii) 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 in relation to the subscription of the zero coupon convertible note in principal amount of HK\$195,000,000 which is convertible into new shares at the initial conversion price of HK\$0.15 per share. 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.
- (iii) Pursuant to the subscription agreements (as supplemented by a series of supplemental agreements) dated 8 April 2014 entered into between the Company and each of Zheng Hua Investment Limited ("Zheng Hua") and Pacas Worldwide Limited ("Pacas"), the Company has conditionally agreed to issue, and Zheng Hua and Pacas have conditionally agreed to subscribe for, the convertible notes of an aggregate principal amount of HK\$225 million which are convertible into new shares at the initial conversion price of HK\$0.15 per share (subject to adjustments). In November 2015, convertible notes with an aggregate principal amount of HK\$225,000,000 which can be converted into 1,500,000,000 shares at a conversion price of HK\$0.15 per share were issued raising net proceeds of HK\$224.4 million. On 21 June 2016 and 23 August 2016, convertible notes with principal amount of HK\$30,000,000 and HK\$135,000,000 were converted into 200,000,000 and 900,000,000 shares by Pacas and Zheng Hua respectively.

12. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in the sections headed "Material litigations" and "Future prospect" below, there were no material events after the Period.

13. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved by the Board on 3 April 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

For the Period, the Group recorded a turnover of HK\$701,000, representing a decrease of 97% as compared to HK\$23,144,000 for the last corresponding period. The decrease in turnover was mainly due to the de-consolidation of certain subsidiaries on 1 October 2015 as detailed in the annual report of the Company for the year ended 31 March 2016. Net loss attributable to shareholders was HK\$44,285,000 (2015: HK\$23,812,000). 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 Period.

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

REVIEW OF BUSINESS OPERATION

Shuangluan Hospital

The Group took over the operation 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 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 during the Period.

Shuangluan Hospital was 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 in 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 expansion of the hospital.

Anping Bo'ai Hospital

On 12 September 2016, the Zhongwei Health Industries (Shenzhen) Co., Ltd. ("Management Company"), Mr. Sang Shiwen ("Mr. Sang"), Mr. Han Jianbin ("Mr. Han") and 安平博愛醫院 ("Anping Bo'ai Hospital") entered into an agreement as supplemented on 29 September 2016 (the "Anping Agreement"), pursuant to which Mr. Sang, Mr. Han 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 million (equivalent to approximately HK\$17.4 million). In addition, the Company has agreed to provide Anping Bo'ai Hospital with a loan in an aggregate principal amount of no more than RMB10 million (equivalent to approximately HK\$11.6 million) 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 (i) depreciation, repair and maintenance expenses and equipment upgrade and renovation cost to be incurred from the existing equipment available as stipulated in the Anping Agreement; (ii) rental expenses; (iii) finance cost; and (iv) any legal and professional fees arising from legal proceeding against Anping Bo'ai Hospital. The completion of grant of the operation right to the Group to operate Anping Bo'ai Hospital took place on 29 September 2016 and the contribution from this operating right has not been reflected in the Period. Further details of the transactions were disclosed in the announcements of the Company dated 12 September 2016 and 29 September 2016.

Board reorganization

In 2016, the Company received request of certain shareholders ("Requisition Notice") 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 (details are set out in to the announcements of the Company dated 31 December 2015 and 11 March 2016).

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 during the Period. The special general meeting held on 5 June 2016 was considered adjourned as ruled by the High Court of Hong Kong (the “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, Mr. Zhou Bao Yi, Mr. Zhao Kai, Mr. Mu Xiang Ming (“Mr. Mu”), Dr. Yan Shi Yun, Mr. Jiang Bo and Mr. Zhao Hua, were all removed, and 20 new directors were appointed with immediate effect (please refer to the announcement of the Company dated 19 June 2016).

Deconsolidated subsidiaries

Following the above 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 certain subsidiaries due to non-cooperation of the previous management and accounting personnel of these companies. Such subsidiaries have been deconsolidated from the consolidated financial statements of the Group on 1 October 2015. Nevertheless, the Group is still taking actions to regain books and records of these deconsolidated subsidiaries as disclosed in the annual report for the year ended 31 March 2016. Further announcement(s) will be made by the Company as and when appropriate to keep the shareholders informed of the material developments in the above matters.

