



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)

2017 ANNUAL REPORT



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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

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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COMPANY WEBSITE

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STOCK CODE

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Management Discussion and Analysis

RESULTS

For the year ended 31 March 2017, the Group reported a revenue of approximately HK\$15 million, representing a decrease of 37% as compared to HK\$23.7 million for the previous financial year. The revenue comprises (a) trading income of medical equipment of HK\$12.3 million (2016: nil); (b) management fee income from management of Shuangluan Hospital of approximately HK\$1.7 million (2016: HK\$0.5 million); and (c) operating right income from management of Anping Bo'ai Hospital and Dingnan Chinese Medicine Hospital of approximately HK\$1 million (2016: nil), representing the Group's share of revenue of approximately HK\$17.9 million (2016: nil) after deducting the cost of services recharged by the two hospitals of approximately HK\$16.9 million (2016: nil), during the year.

Pursuant to the operating right agreements for Anping Bo'ai Hospital and Dingnan Chinese Medicine Hospital (collectively the "Operating Right Agreements") entered into in September 2016 and November 2016 respectively as detailed below, the Group is entitled 85% to 90% of revenue generated from Anping Bo'ai Hospital and Dingnan Chinese Medicine Hospital respectively and bears certain costs for both hospitals as specified in the Operating Right Agreements from the date of commencement of grant of operating rights. Based on the management accounts of the Group, the unaudited total management income receivable from Anping Bo'ai Hospital and Dingnan Chinese Medicine Hospital for the nine months ended 31 December 2016 and the year ended 31 March 2017 was approximately HK\$8 million (as disclosed in the announcement of interim results for the six months ended 30 September 2016) and approximately HK\$17.9 million as disclosed above respectively.

Having considered the operations of the hospitals, including but not limited to (i) the employment contracts of all staff in the hospital which are entered into by the hospital with the employees and the staff cost and employee benefit cost were recharged from the hospitals and (ii) the procurement and reimbursement of medicine arrangement and pursuant to the relevant accounting standards, it was considered that the Group was acting as an agent instead of the principal after discussion with the auditors of the Company during the course of audit of the annual results of the Group for the year ended 31 March 2017. Therefore, the revenue from operating rights of both hospitals was presented and recognised in the consolidated statement of profit or loss of the Group for the year ended 31 March 2017 based on the consideration received or receivable from the hospitals, representing the Group's share of revenue after deducting the cost of services recharged from both hospitals during the year. The directors of the Company are of view that the presentation of revenue on the aforesaid net basis is made pursuant to relevant accounting standard and the Group's operations and its entitlement to the hospitals' revenue and other rights would not be affected.

The Group's loss attributable to shareholders for the year was approximately HK\$69.3 million as compared to a net loss of approximately HK\$73.2 million for the previous financial year. The decrease in revenue 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. The decrease in net loss was mainly attributable to no impairment loss on other receivables and net loss recognised on de-consolidation of subsidiaries recognised offsetting 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, various litigations of the Group and fees for resumption of trading of shares of the Company during the year. Basic loss per share for the year was HK1.91 cents (2016: HK2.69 cents).

Management Discussion and Analysis

REVIEW OF BUSINESS OPERATION

For the year ended 31 March 2017, the existing business segments of the Group comprise (a) hospital management business; and (b) medical equipment trading business.

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 year and the revenue of the hospital increased over 60%. For the year ended 31 March 2017, the Group is entitled management fee equivalent to 3% of the revenue of Shuangluan Hospital.

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 (which has been almost fully occupied) in the first phase. As at the date of this report, the second phase construction of “Psychiatry Building” has been completed and it is expected that the “Psychiatry Building” will be in operation this year. With the expansion of hospital scale, the revenue of the hospital is expected to grow significantly 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.* (the “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).

Management Discussion and Analysis

The Management Company is 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 bears 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. The acquisition of properties was not completed as at date of this report. Further details of the transactions were disclosed in the announcements of the Company dated 12 September 2016 and 29 September 2016.

Dingnang Chinese Medicine Hospital

On 4 November 2016, the Management Company, Mr. Zheng Ruiyuan and Dingnang Chinese Medicine Hospital* (定南縣中醫院) 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 is entitled to a monthly operation and management income in an amount equal to 85% of the total monthly revenue generated from the business operation of Dingnang Chinese Medicine Hospital. Meanwhile, the Management Company bears all expenses of Dingnang Chinese Medicine Hospital during the terms of management and operation of Dingnang Chinese Medicine Hospital but excluding (i) depreciation incurred from the existing equipment; and (ii) interest expenses arising from loan(s) obtained by Dingnang Chinese Medicine Hospital prior to the date of the operating right agreement. Further details of the above were disclosed in the announcement of the Company dated 7 November 2016.

Red Cross Hospital of Luanping County and the Hong Fu Eldercare and Nursing Home of Luanping County

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. The contribution from this operating right has not been reflected during the year.

Management Discussion and Analysis

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.

Management Discussion and Analysis

- (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.

Key operating data of hospitals

The following table sets forth the key operational information of the hospitals under the management of the Group during the year:

	Shuangluan Hospital (From 1 April 2016 to 31 March 2017)	Anping Bo'ai Hospital (note a) (From 1 October 2016 to 31 March 2017)	Dingnang Chinese Medicine Hospital (note b) (From 1 November 2016 to 31 March 2017)
Inpatient healthcare services			
Number of beds (as at 31 March 2017)	400	102	120
Number of beds in operation (as at 31 March 2017)	388	36	53
Inpatient visits	4,766	1,690	878
Inpatient bed-days	122,515	10,008	6,572
ALOS (days) (note c)	25.7	5.92	7.5
Average spending per visit (RMB)	6,592.57	2,424.98	4,157.54
Outpatient healthcare services			
Outpatient visits	86,378	25,522	49,794
Average spending per visit (RMB)	191.43	117.40	144.03
Staff (as at 31 March 2017)			
Doctors	125	34	48
Other medical staff	158	48	77
Other staff	83	19	32
Total	366	101	157

Management Discussion and Analysis

Note a: The Group obtained the operating right of the Anping Bo'ai Hospital in October 2016.

Note b: The Group obtained the operating right of the Dingnang Chinese Medicine Hospital in November 2016.

Note c: It represents the average number of days an inpatient stays at hospitals.

Medical equipment trading

The Group has also carried out medical equipment trading business for hospitals through a trading company with medical equipment procurement and supply licenses in Beijing during the year. This business facilitates the sourcing and supplying of high quality equipment to the hospitals managed by the Group, which in turn streamlines the hospital operations, maintains quality of services provided by the Group, and improves performance of the hospital management business accordingly. It is expected that this business continues to bring in stable revenue to the Group.

Investment in a limited partnership fund

In order to grasp latest developments in the industry and capture more investment opportunities, the Group entered into the limited partnership agreement to invest RMB20,000,000 (equivalent to approximately HK\$22,400,000) in a healthcare industry investment fund, namely Gongqingcheng Xinhenfu Medical Investment Management Partnership (Limited Partnership) (共青城鑫恒富醫療投資管理合伙企業(有限合伙)), as a limited partner of the fund in March 2017.

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).

Management Discussion and Analysis

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.

FUTURE PROSPECT

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

The Group will carry out financing services for hospitals through a finance leasing company in the Shenzhen Qianhai Free Trade Area. With completion of placing exercises raising net proceeds of HK\$71.3 million in June 2017, part of proceeds will be applied to the operation of the finance lease company. The main business scope and vision of the finance leasing business will be provision of finance leasing and sale and leaseback service of medical equipment and provision of liquidity services to hospitals. It is expected that this new business will also bring in stable revenue to the Group.

The Group is also in progress of setting up a central medicine procurement system for supplying medicines to all hospitals managed by the Group. It is expected that such system would reduce the cost of medicines incurred by hospitals through centralized and bulk purchases from suppliers and therefore further improves the performance of the hospital management business.

In light of the successful experience of the Group in managing hospitals, we have laid a foundation to carry out cooperation with public hospitals and launch primary healthcare service system. In the future, the Group will fully utilise the competitive edge of management model and human resources to cooperate with public hospitals through ways of merger and acquisition and/or reconstruction, and establish regional medical care service system and central medicine procurement 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.

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Strategic cooperation memorandum

On 21 December 2016, the Company and the International Eco-tech Cooperation Committee of the China National Committee for Pacific Economic Cooperation entered into a strategic cooperation memorandum in relation to the possible cooperation in Chinese healthcare business projects. No formal agreement has been made as at date of this report. Further details of the memorandum were disclosed in the announcement of the Company dated 22 December 2016.

Save as disclosed above and certain transactions stated in section headed “Review of business operation”, there were no other significant investments, material acquisitions and disposals during the year.

FUND RAISING ACTIVITY

The Company has no fund raising activity during the year.

Subsequent to year end, on 10 May 2017, the Company and two independent subscribers entered into the subscription agreements (as supplemented on 31 May 2017) in relation to subscription of 420,000,000 shares of the Company at a subscription price of HK\$0.17 per share. On 5 June 2017, an aggregate of 420,000,000 subscription shares were successfully allotted and issued to subscribers. The net proceeds of approximately HK\$71,300,000, representing a net subscription price per subscription share of approximately HK\$0.169, will be used as to (i) HK\$40 million for the finance leasing business; (ii) approximately HK\$17 million for staff salaries; (iii) approximately HK\$4.3 million for office rental; and (iv) approximately HK\$10 million for future investments if opportunity arises. As at date of this report, the proceeds were not yet utilized. Details of the subscription were set out in the announcements of the Company dated 10 May 2017, 24 May 2017, 31 May 2017 and 5 June 2017.

CONVERSION OF CONVERTIBLE NOTES AND UPDATE ON USE OF PROCEEDS

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

Management Discussion and Analysis

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

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

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

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

From the date of issue of convertible notes to the date of this report, (i) approximately HK\$40.5 million (equivalent to RMB35 million) has been used for the provision of loans to Shuangluan Hospital; (ii) approximately HK\$17.4 million (equivalent to RMB15 million) has been used for payment for grant of operating right of Anping Bo'ai Hospital; (iii) approximately HK\$2.3 million (equivalent to RMB2 million) has been used for provision of loan to Anping Bo'ai Hospital; (iv) approximately HK\$17.4 million (equivalent to RMB15 million) has been used for payment of acquisition of properties of Anping Bo'ai Hospital; (v) approximately HK\$22.6 million (equivalent to RMB20 million) has been used to invest in a fund; (vi) approximately HK\$3.4 million (equivalent to RMB3 million) has been used for the provision of loans to Dingnan Chinese Medicine Hospital; and (vii) approximately HK\$138.2 million has been used for general working capital of the Group including (1) legal and professional fees of over HK\$30 million mainly arising from disputes among shareholders and previous management of the Group, various litigations of the Group and fees for resumption of trading of shares of the Company); and (2) expenses for the Group's operation mainly comprising of payment for staff and directors salaries, rental expenses and other operating expenses.

Management Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

The Group mainly financed its day to day operations by internally generated cash flow during the year.

As at 31 March 2017, the Group's cash and cash equivalents amounted to approximately HK\$7.1 million (2016: HK\$205 million).

As at 31 March 2017, the current assets and net current liabilities of the Group are approximately HK\$58.9 million (2016: HK\$216.8 million) and HK\$1.3 million (2016: net current assets of HK\$162.2 million) respectively, representing a current ratio of 0.98 (2016: 3.97).

As at 31 March 2017, a dividend payable on redeemable convertible cumulative preference shares in the sum of US\$4,000,000 (equivalent to approximately HK\$30.9 million), which is in dispute as disclosed in the section headed "Material litigations" below, was included in other payables and accrued expenses.

As at 31 March 2017, the gearing ratio was 0.28 (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\$110 million (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.

MATERIAL LITIGATIONS

The Group had the following material litigations during the year and up to date of this 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.

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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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 de-consolidated 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, an affidavit exhibiting an affirmation by Dr. Li Zhong Yuan was filed with the court of the British Virgin Islands. By an order of the same court on 2 March 2017, the parties to the action were ordered to make submissions and to list the claim for hearing by prescribed deadlines. The action is still pending as at the date of this report.

Management Discussion and Analysis

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 report, the Administrative Lawsuit has not been heard and no notices from the Haidian Court have been received.

Management Discussion and Analysis

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 August 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 announcement, 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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”), a de-consolidated subsidiary of the Company, 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.

CONTINGENT LIABILITIES

As at 31 March 2017, there were no material contingent liabilities of the Group (2016: nil).

CHARGE ON GROUP’S ASSETS

As at 31 March 2017, there was no charge on the Group’s assets (2016: nil).

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2017, the Group employed 31 employees. The total staff cost including Directors' emoluments was HK\$12.3 million as compared to HK\$11.2 million for the previous year. The Group continues to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Staff benefits include contributions to the Mandatory Provident Fund Schemes and a discretionary bonus payment which is linked to the profit performance of the Group and individual performance. A share option scheme has also been established for employees of the Group. No share option was granted nor exercised during the year. There were no outstanding share options as at 31 March 2017.

Subsequent to year end, on 19 May 2017, the Company granted 50,000,000 share options to certain eligible participants.

ADDRESSING ALL CONCERNS RAISED BY THE COMPANY'S AUDITORS

As disclosed in the annual report of the Company for the year ended 31 March 2016, after the change of the Board composition on 18 June 2016, the accounting team in the PRC and the former Directors did not provide the books and records and supporting documents of the Group to the existing Directors and management of the Company (the "Existing Management") despite their repeated requests. In addition, the former directors and legal representative of Beijing Zhongwei have not handed over all the licenses, stamps and books and records of Beijing Zhongwei to the Existing Management. As such the Existing Management had only been able to identify the nature of certain transactions from copies of supporting documents. The lack of originals of supporting documents and the inability to perform satisfactory alternative audit procedures have caused the disclaimer of audit opinion on the financial statements for the year ended 31 March 2017. Set out below are the details of the transactions which are subject to the disclaimer of opinion and its implications:

1. Opening balances, corresponding figures and comparative financial statements

The Company is not able to assess whether carrying effect on the financial for the year ending 31 March 2018 (the "Next Financial Year") at this stage, as it will depend on the outcome of actions taken by the Company to re-gain the control and books and records of the deconsolidated subsidiaries. As long as the Company remains legally interested as the shareholder of those deconsolidated subsidiaries, commitments, contingent liabilities, related parties transactions and events after the reporting period, if any, of those deconsolidated subsidiaries should be accounted for and disclosed in the consolidated financial statements of the Group. The Company does not have adequate information to assess whether there is any carrying effect on the financials for the Next Financial Year at this stage, as it will depend on the outcome of actions taken by the Company to re-gain the control and books and records of the de-consolidated subsidiaries.

Management Discussion and Analysis

2. Transactions of the Group during the year ended 31 March 2017

The amounts qualified, which represented other income recorded in a bank account in Beijing Zhongwei of approximately HK\$2.7 million and administrative expenses incurred by the Company and Beijing Zhongwei of approximately HK\$13.2 million, were only relevant to the period from 1 April 2016 to 18 June 2016 (being the date of the change in board composition). The Group will continue to make every endeavour including legal actions to complete the procedures to effect the change of authorised signatories for Beijing Zhongwei's bank accounts as soon as practicable.

The Company is not able to assess whether carrying effect on the financial statements for Next Financial Year at this stage, as it will depend on the outcome of legal actions taken by the Company to regain possession of all the license, stamps and books and records of Beijing Zhongwei.

3. Deposit for possible acquisition

As at date of this report, the Company is still negotiating with the vendors and the procurers on the settlement of the earnest money and seek legal advice on whether legal actions would be appropriate. In the event the Company considers the amount to be not recoverable after any action (including possible legal action(s)) to be taken in future, the Company will consider writing off the amount in the Next Financial Year and the timing of such impairment loss will be qualified in the financial statements for the Next Financial Year. The qualification will have a carrying effect on the opening balance and comparative figure in the financial statements of the Group for the year after the Next Financial Year.

4. Dividend payable on redeemable convertible cumulative preference shares

As at date of this report, the Company is still studying the written judgment of the litigation and is now in the course of consulting its legal adviser if any further legal action is needed.

This qualification will have a carrying effect on the opening balance and comparative figure in the financial statements of the Group for the Next Financial Year. The Company and the auditors however are not able to assess at this stage whether there will be other qualification concerning this balance in the Next Financial Year as it will depend on the consequence(s) if there is any further legal action in future.

Management Discussion and Analysis

5. Litigation

As disclosed in section headed “Material litigations”, it is expected that a judgment in respect of a lawsuit seeking confirmation on the validity and enforcement of change in board and legal representative of Beijing Zhongwei, will be obtained by August 2017. The Company and the auditors however are not able to assess at this stage whether there will be other qualification concerning this balance in the Next Financial Year as it will depend on the judgment of the lawsuit. Once Beijing Zhongwei’s board and legal representative are changed, the Company will engage auditors to assess the contingent liabilities and commitment, related party disclosures and events after the reporting period for Beijing Zhongwei and consider any prior-year adjustment if necessary.

As stated above, in order to address the concerns raised by the auditors of the Company, the directors of the Company continue to make every endeavour to (1) re-gain the control and books and records of the de-consolidated subsidiaries; (2) complete the procedures to effect the change of authorised signatories for Beijing Zhongwei’s bank accounts and board and legal representative of Beijing Zhongwei; (3) recover the deposit for possible acquisition; and (4) consult the lawyer of any legal action in respect of dividend payable on redeemable convertible cumulative preference shares. 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.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Weng Yu, aged 37, graduated from Shanghai Jiao Tong University with a bachelor's degree in law. Mr. Weng has been engaged in legal work in enterprises since 2002 and served as a chief legal officer and secretary of the board of directors in a high-tech company from 2005 to 2015, as a result, he has extensive experience in company law and corporation management. He was appointed as executive director of the Company on 18 June 2016.