Hospital management model

The Group adopts the hospital management model designed by and named after Mr. Wang Jingming, the executive director of the Company, to manage the hospitals under the hospital management agreements. The model, known as the “Jingming Model” (the “Model”), mainly focuses on (i) improving/installing advanced information system particularly for management of patient records and billing history, outpatient registrations and inpatient admissions; (ii) enhancing quality and broadening variety of hospital services; and (iii) incentivising hospital employees to improve overall efficiency. The principal roles of the Group under the hospital management agreements are as follows:

- (a) Participate in the management team: Upon taking over each hospital under the hospital management agreements, a new management committee with majority of members being appointed by the Group would be set up as the decision making body for the overall strategy and direction of each hospital. The Group would appoint new president and financial controller for each hospital to oversee hospital operations and implement the Model at each hospital. Save for the above changes, the daily operations of the hospital would principally be managed by the existing senior management team of the relevant hospital and additional management personnel would be hired if and when necessary. The Group would also provide training to the existing senior management team of each hospital to facilitate the implementation of the Model.
- (b) Upgrade information system: Under the Model, the hospitals managed by the Group would revamp their information system with the support of an information technology company appointed by the Group to streamline the operational efficiency of hospitals and enhance management of the medical records and treatment history of the patients. The information system allows for patient information to be shared efficiently across all departments within the hospital and ensure efficient communication between staff and patients. The Group, with the assistance of the information technology company, would monitor the installation, migration from existing system and ongoing operations of the new information system.
- (c) Provide funding support: Depending on the needs of each hospital, the Group may also provide loans to fund their capital expenditures required for system upgrade, purchase of equipment as well as other hospital improvement or expansion works. With capital support of the Group, the medical equipment and infrastructure of the hospitals can be upgraded to provide better service and attract more patients.

- (d) Enhance quality of services: The Group maintains an alliance of over 20 experienced doctors and medical practitioners and specialists in different medical fields. The Group links up the alliance with the hospitals under the Group's management. Doctors included in the alliance are engaged to station in the hospital or provide special medical advices to patients on a case by case basis. This arrangement greatly enhances the quality and variety of services that may be provided by the hospitals at a cost efficient model.
- (e) Design incentive scheme: The hospitals adopt key performance indicators ("KPIs") under the Model such as the number of inpatient and outpatient visits, average number of inpatient bed-days, total revenue of the hospital and ward utilisation rate (i.e. the percentage of beds in operation occupied by the inpatients) to evaluate staff performance and introduce appropriate incentive-based remuneration with an aim to motivating the employees. With the KPIs assessment, doctors and nurse officers are motivated by increasing the utilisation rate of beds in their respective wards and improving hospital services quality, thereby increasing revenue of the hospitals. The Group would evaluate the existing performance of each hospital, identify areas for improvement and assist to design appropriate KPIs and incentive-based remuneration policies for each hospital.

LIQUIDITY AND CAPITAL RESOURCES

The Group mainly financed its day to day operations by internal cash flow during the Period.

As at 30 September 2016, the Group's cash and cash equivalents amounted to approximately HK\$129 million (31 March 2016: HK\$205 million).

As at 30 September 2016, the current assets and net current assets of the Group were approximately HK\$157.9 million (31 March 2016: HK\$216.8 million) and HK\$89.2 million (31 March 2016: HK\$162.2 million) respectively, representing a current ratio of 2.30 (31 March 2016: 3.97).

On 21 June 2016 and 23 August 2016, 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 by holders of convertible notes, respectively. As at 30 September 2016, convertible notes with principal amount of HK\$60,000,000 which can be converted into 400,000,000 shares are outstanding.

As at 30 September 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) (31 March 2016: US\$4,000,000 (equivalent to approximately HK\$30.9 million)), which is in dispute as disclosed in the section headed "Material litigations", was included in other payables and accrued expenses.

As at 30 September 2016, the gearing ratio was 0.23 (31 March 2016: 0.17), calculated by dividing dividend payable on redeemable convertible cumulative preference shares (representing debt owed by the Company) by shareholders' equity of HK\$135.7 million (31 March 2016: HK\$180.4 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.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Save for the discloseable transactions as disclosed in the paragraph headed "Anping Bo'ai Hospital" under the section headed "Review of business operation" above, there were no other significant investments, material acquisitions and disposals during the Period.