Mr. Wang Yongqing, aged 56, graduated from Zhongnan University of Economics and Law with a bachelor's degree in economics. Mr. Wang has extensive experience in economic policies and enterprise restructuring and is currently the legal representative of Shenzhen Muosen Arts Exchange Centre. He was appointed as executive director of the Company on 18 June 2016.

Mr. Chung Ho, aged 54, graduated from Shanghai Railway University with a Bachelor degree in Science and Technology and from the Central University of Finance and Economics with a Master degree in Economics. He has over 25 years of experience in investment, financing, corporate management and other areas and has worked in several investment institutions and companies in Mainland China and Hong Kong as senior manager and director. He was appointed as executive director of the Company on 28 December 2012.

Mr. Wang Jingming, aged 60, graduated from the Fourth Military Medical University and the Third Military Medical University and received a bachelor's degree in Medicine and a master's degree in Surgery respectively. In his career of hospital management from 1994, he served in the 251st Hospital of the People's Liberation Army as director of Medical Service, vice president in medical and president, Chang'an Hospital in Xi'an as president, Beijing Beiya Orthopedics Hospital as president, Nanchang 334 Hospital as president, Chengde City Shuangluan District People's Hospital as president. Mr. Wang has long been focused on theoretical research and practice of hospital operating mechanism, management model, development direction, and made outstanding achievements. "The Research of Military Center Hospital Management New Model" awarded the second prize of military science and technology progress, "Hospital Management New Model" was published by the People's Military Medical Press in 2009, and was published its second edition in 2015; he advocates the three opportunities theory of hospital development, causing widespread concern in the field. He has published over 80 articles on hospital management and medical professional academic papers; and he was awarded 8 military science and technology achievement awards and medical achievement awards (of which 3 were the second prize, all were the primary research); 2 honorary third awards. During the 5 years when he served as president in the 251st Hospital, the hospital obtained sustainable and rapid development, accessed to social benefits and economic benefits double harvest. The hospital was named "Hospital Operating Mechanism Research Base", "Model Digital Trial Hospitals" by the Ministry of Health, and the "Advanced Unit of the Army in Hospital Informatization" by the General Logistics Department.

Biographical Details of Directors and Senior Management

Mr. Wang was honoured “The Most Leading Chinese Hospital President Innovation Award”, “China Outstanding CIO”, “Excellent Hospital President of the Army”, “Outstanding Contribution of Promoting Construction of China’s Informatization”, etc. He was also elected as a standing member of the Information Management Committee, a vice chairman of the Chinese Hospital Statistics Committee, a member of the Chinese Health Information Association, and a standing member of the Military Hospital Economic Management Committee of Chinese Hospital Association. As the president of Chang’an Hospital for more than three years, the number of beds increased from 300 to more than 1000, and medical income increased from RMB120 million to RMB400 million, rising the Shaanxi provincial tertiary hospital rank from No. 48 to No. 12; it is the only private hospital to participate in the Ministry of Health electronic medical system function evaluation, the first of the national inspection and evaluation; and the first US HIMMS sixth level certified hospital in China. When he served as the president of 334 Hospital for 1 year, it completed the overall renovation of new model hospital management, and the overall management level, service capacity, brand image were significantly improved, outpatient, inpatient beds increased by 1 time, hospital income increased by over 90%, and the hospital was certified tertiary hospital qualification. He was appointed as executive director of the Company on 15 May 2014.

Mr. Zhang Fan, aged 52, graduated from the Engineering Department of Changsha University of Science and Technology with a Bachelor Degree in engineering, majoring in engineering machinery. From April 1989 to November 2016, he served at CSG Holding Co., Ltd. (which is listed on the Shenzhen Stock Exchange with stock code: 000012), and held a number of important positions with CSG Holding Co., Ltd. or its subsidiaries. Mr. Zhang has long been engaged in enterprise management, and in particular has accumulated extensive management experience in corporate standardization, regulation and information development. He has in-depth understanding of the relevant industries, and was president of the Guangdong Glass Association. He was appointed as executive director of the Company on 16 December 2016.

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Ying Wei, aged 51, holds a master's Degree in Business Administration from University of San Francisco and a Bachelor Degree in Economics from Zhejiang Gongshang University (formerly known as Hangzhou Institute of Commerce), and a non-practising member of the Chinese Institute of Certified Public Accountants. He was appointed as an independent non-executive director of Zhongsheng Group Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with stock code of 881) on 19 December 2016. At present, Mr. Ying is the independent non-executive directors of Fountain Set (Holdings) Limited (a company listed on the Stock Exchange with stock code of 420) and CHTC Fong's Industries Company Limited (a company listed on the Stock Exchange with stock code of 641) respectively, and also the chairman and non-executive director of New Focus Auto Tech Holdings Limited (a company listed on the Stock Exchange with stock code of 360). Mr. Ying is also the Managing Director of CDH Investments. He was appointed as non-executive director of the Company on 18 June 2016.

Mr. Zhang Song, aged 35, holds a doctoral degree in biological science and technologies from Tsinghua University and a bachelor's degree in biochemistry from Nanjing University. Mr. Zhang is an executive director of CDH Investments and has been working in the company since 2009. Mr. Zhang is also the chairman of the board of supervisors of Zhong Ding United Dairy Farming Co., Ltd. (National Equities Exchange and Quotations code: 834586) and the director of LUXI Group Co., Ltd. He was appointed as non-executive director of the Company on 18 June 2016.

Ms. Wei Changying, aged 45, graduated from Mudanjiang College of Education in Heilongjiang majoring in financial accounting. She is a Certified Public Accountant in the PRC and is the PRC southern regional chief financial officer of China of Meinian Onehealth Healthcare (Group) Co., Ltd. She was appointed as non-executive director of the Company on 18 June 2016.

Mr. Xing Yong, aged 52, a senior engineer, graduated from Huaqiao University majoring in mechanical manufacturing. In 2004, Mr. Xing formed a Hong Kong company conducting the business of trading and shipping agency for customers from the United States, Europe and South Africa. Mr. Xing was appointed as the deputy general manager of Shenzhen Teamrun Investment Development Company Limited since 2015 and oversees commercial real estate development projects. He was appointed as non-executive director of the Company on 18 June 2016.

Biographical Details of Directors and Senior Management

Mr. Wang Zili, aged 53, graduated from Shanghai Institute of Building Materials. Mr. Wang has been engaged in the production, technologies and product sales work of float glass in several PRC companies and has extensive experience in marketing planning and product sales in the PRC market. Mr. Wang was employed as a manager of the Shanghai subsidiary of CSG Holding Co., Ltd. in 2000 and has been mainly involved in the sales of construction glass. He was appointed as non-executive director of the Company on 18 June 2016.

Mr. Wang Xiaolin, aged 48, graduated from the Finance Department of Jiangxi University of Finance and Economics with a bachelor's degree in economics. Mr. Wang Xiaolin has long been engaged in the financial management for enterprise and is currently the chief financial officer of Shenzhen Yingshangtonghui Technology Co., Ltd. He was appointed as non-executive director of the Company on 18 June 2016.

Mr. Wang Yuexiang, aged 55, received a bachelor's degree from Changsha Railway University. Since the beginning of 1985, Mr. Wang Yuexiang engaged in financial management in the enterprise; from 2008 to 2011, he served as chief financial officer in Beijing Haixinfangzhou Properties Development Co., Ltd.; from 2011 to date, Mr. Wang Yuexiang serves as the chief financial officer in Beijing Dongchenyue Investment Management Co., Ltd. He was appointed as non-executive director of the Company on 18 June 2016.

Mr. Li Xuguang, aged 53, graduated from Manchester Business School in UK with an MBA in 1992, after obtaining bachelor degree from Shanghai Institute of Foreign Trade and postgraduate study in Fudan University. He has worked for Heineken and ABInbev in various senior positions in Greater China for more than a decade. Until most recently, Mr. Li has served as board member of a number of privately held companies in China, and has been providing strategic advisory services to these companies. Mr. Li has vast experience in the areas of M&A, business development, marketing and sales, general and strategic management with both multinational companies and rapidly growing companies in China. The sectors he has covered includes Fastmoving consumer goods (FMCG), Consumer Electronics, E-commerce and Technology. He was appointed as non-executive director of the Company on 16 December 2016.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xiao Zuhe, aged 50, graduated from Jiangxi University of Finance and Economics and the City University of Hong Kong majoring in accounting. Mr. Xiao is a Certified Public Accountant in China, certified public accountant in Hong Kong and a member of the Institute of Chartered Accountants in England and Wales. Mr. Xiao is currently the managing director of Shenzhen Qianhai Benefit Equity Investment Management Co., Ltd. and the chief executive officer of Hong Kong Benefit Capital Limited. Mr. Xiao was an independent director of Beijing Shenhua New Capital Co., Ltd (a company listed on the Shenzhen Stock Exchange with stock code of 000010) during the period from 2013 to 2015 and is currently an independent director of Shenzhen Konka Group Co., Ltd (a company listed on the Shenzhen Stock Exchange with stock code of 000016). He was appointed as independent non-executive director of the Company on 18 June 2016.

Biographical Details of Directors and Senior Management

Mr. Wang Qingyou, aged 49, obtained a bachelor's degree in law from China University of Political Science and Law in 1992, a Master's degree in Economic Law from Peking University School of Law in 1998 and an EMBA degree from Xiamen University in 2012. Mr. Wang is a qualified lawyer in the PRC. Mr. Wang is experienced in legal services, business development and law firm management. Mr. Wang has taken up many important positions in many legal institutions in the PRC. Mr. Wang is currently the director of Anli Partners' Beijing office and responsible for the business development and overall management of the firm. Mr. Wang is also a member of the Beijing International Arbitration Centre, an arbitrator of the China International Economic and Trade Arbitration Commission and the director of the Beijing Lawyers Association. Mr. Wang is also the independent director in Qingdao Tianneng Electric power Engineering Machinery Co., Ltd. since 6 December 2011. He was appointed as independent non-executive director of the Company on 18 June 2016.

Mr. Zou Lian, aged 57, chief physician, professor, tutor of doctoral students. Mr. Zou graduated with a bachelor's degree in Medicine from Fourth Military Medical University in 1983 and obtained a Clinical Doctor degree in Surgery (Urology) in the Fourth Military Medical University in 1992. In 1993, Mr. Zou attended the medical department of Hirosaki University in Japan for research and studies, in which he researched on the genome treatment of renal cell carcinoma. In 2002, Mr. Zou became the vice chairman of the General Army Urology Committee, the vice director of the PLA Second Artillery General Hospital and chairman of the Urology Department in that hospital, the chief physician, the chief physician, and chairman of the Urology Department in the PLA Second Artillery General Hospital. Mr. Zou has long been engaged in clinical medical treatment, teaching and scientific research in Urology. Mr. Zou has awarded Third Class in Military Medical Award twice since 2004. Mr. Zou also published dozens of SCI thesis and statistic source journal articles, and participated in editing of four monographs. He was appointed as independent non-executive director of the Company on 18 June 2016.

Ms. Yang Huimin, aged 40, obtained a bachelor's degree in economics from Zhongnan University of Economics (now known as Zhongnan University of Economics and Law in 1998 and Master's degree of Management in Nanjing University in 2001. Ms. Yang is a non-practising member of the Chinese Institute of Certified Public Accountants (CPA) and holds the Chartered Financial Analyst qualification (CFA). Ms. Yang has extensive experience in Company finance and listed company operations. Ms. Yang joined the financial department of COFCO Corporation in 2001. In 2006, Ms. Yang joined the strategic department of China Foods Limited (a company listed on the Stock Exchange with stock code of 506). In 2010 – 2014, she joined COFCO Property (Group) Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code of SZ000031) and successively became the vice general manager of the financial department, the general manager of the operation department and the vice general manager of the Shenzhen Centre City Company. In 2013, Ms. Yang was appointed as the vice general manager, chief financial supervisor and secretary of the board of directors of COFCO & CM (Shenzhen) Grain Electronic Trading Centre Co., Ltd., the director of the strategic department and also the project team leader of Qianhai Asia Pacific Region Headquarter of COFCO Property (Group) Co., Ltd. She was appointed as independent non-executive director of the Company on 18 June 2016.

Biographical Details of Directors and Senior Management

Mr. Liang Qi, aged 55, graduated from Renmin University of China in 1983 and received a bachelor's degree in economics. From 1983 to 1992, Mr. Liang successively worked in government agencies and news organizations; from 1992 to 2002, he worked as senior manager in a number of companies, business involved in real estate, processing trade and IT fields. Since 2002 to date, he has served as the chairman of Shenzhen City Fairview times Investment Advisory Co., Ltd.. Mr. Liang was also employed as the guest professor of class president the real estate in Tsinghua University. He was appointed as independent non-executive director of the Company on 18 June 2016.

Mr. Xin Hua, aged 51, head of the center of the Comprehensive Development Research Institute (Shenzhen, China) "urban resource leveling and Industrial Development Research Center", expert of the Shenzhen Municipal Policy Advisory Committee. He was graduated and obtained a bachelor's degree in 1988 from Jilin University, graduated and obtained master's degree from Jilin University in 1991; and obtained a doctoral degree from Nankai University in 2003. From 1993 to present, Mr. Xin has worked in Comprehensive Development Institute (Shenzhen, China); from 2006 to present, he mainly engages in regional development, the coordinated development of urban resources and industrial research and consulting work. He has conducted more than 60 government and corporate consulting projects. He was appointed as independent non-executive director of the Company on 18 June 2016.

Mr. Jiang Xuejun, aged 49, obtained a master's degree and doctoral degree in Cardiology from Tongji Medical University Affiliated Tongji Hospital in China. He was also a post-doctoral fellow at Pennsylvania State University and New York State University from June 1998 to June 2001. He has been a professor of Cardiology, chief physician and PhD tutor at Wuhan University Renmin Hospital since October 2001. Mr. Jiang mainly focuses on interventional cardiology and his research directions are coronary heart disease intervention and biomaterial application. He undertakes a number of national and provincial studies and has published numerous medical articles. He was appointed as independent non-executive director of the Company on 21 February 2017.

COMPANY SECRETARY

Mr. Tsui Siu Hung Raymond, aged 40, is the company secretary of the Company. He joined the Group in June 2006. Mr. Tsui obtained a degree of bachelor of business administration from The Chinese University of Hong Kong in Hong Kong, in July 1999. His major subject was professional accountancy. He was admitted as a fellow member of the Association of the Chartered Certified Accountants in March 2008 and a fellow member of the HKICPA in June 2010. Mr. Tsui has been one of the partners of Tsui & Partners CPA Limited, a registered firm of certified public accountants (practising) in Hong Kong since March 2014, and currently the company secretary of the following companies listed on the Stock Exchange and the GEM of the Stock Exchange: Vongroup Limited (Stock Code: 318) since February 2010 and Guru Online (Holdings) Limited (Stock Code: 8121) since May 2015, Sino Haijing Holdings Limited (Stock Code: 1106) since December 2015 respectively.

Report of the Directors

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 March 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in provision of hospital management service and trading of medical equipment during the year. Save as commencement of trading of medical equipment business, there were no significant changes in the operation of the Group during the year.

BUSINESS REVIEW

Details of business review, financial performance and future development of the Group’s business are set out in the “Management Discussion and Analysis” section from pages 3 to 22. Important events affecting the Group since 31 March 2017 is disclosed in note 33 to the consolidated financial statements.

Principal Risks and Uncertainties

There are various risks and uncertainties including business risks, operational risks and financial risks that may have different levels of impact on the Group’s financial performance, operations, business as well as future prospects.

As most of the existing healthcare projects are located in the People’s Republic of China (the “PRC”), the Group’s business, financial condition, results of operations and prospects are greatly affected by political, economic and legal developments and changes to government policies in the PRC. If any stricter regulations regarding the Group’s operation or the healthcare industry are enacted in the future, business and operation of the Group may also be significantly impacted. Details of the financial risks are set out in note 7 to the consolidated financial statements.

Environmental Policies and Performance

The Group is committed to the long term sustainability of the environment and communities in which it operates. The Group’s operations are subject to a variety of the PRC environmental laws and regulations, as well as local environmental regulations promulgated by local authorities on environmental protection. The Group was in compliance with all relevant laws and regulations regarding environmental protection in all material respects and was not subject to any environmental claims, lawsuits, penalties or administrative sanctions during the year. The Group is also committed to allocate operating and financial resources to ensure environment protection compliance as required by applicable laws and regulations.

Report of the Directors

Compliance with the Relevant Laws and Regulations

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with the applicable rules and regulations. The Group's operations are mainly carried out in the PRC and Hong Kong while the shares of Company are listed on the Hong Kong Stock Exchange Limited. Hence, the Group shall comply with relevant laws and regulations in the PRC and Hong Kong and the respective places of incorporation of the Company and its subsidiaries. In addition, the Company is required to comply with the Rules Governing the Listing of Securities on the Stock Exchange and other relevant regulations. The Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year. Save as delay in publication of the internal results for the Group for the six months ended 30 September 2016 and certain litigations as disclosed in "Material litigations" in the "Management Discussion and Analysis" section, there was no material breach of or non-compliance with the applicable laws and regulations by the Group for the year ended 31 March 2017.

Relationship with Employees, Customers and Suppliers and other Stakeholders

The Group understands the success of the Group's business depends on the support from its key stakeholders, including employees, customers, suppliers, banks, regulators, hospital and shareholders. During the year, save as disclosed in "Material Litigations" in the "Management Discussion and Analysis" section, there were no material and significant dispute between the Group and its key stakeholders that have a significant impact on the Group.