MATERIAL LITIGATIONS

The Group had the following material litigations during the Period and up to date of this interim report:

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 (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 of principal 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, a former director, on 8 June 2016. Such remittance was instructed and operated by another former director, namely Dr. Li Zhong Yuan. The Company stopped the payment and issued an originating summons against Dr. Li Zhong Yuan 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 Zhong Yuan 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 Zhong Yuan 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 德豐網絡有限公司 (Harvest Network Limited) (“Derivative Action”) against World Success and without admission of any liability, upon Dr. Li Zhong Yuan 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 Zhong Yuan will make an opposition to the Application by way of an affirmation as soon as practicable.

8. On 6 July 2016, Zhongwei Kanghong Investments Limited (“Zhongwei Kanghong”), an indirect wholly-owned subsidiary of the Company, filed a civil lawsuit (“Civil Lawsuit I”) at the People’s Court of Dongcheng District Beijing Municipality (“Dongcheng District Court”) against Beijing Zhongwei Kanghong Hospital Management Co. Ltd. (“Beijing Zhongwei”), a wholly-owned subsidiary of Zhongwei Kanghong, Mr. Jia (former chairman of the Company), Mr. Zhao Kai (former director of the Company and the legal representative of Beijing Zhongwei), 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 set out in the Company’s announcement 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 Dongcheng District Beijing Municipality Bureau of Commerce and Administrative Management for the revocation of shareholders’ resolutions of Beijing Zhongwei passed on 23 May 2016 which approved the removal and appointment of certain directors and supervisor, and the reinstatement of the previous board of directors and legal representative. The Administrative Lawsuit has since been transferred to the court in Beijing Haidian District (“Haidian Court”) for processing. Up to the date of this interim report, 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”) with the Dongcheng District Court against Beijing Zhongwei seeking confirmation on the validity and enforcement of certain shareholders’ resolution passed in June 2016 in respect of, among others, change in board and legal representative of Beijing Zhongwei. It is expected that a judgment in respect of the Civil Lawsuit II will be obtained by the end of June 2017.

9. On 31 August 2016, CHC Investment Holdings Limited issued a writ of summons in the Court against each of Dr. Li Zhong Yuan (a former director of the Company), Mr. Zhou Bao Yi (a former director of the Company), Shanghai Huiqu E-commerce Company Limited, Harvest Network Limited, World Success, 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 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 interim report, there is no judgment in respect of the above lawsuit.
10. On 12 September 2016, the Company has received a 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 (1) an order that Li Hong be restrained from presenting any petition for the winding up of the Company based on the Alleged Outstanding Sum; and (2) 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 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.

11. 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 Zhong Yuan, 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 Zhong Yuan 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 Zhong Yuan 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 Zhong Yuan was filed in the Court on 6 February 2017. An affirmation of Dr. Li Zhong Yuan was filed into the Court on 7 February 2017.

12. On 7 November 2016, a civil lawsuit brought by Shanghai Weichang Investment Management and Consulting Co., Limited (“Shanghai Weichang”), one of the de-consolidated subsidiary of the Group, 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 of Shanghai Weichang 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.

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

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 for business opportunities to expand the medical-related operation of the Group and has made substantial progress as detailed below.

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 approximately 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 Gaoxingqi 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. 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 acquisition 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 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.

CONTINGENT LIABILITIES

As at 30 September 2016, there was no material contingent liability of the Group (31 March 2016: nil).

CHARGE ON GROUP'S ASSETS

As at 30 September 2016, there was no charge on the Group's assets (31 March 2016: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2016, the Group employed 17 employees. Total staff cost including directors' emoluments for the Period was approximately HK\$4,197,000 as compared to HK\$8,174,000 for the previous period.