The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2017 and the state of affairs at the date are set out in the consolidated financial statements on pages 64 to 151.

The directors do not recommend the payment of any dividend for the year ended 31 March 2017 (2016: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movement in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

CONVERTIBLE BONDS

Details of the Company's convertible bonds are set out in the note 24 to the consolidated financial statements.

Report of the Directors

REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES

Details of the Company's redeemable convertible cumulative preference shares are set out in the note 25 to the consolidated financial statements.

SHARE CAPITAL

Details of movement in the Company's share capital during the year are set out in note 26 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in consolidated statement of changes in equity on pages 68 and 69.

DISTRIBUTABLE RESERVES

As at 31 March 2017, the Company had no reserves available for distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981 of Bermuda.

DIRECTORS AND THEIR SERVICE CONTRACTS

The directors of the Company ("Directors") during the year and up to the date of this report:

Executive Directors

Mr. Jia Hong Sheng	(removed on 18 June 2016)
Dr. Li Zhong Yuan	(removed on 18 June 2016)
Mr. Zhou Bao Yi	(removed on 18 June 2016)
Mr. Zhao Kai	(appointed on 6 January 2016 and removed on 18 June 2016)
Mr. Chung Ho	(appointed on 28 December 2012 and retained service on 18 June 2016)
Mr. Wang Jingming	(appointed on 15 May 2014 and retained service on 18 June 2016)
Mr. Weng Yu	(appointed on 18 June 2016)
Mr. Wang Yongqing	(appointed on 18 June 2016)
Mr. Zhang Fan	(appointed on 16 December 2016)

Report of the Directors

Non-executive Directors

Mr. Ying Wei	(appointed on 18 June 2016)
Mr. Zhang Song	(appointed on 18 June 2016)
Ms. Wei Changying	(appointed on 18 June 2016)
Mr. Pei Kewei	(appointed on 18 June 2016 and resigned on 21 February 2017)
Mr. Xing Yong	(appointed on 18 June 2016)
Mr. Wang Zili	(appointed on 18 June 2016)
Ms. Wang Fang	(appointed on 18 June 2016 and resigned on 16 December 2016)
Mr. Yang Cheng	(appointed on 18 June 2016 and resigned on 21 February 2017)
Mr. Wang Xiaolin	(appointed on 18 June 2016)
Mr. Huang Bin	(appointed on 18 June 2016 and resigned on 21 February 2017)
Mr. Wang Yuexiang	(appointed on 18 June 2016)
Ms. He Lijuan	(appointed on 18 June 2016 and resigned on 16 December 2016)
Mr. Li Xuguang	(appointed on 16 December 2016)

Independent non-executive Directors

Mr. Xiao Zuhe	(appointed on 18 June 2016)
Mr. Wang Qingyou	(appointed on 18 June 2016)
Mr. Zou Lian	(appointed on 18 June 2016)
Ms. Yang Huimin	(appointed on 18 June 2016)
Mr. Liang Qi	(appointed on 18 June 2016)
Mr. Xin Hua	(appointed on 18 June 2016)
Mr. Jiang Xuejun	(appointed on 21 February 2017)
Dr. Yan Shi Yun	(removed on 18 June 2016)
Mr. Mu Xiang Ming	(removed on 18 June 2016)
Mr. Jiang Bo	(removed on 18 June 2016)
Mr. Zhao Hua	(removed on 18 June 2016)

The biographical details of the Directors and senior management of the Group are set out on pages 23 and 28 of this annual report.

In accordance with the Company's Bye-laws 86(2) and 87, Mr. Ying Wei, Mr. Zhang Song, Mr. Wang Yuexiang, Mr. Xiao Zuhe, Mr. Wang Qingyou, Mr. Zou Lian and Ms. Yang Huimin will retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Report of the Directors

Each of Mr. Chung Ho, Mr. Wang Jingming and Mr. Zhang Fan has entered into a service contract with the Company with effect from 1 January 2017 for a term of three years unless terminated by three months' notice in writing served by each of Mr. Chung, Mr. Wang and Mr. Zhang or the Company. Each of Mr. Weng Yu and Mr. Wang Yongqing has entered into a service contract with the Company with effect from 18 June 2016 for a term of two years unless terminated by three months' notice in writing served by each of Mr. Weng and Mr. Wang or the Company.

All non-executive Directors and independent non-executive Directors are not appointed for a specific term.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than normal statutory obligations.

The remuneration of the Directors and the details of the 5 highest-paid employees of the Company and the Group are set out in note 13 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

No Director or his associate has engaged in any business which competes or is likely to compete directly or indirectly with that of the Group during the year.

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, its holding company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Report of the Directors

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's memorandum of association, every Director, secretary or other officer of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duties provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

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

As at 31 March 2017, the interests and short positions of the Directors/Chief Executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions in which the Directors were deemed or taken to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange, 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 interests in shares/underlying shares	Percentage of
						shares and underlying shares to issued shares at 31 March 2017
Mr. Ying Wei	The Company	Personal	253,469,000 (L)	–	253,469,000 (L)	7.87%
Mr. Li Xuguang (note 1)	The Company	Corporate	200,000,000 (L)	–	200,000,000 (L)	6.21%

Remark: (L) : Long position

Report of the Directors

Notes:

1. These shares are held through Pacas Worldwide Limited which is wholly owned by Mr. Li Xuguang.
2. The underlying shares of equity derivatives represent the shares issuable upon the exercise of share options granted to the Directors/chief executives by the Company.

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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and neither the Directors nor chief executive, nor any of their spouse or children under the age 18, had any right to subscribe for securities of the Company, or exercised any such right.

Report of the Directors

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

As at 31 March 2017, 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 31 March 2017
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%

Remark: (L): Long position

Notes:

- (1) Zheng Hua Investment Limited is wholly owned by Shanghai Ying Mao Investment Management Partnership (Limited Partnership) The long position represents the convertible notes which can be converted into 1,300,000,000 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, the non-executive director of the Company.

Report of the Directors

SHARE OPTION SCHEME

There was no change in any terms of the share option scheme of the Company during the year ended 31 March 2017. Details of the Company's share option scheme are set out in note 28 to the consolidated financial statements.

The following table discloses details of options outstanding and movements under the Company's share option scheme during the year:

	Option type	At 1 April 2016	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Reclassified during the year	At 31 March 2017
Director							
	Li Zhong Yuan	E	2,619,000	-	-	(2,619,000)	-
Employees and others							
		E	<u>3,351,000</u>	-	-	(2,619,000)	-
Total			<u><u>5,970,000</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>(5,970,000)</u></u>	<u><u>-</u></u>

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 152 of this annual report.

Report of the Directors

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

MAJOR SUPPLIERS AND CUSTOMERS

The largest supplier and the five largest suppliers of the Group accounted for approximately 21% and 73%, respectively, of the Group's total purchases during the year.

The largest customer and the five largest customers of the Group accounted for approximately 94% and 100%, respectively, of the Group's total sales for the year.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or customers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year ended 31 March 2017.

AUDITORS

Elite Partners CPA Limited will retire and a resolution for their re-appointment will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chung Ho
Executive Director

30 June 2017

Corporate Governance Report

In the opinion of the board of directors of the Company (the “Board”), the Company has complied with the Code of Corporate Governance Practices (the “Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 31 March 2017 except for certain deviations disclosed herein.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by its directors. Having made specific enquiry of all existing directors, they have confirmed that they have fully complied with the required standard set out in the Model Code during the year. The Company did not receive the said confirmations from former directors, namely Mr. Jia Hong Sheng, Dr. Li Zhong Yuan, Mr. Zhou Bao Yi, Mr. Zhao Kai, Dr. Yan Shi Yun, Mr. Mu Xiang Ming, Mr. Jiang Bo and Mr. Zhao Hua.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Group and oversees the Group’s businesses, strategic decisions and performance. The Board has delegated the day-to-day responsibility to the executive directors and senior management who perform their duties under the leadership of the Board.

The Board currently consists of five executive directors, eight non-executive directors and seven independent non-executive directors. One of our independent non-executive directors has relevant financial management expertise required by the Listing Rules. The directors have no financial, business, family or other material/ relevant relationship among themselves.

The Company has received annual confirmations of independence from independent non-executive directors and the Company considers that all of independent non-executive directors are independent.

Given the nature and business objective of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of directors and their respective biographies are set out on pages 23 and 28 of this annual report.

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.

Corporate Governance Report

DIRECTORS' ATTENDANCE RECORD AT MEETINGS

The attendance of each director at the Board meetings, certain committee meetings and general meetings during the year is as follows:

	Attended/Eligible to attend				
	Board meeting	Audit Committee meeting	Remuneration Committee meeting	Nomination Committee meeting	General meeting
Executive Directors					
Mr. Jia Hong Sheng (removed on 18 June 2016)	2/2	N/A	N/A	N/A	0/1
Dr. Li Zhong Yuan (removed on 18 June 2016)	2/2	N/A	N/A	N/A	0/1
Mr. Zhou Bao Yi (removed on 18 June 2016)	2/2	0/0	N/A	N/A	0/1
Mr. Zhao Kai (appointed on 6 January 2016 and removed on 18 June 2016)	2/2	N/A	N/A	N/A	0/1
Mr. Chung Ho (appointed on 28 December 2012 and retained service on 18 June 2016)	18/18	N/A	N/A	N/A	1/1
Mr. Wang Jingming (appointed on 15 May 2014 and retained service on 18 June 2016)	15/18	N/A	N/A	N/A	0/1
Mr. Weng Yu (appointed on 18 June 2016)	16/16	N/A	N/A	N/A	0/0
Mr. Wang Yongqing (appointed on 18 June 2016)	13/16	N/A	N/A	N/A	0/0
Mr. Zhang Fan (appointed on 16 December 2016)	1/3	N/A	N/A	N/A	0/0
Non-executive Directors					
Mr. Ying Wei (appointed on 18 June 2016)	4/16	N/A	N/A	N/A	0/0
Mr. Zhang Song (appointed on 18 June 2016)	6/16	N/A	N/A	N/A	0/0
Ms. Wei Changying (appointed on 18 June 2016)	9/16	N/A	N/A	N/A	0/0
Mr. Pei Kewei (appointed on 18 June 2016 and resigned on 21 February 2017)	7/15	N/A	N/A	N/A	0/0
Mr. Xing Yong (appointed on 18 June 2016)	11/16	N/A	N/A	N/A	0/0
Mr. Wang Zili (appointed on 18 June 2016)	12/16	N/A	N/A	N/A	0/0
Ms. Wang Fang (appointed on 18 June 2016 and resigned on December 2016)	0/13	N/A	N/A	N/A	0/0
Mr. Yang Cheng (appointed on 18 June 2016 and resigned on 21 February 2017)	3/15	N/A	N/A	N/A	0/0
Mr. Wang Xiaolin (appointed on 18 June 2016)	4/16	N/A	N/A	N/A	0/0
Mr. Huang Bin (appointed on 18 June 2016 and resigned on 21 February 2017)	11/15	N/A	N/A	N/A	0/0
Mr. Wang Yuexiang (appointed on 18 June 2016)	0/16	N/A	N/A	N/A	0/0
Ms. He Lijuan (appointed on 18 June 2016 and resigned on 16 December 2016)	2/13	N/A	N/A	N/A	0/0
Mr. Li Xuguang (appointed on 16 December 2016)	0/3	N/A	N/A	N/A	0/0
Independent non-executive Directors					
Dr. Yan Shi Yun (removed on 18 June 2016)	0/2	0/0	0/0	0/0	0/1
Mr. Mu Xiang Ming (removed on 18 June 2016)	2/2	0/0	0/0	0/0	0/1
Mr. Jiang Bo (removed on 18 June 2016)	2/2	0/0	0/0	0/0	0/1
Mr. Zhao Hua (removed on 18 June 2016)	0/2	N/A	N/A	N/A	0/1

Corporate Governance Report

	Attended/Eligible to attend				
	Board meeting	Audit Committee meeting	Remuneration Committee meeting	Nomination Committee meeting	General meeting
Mr. Xiao Zuhe (appointed on 18 June 2016)	5/16	0/0	0/2	0/2	0/0
Mr. Wang Qingyou (appointed on 18 June 2016)	9/16	0/0	2/2	2/2	0/0
Mr. Zou Lian (appointed on 18 June 2016)	13/16	0/0	2/2	1/2	0/0
Ms. Yang Huimin (appointed on 18 June 2016)	5/16	0/0	1/2	2/2	0/0
Mr. Liang Qi (appointed on 18 June 2016)	6/16	0/0	1/2	1/2	0/0
Mr. Xin Hua (appointed on 18 June 2016)	13/16	0/0	2/2	2/2	0/0
Mr. Jiang Xuejun (appointed on 21 February 2017)	1/1	0/0	1/1	0/0	0/0

CHAIRMAN AND EXECUTIVE DIRECTORS

Under A2.1 of the Code, the roles of Chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Jia Hong Sheng was the Chairman of the Company who was removed on 18 June 2016. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively. Other executive directors, are responsible for the Group's overall business development, implementation and management during the year.

Currently, there is no chairman of the Company. All executive directors are responsible for the Group's overall business development, implementation and management.

NON-EXECUTIVE DIRECTORS

Under 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 are not less than those in the Code.

REMUNERATION COMMITTEE

The Company established its remuneration committee on 31 March 2007 with specific written terms of reference. The remuneration committee is responsible for making recommendations to the Board on, among other things, the Company's policy and structure for the remuneration of all directors and senior management of the Company and is delegated by the Board with the responsibility to determine on behalf of the Board the specific remuneration packages for all executive directors and senior management of the Company. Details of remuneration of the directors for the year are disclosed in note 13 to the consolidated financial statements.

Corporate Governance Report

Currently, the remuneration committee comprises seven independent non-executive directors, namely Mr. Zou Lian as the chairman, Mr. Wang Qingyou, Mr. Xiao Zuhe, Ms. Yang Huimin, Mr. Liang Qi, Mr. Xin Hua and Mr. Jiang Xuejun.

NOMINATION COMMITTEE

The Company established its nomination committee on 30 March 2012 with specific written terms of reference. The nomination committee is responsible for reviewing the structure, size and composition of the Board, making recommendations to the Board on appointment of the directors and assessing the independence of independent non-executive directors. According to the board diversity policy adopted by the nomination committee, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service etc. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service etc. The final decision will be based on merit and contribution that the selected candidates will bring to the Board.

Currently, the nomination committee comprises seven independent non-executive directors, namely Mr. Wang Qingyou as the chairman, Mr. Zou Lian, Mr. Xiao Zuhe, Ms. Yang Huimin, Mr. Liang Qi, Mr. Xin Hua and Mr. Jiang Xuejun.

AUDITOR'S REMUNERATION

The Company's external auditors are Messrs. Elite Partners CPA Limited. For the year ended 31 March 2017, the external auditor's remuneration for audit services was HK\$1,080,000.

The statement of the auditors of the Company regarding their reporting responsibilities is set out in the Independent Auditor's Report on pages 57 to 63 of this annual report.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration of the members of the senior management by band for the year ended 31 March 2017 is set out below:

Remuneration bands	Number of persons
Up to HK\$1,000,000	1
HK\$1,000,001 and above	–

Corporate Governance Report

AUDIT COMMITTEE

The Group's audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the auditing, internal controls and financial reporting matters including review of the Group's financial statements for the year ended 31 March 2017.

The audit committee has performed the following duties:

- reviewed with the management and the external auditors the audited consolidated financial statements for the year ended 31 March 2016 and the unaudited interim financial statements for the six months ended 30 September 2016, with recommendations to the Board for approval;
- reviewed reports on internal control system covering financial, operational, procedural compliance and risk management functions; and
- reviewed the compliance issues with the regulatory and statutory requirements; and
- reviewed the appointment, reappointment and removal and performance of the external auditor.

Due to delay in publication of the annual results of the Group for the year ended 31 March 2016 (the "2016 Annual Results") and the interim results of the Group for the six months ended 30 September 2016 (the "2016 Interim Results") as a result of change of the Board composition on 18 June 2016 as stated in the "Management Discussion and Analysis" section, there was no audit committee meeting held during the year. On 3 April 2017, the audit committee held the meeting to review the 2016 Annual Results and the 2016 Interim Results which were both published on 3 April 2017.

Currently, the audit committee comprises seven independent non-executive directors, namely Mr. Xiao Zuhe as the chairman, Mr. Wang Qingyou, Mr. Zou Lian, Ms. Yang Huimin, Mr. Liang Qi, Mr. Xin Hua and Mr. Jiang Xuejun. The chairman of the audit committee, Mr. Xiao Zuhe, possesses relevant financial management expertise and meets the requirements of rule 3.21 of the Listing Rules.

Corporate Governance Report

ACCOUNTABILITY

The directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the financial statements for the six months ended 30 September 2016 and for the year ended 31 March 2017, the directors have adopted suitable accounting policies and applied them consistently. The directors are also responsible for keeping proper accounting records with reasonable accuracy for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities. The financial statements for the reporting year have been prepared on a going concern basis, details of which are set out in note 2 to the consolidated financial statements.

The Board has not taken any different view from that of the audit committee regarding the selection, appointment, resignation or dismissal of external auditors.

INTERNAL CONTROL

The Board has, through the audit committee, conducted interim and annual review of the effectiveness of the internal control system of the Group covering the financial, operational, procedural compliance and risk management functions. The internal control system is designed to provide reasonable, but not absolute, assurance of no material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievements of the Group's objectives.