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 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 and 5,970,000 share options were lapsed/cancelled during the Period. There was no outstanding share option as at 30 September 2016.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES AND SHARE OPTIONS

As at 30 September 2016, the interests or short positions of the directors and chief executives of the Company and their associates in the shares, underlying shares and convertible bonds of the Company or any of its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director/chief executive	Company/Associated corporation	Capacity	Interests in shares (other than pursuant to equity derivatives)	Interests in underlying shares pursuant to equity derivatives	Total interest in shares/underlying shares	Percentage of shares and underlying shares to issued shares
Mr. Ying Wei	The Company	Personal	253,469,000 (L)	-	253,469,000 (L)	7.87%

Remarks: (L): Long position

Save as disclosed above, none of directors or chief executive of the Company had any interest or short position in shares, debentures or underlying shares of the Company and its associated corporations which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or pursuant to section 352 of the SFO, to be recorded in the register referred therein; or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

PERSON WHO HAVE AN INTEREST IN SHARES AND UNDERLYING SHARES DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

As at 30 September 2016, so far as was known to the directors and the chief executive of the Company, the following persons (not being directors or chief executive of the Company of which interests were disclosed above) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of substantial shareholders	Capacity	Interests in shares	Interests in underlying shares pursuant to equity derivatives	Total interests in shares and underlying shares	Approximate percentage of shares and underlying shares held to issued shares as at 30 September 2016
Zheng Hua Investment Limited (note 1)	Beneficial owner	900,000,000(L)	400,000,000(L)	1,300,000,000(L)	40.37%
Speedy Brilliant Investments Limited (note 2)	Beneficial owner	276,510,000(L)	–	276,510,000(L)	8.59%
Mr. Zhou Disun (note 2)	Through controlled corporation	276,510,000(L)	–	276,510,000(L)	8.59%
Pacas Worldwide Limited (note 3)	Beneficial owner	200,000,000(L)	–	200,000,000(L)	6.21%
Mr. Li Xuguang (note 3)	Through controlled corporation	200,000,000(L)	–	200,000,000(L)	6.21%

Remarks: (L): Long position

Notes:

(1) Zheng Hua Investment Limited is wholly owned by Shanghai Ying Mao Investment Management Partnership (Limited Partnership) which is owned as to 99.96% by Ping An Trust Co., Ltd.. Ping An Insurance (Group) Company of China Ltd holds 99.88% of Ping An Trust Co., Ltd.. The interest in underlying shares represents the convertible notes which can be converted into 400,000,000 shares of the Company at conversion price of HK\$0.15 each.

(2) Speedy Brilliant Investments Limited is wholly owned by Mr. Zhou Disun.

(3) Pacas Worldwide Limited is wholly owned by Mr. Li Xuguang who was appointed as an non-executive director of the Company on 16 December 2016.

SHARE OPTION SCHEME

The Company operated a share option scheme which was expired on 7 April 2012 and a new share option scheme (the "New Scheme") was approved by the shareholders of the Company on 28 August 2012. Further details of the New Scheme were disclosed in the annual report of the Company for the year ended 31 March 2016. There was no change in any terms of the New Scheme during the period.

The following table discloses details of options outstanding and movements during the period:

	Option type	Outstanding at 1 April 2016	Granted	Exercised	Lapsed/ cancelled	Reclassified	Outstanding at 30 September 2016
Director							
Li Zhong Yuan (removed on 18 June 2016)	E	2,619,000	-	-	(2,619,000)	-	-
Employees and others							
	E	3,351,000	-	-	(3,351,000)	-	-
Total		<u>5,970,000</u>	<u>-</u>	<u>-</u>	<u>(5,970,000)</u>	<u>-</u>	<u>-</u>

Option type	Date of grant	Exercise period	Exercise price HK\$	Closing price immediately before the date of grant HK\$
E	13 April 2010	13/4/2010-12/4/2020	0.500	0.490

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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 Period, except for the below deviations:

- 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 Period and will continue to seek insurance companies to comply with the Code.
- 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.
- 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, Dr. Li Zhong Yuan, Mr. Zhou Bao Yi, Mr. Zhao Kai, Mr. Mu, 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.

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, all directors except for Mr. Jia, Dr. Li Zhong Yuan, Mr. Zhou Bao Yi, Mr. Zhao Kai, Dr. Yan Shi Yun, Mr. Mu, Mr. Jiang Bo and Mr. Zhao Hua declared that they have complied with the Model Code during the Period.

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.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including review of the unaudited interim financial statements for the six months ended 30 September 2016.

On behalf of the Board
China Health Group Limited
Weng Yu
Executive Director

Hong Kong, 3 April 2017