Based on its assessment which covers all material controls including financial, operational and compliance controls and risk management functions, the Board believes that for the year ended 31 March 2017, the Company's internal control is effective. In addition, the Board has engaged a professional firm to review the internal control system of the Group for the year ended 31 March 2017. The Board is satisfied that there are adequate resources of staff with appropriate qualifications and experience in its accounting and financial reporting team and that sufficient training and budget have been provided.

COMPANY SECRETARY

During the year ended 31 March 2017, Mr. Tsui Siu Hung Raymond, the Company Secretary, has taken no less than 15 hours of relevant professional training. Biographical details of Mr. Tsui are set out in the section headed "Biographical details of Directors and Senior Management" in this annual report.

Corporate Governance Report

DIRECTORS' TRAINING

Each newly appointed Director has received comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Group and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements. There are also arrangements in place for providing continuing briefing and professional development to Directors at the Company's expenses whenever necessary.

The Company did not receive the training records from the former directors namely Mr. Jia Hong Sheng, Dr. Li Zhong Yuan, Mr. Zhou Bao Yi, Mr. Zhao Kai, Mr. Mu Xiangming, 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.

INSURANCE COVER

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

SHAREHOLDERS' RIGHTS

The Directors believes that effective communication with the shareholders in a timely basis is essential. Shareholders can, by written requisition to the Board or the Secretary of the Company, to convene an extraordinary general meeting, subject to the provision of the Company's Bye-laws 58.

Shareholders are provided with contact details of the Company, such as telephone number, fax number, email address and postal address in the Company's website (<http://www.ch-groups.com>), in order to enable them to make any query that they may have with respect to the Company. They can also put forward their proposals at shareholders' meetings through these means subject to the provision as set out in the Company's Bye-Laws.

INVESTOR RELATIONS

The Company believes in regular and timely communication with shareholders as part of its efforts to help shareholders understand its business better and the way the Company operates. To promote effective communication with the public, the Company maintains a website (<http://www.ch-groups.com>) on which comprehensive information about the Company's major businesses, press releases, notices, financial information, announcements, annual and interim reports and shareholders circulars are being made available.

There was no change in the Company's constitutional documents during the year ended 31 March 2017.

Environmental, Social and Governance Report

INTRODUCTION AND SCOPE OF ESG REPORT

This year is the first Environmental, Social and Governance (“ESG”) report prepared with accordance to Appendix 27 Environmental, Social and Governance Reporting Guide (the “ESG Guide”) set out by the Listing Rules. The Board has reviewed and approved of the report and are pleased to present our performance and progress on environmental, social and governance for the year ended 31 March 2017.

The ESG report of the Group has been presented into two subject areas, Environmental and Social, and each subject area will have various aspects to disclose the relevant policies and the status of compliance with relevant laws and regulations as addressed by the ESG Guide.

The Group understands the importance of ESG report and is committed to making continuous improvements in corporate social responsibility into our business in order to better meet the changing needs of an advancing society. The ESG report of the Group will present mainly policies, initiatives and performance.

The following will show the ESG issues that found material for the Group and the relation to the ESG Guide:

ESG Guide

Relevant ESG issues to the Group

A. Environmental

- A.1 Emissions
- A.2 Use of resources
- A.3 Environmental and natural resources

- Carbon dioxide emission and waste management
- Energy and water consumption
- Measures in reducing environmental impact

B. Social

- B.1 Employment
- B.2 Health and safety
- B.3 Development and training
- B.4 Labour standards
- B.5 Supply chain management
- B.6 Product responsibility
- B.7 Anti-corruption
- B.8 Community investment

- Labour practices
- Workplace health and safety
- Employee development and training
- Child labour and forced labor
- Supplier management
- Quality control
- Anti-corruption and money laundering
- Community involvement

Environmental, Social and Governance Report

The key stakeholders for the reporting period are listed as follow:

- Equity shareholders
- Central and local governments of the People's Republic of China
- Local community
- Hong Kong supervision bodies related to listing compliance
- Employees
- Customers
- Suppliers

ABOUT THE GROUP

The Group is engaged in (i) hospital management service; and (ii) trading of medical equipment during the year.

Social responsibility is the fundamental duty of the Company to contribute the society in which it is brought up. The Group believes that this is much more so for a company and participate actively in activities that help the underprivileged.

To reduce our environmental impact and create value in our community, the Group seeks every opportunity to incorporate sustainability standards and practices into all aspects of its business.

Environmental, Social and Governance Report

A. ENVIRONMENTAL

The Group has a successful and systematic framework to manage the immediate and long term environmental impacts of an organisation's products, services and processes.

To demonstrate the Group's commitment to sustainable development and compliance with laws and regulations relating to environmental protection, the Group endeavours to mitigate the environmental impact of the business activities and maintain green operations and green office practices.

Also, the Group always keeps itself up-to-date on developments in local legislation and standards for environmental protection. During the reporting period, the Group did not experience any cases of non-compliance relating to environmental laws and regulations in People's Republic of China and Hong Kong.

The Group has established environmental policies and has communicated measurable environmental objectives to employees. The Group actively encourages staffs to protect the environment through training, education and communication.

A.1 Emissions

The Group has conducted regular assessments on the air and greenhouse gas emission, as well as the generation and disposal of non-hazardous waste. Relevant departments are required to collect and analyse relevant data and take specific measures to reduce emissions.

In recent years, the Central government has actively promoted carbon reduction. The Group sticks to the principle of active participation and environmental responsibility, the Group can fulfill not only its market mandate but also greatly support green activities and actively implement national policies aimed at emission reduction.

The Group are under governed by Environmental Protection of the People's Republic of China Prevention 《中華人民共和國環境保護法》, Control of Atmospheric Pollution 《中華人民共和國大氣污染防治法》 and Urban Drainage and Sewage Treatment Ordinance 《城鎮排水與污水處理條例》. The guidelines for the environmental requirement of local government and violate these environmental regulations may result temporary suspension of production.

Environmental, Social and Governance Report

Carbon dioxide emission

During the reporting period, the Group has proposed a set of CO₂ emission reduction management policy in order to save energy resources, reduce energy waste and spend energy efficiently. All members of the Group would build up a saving habit on energy resources. The reduction policy has suggested some tactics to create a better and cleaner environment for the society.

Waste management

The Group is governed by, and has complied with, the Environmental Protection of the People's Republic of China Prevention 《中華人民共和國環境保護法》. The Group does not generate significant air emission or hazardous waste.

Our greenhouse gases emissions are indirectly, principally resulting from electricity consumed at the Group's workplace as well as from business travel by employees.

A.2 Use of Resources

Energy and water consumption

With the vision of helping to protect the planet and of incorporating environmental sustainability into its business functions and processes, the Group proactively seeks opportunities for increasing operating efficiency in order to minimize the use of resources.

The resources used by the Group are principally attributed to electricity and water consumed at its hospitals, medical school and offices. It would perform regular assessments of use of resources.

The Group has adopted green office practices to reduce natural resources consumption and the impact on the environment. For instance, offices are equipped teleconference and internet-meeting practices are encouraged to avoid unnecessary travel.

To achieve higher energy efficiency, the Group implemented the following key initiatives during the reporting period:

- ✓ To switch off lights and air-conditioning in the meeting room and computers at work stations where not in use;
- ✓ To select the best configuration for air-conditioning control programme for medical rooms, based on in-door requirement and out-door condition.

Environmental, Social and Governance Report

A.3 Environmental and Natural Resources

Measures in reducing environmental impact

In accordance with the Group's environmental philosophy, all sub-companies are committed to producing high quality services while also ensuring that all business activities impact the environment positively.

To mitigate the impacts on the environment and natural resources, the management of the Group would evaluate and implement the policies to reduce the effect.

In addition, China is now popular in the usage of motion-sensor lighting to reduce unnecessary electricity consumption and the employees are pleased to support the Group's energy saving measures. Therefore, the China site of the Group is also using the motion-sensor lighting to have minimal electricity consumption.

B. SOCIAL

The Group believes that one of the key aspects of its success is the good relationship it maintains with employees. The Group provides competitive employee benefits and comprehensive training programmes in order to encourage employees to achieve their potential and put their abilities into good use.

B.1 Employment

Labour practices

The Group provides a number of staff activities to enhance employees' sense of belonging and to help create a friendly working environment.

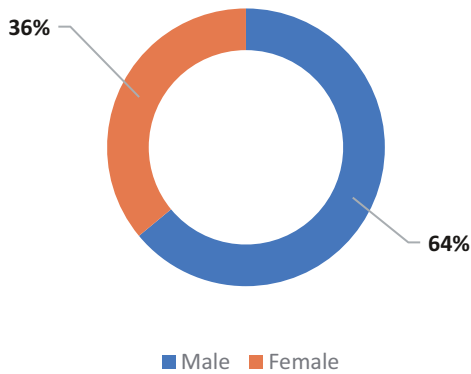
The Group's practices and policies with respect to:

- compensation and dismissal;
- recruitment and promotion;
- working hours;
- rest periods;
- equal opportunities;
- diversity;
- anti-discrimination; and
- welfare and other benefits,

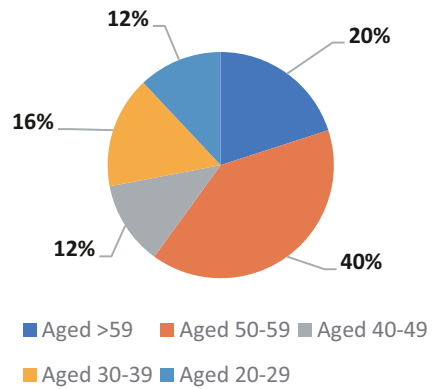
which have complied with Labour Law of the People's Republic of China 《中華人民共和國勞動法》, labour Contract Law of People's Republic of China 《中華人民共和國勞動合同法》 and other relevant laws and regulations.

Environmental, Social and Governance Report

Gender Profile



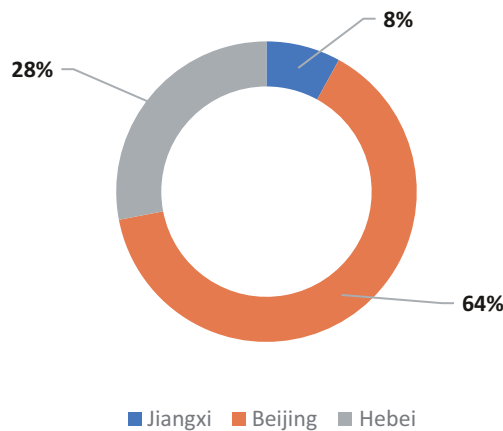
Age Profile



The Group also aims to promote the diversity of workforce, including in terms of age, gender and nationality, as well as culture of equal opportunity. The management would frequently review the Group's remuneration policy in relation to relevant market standards.

For the employment regions, the majority of the employees are worked in Beijing.

Region Profile



The Group's employees work under a 40-hour standard per week and it maintains a holiday policy and travel policy, as well as annual vacation leave, compensation leave, maternity leave, personal leave and sick leave.

Environmental, Social and Governance Report

B.2 Health and Safety

Workplace health and safety

The health and safety of employees have always been the Group's priority. The Group has established a set of policies which focused on keeping a safe and healthy workplace, including the following requirements:

- > Relevant training and knowledge should be provided to employees in respect to risks associated with goods handling in the medical facilities.
- > The warning wording has been posted into the obvious area of the medical institutions to emphasis the health and safety practice.

Laws and regulations

With respect to occupational safety management, the Group has complied with all the corresponding local and Labour Law of the People's Republic of China 《中華人民共和國勞動法》 of occupational safety and health.

Workplace is equipped with fire and safety equipment to prevent outbreak of fire accident and the validity of the fire facilities have been regularly checked. During the reporting period, the Group has reported zero work related fatalities and work injuries.

B.3 Development and Training

Employee development and training

The Group has always believed that people development plays the fundamental role in placing a solid ground for business growth. The Group aims to regularly upgrade staffs' professional skills and knowledge, standards and integrated abilities. The Group also motivates employees' job enthusiasm and welcome challenges, thereby creating greater corporate value and future development.

The Group aims to regularly upgrade employees' professional skills and knowledge, standards and integrated abilities. All employees can therefore correspond with the growth of the Group and broaden the space of development for them.

- 1 Senior management training programme
- 2 External training programme
- 3 Industrial exchange training programme

Environmental, Social and Governance Report

- 4 Specialty training programme
- 5 Competence-upgrade training programme
- 6 E-learning programme
- 7 Professional qualification training allowance

The Group encourage every worker to attend external professional training and provide them leave allowance for training.

B.4 Labour Standards

Child labour and forced labour

It is always the Group's policy to prohibit to employ any staffs who has under the legal working age for protecting minors. The recruitment process of the Group is firmly based on the recruitment policy and guideline designed by the Human Resources (HR) Department so the department must gather all employees' details for internal record and legal compliance.

Insurance and work security packages:

Hong Kong	PRC
Mandatory Provident Fund (MPF)	Medical Insurance
Medical Insurance	Unemployment Insurance
Performance Bonus	Work-related Injury Insurance
Severance Payment/Long Service Payment	Childbirth Insurance
Maternity/Paternity Leave with Pay	Hosing Accumulation Funds
Employment Compensation Insurance	Health and Safety Endowment Insurance

The labour standards may be various in different jurisdictions that the Group has operated and the Group is complied with the relevant labour standards of Labour Contract Law of the People's Republic of China 《中華人民共和國勞動合同法》 for the year ended 31 March 2017.

Environmental, Social and Governance Report

There is a strict recruitment procedure through Human Resource Department and upon discovery of any child labour and use of forced labour, the person will be dismissed immediately and the Board will discuss and review the problem to prevent it from happening again. For the year ended 31 March 2017, there is no labour dispute between the company and its staff.

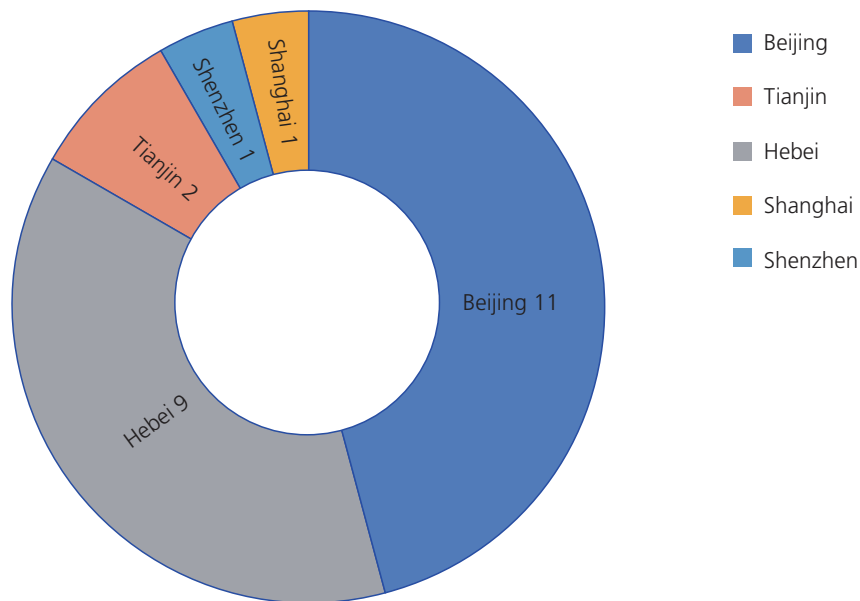
B.5 Supply Chain Management

Supplier management

The Group also tended to maintain long term relationship with its suppliers for ensuring stable supply of medical materials. Group's suppliers are appointed from the approved list which is reviewed yearly. The approved list of suppliers is subjected to product quality and environmental commitment.

Below is the diagram of the suppliers' regional distribution of the Group.

Supplier Profile



In our frontline operations, we focus on environmentally friendly materials such as Forest Stewardship Council ("FSC") paper and recycled plastics. In China, the Company has established proper procedures other than price evaluation. It will also take the provision of follow up services into consideration.

Environmental, Social and Governance Report

B.6 Product Responsibility

Quality control

The Company has been focusing on meeting customer expectations and delivering customer satisfaction. During the year ended 31 March 2017, the Group has not received any complaint regarding the quality of the medical products and made any compensations to its customers.

B.7 Anti-Corruption

Anti-corruption and money laundering

The Group upholds a high standard of business integrity throughout its operations. A system with good moral integrity and anti-corruption mechanism is the cornerstone for the sustainable and healthy development of the Group.

The Group has complied to facilitate combatting the Proceeds of Crime (Money Laundering) and Terrorist Financing Act. The Group's policies stresses on no tolerance towards any corruption, fraud, money laundering, bribery and extortion and have compliance with relevant laws and regulations such as Criminal law of the People's Republic of China 《中華人民共和國刑法》 and the Anti-Unfair Competition Law of the People's Republic 《中華人民共和國反不正當競爭法》. For the year ended 31 March 2017, such events have never happened in the Group.

The Group has implemented specific measures to detect and deter money laundering and the financing of terrorist activities. For instance,

1. Establishing record keeping and client identification requirements for financial services providers.
2. Requiring the reporting of suspicious financial transactions and of cross-border movements of currency.
3. Establishing an agency that is responsible for ensuring compliance with the Act.

B.8 Community Investment

Community involvement

Giving back to the society is the most important element of the Group's sustainable development strategy. The Group has devoted time and effort to return to the society as it has always encouraged its employees to take part into supporting environmental protection such as energy saving initiative and volunteer work for the community.

Environmental, Social and Governance Report

In the future, the Group will:

- a) seek opportunities to work with charitable organisations to get involved in various community programmes and contribute to society; and
- b) promote the health of its employees and customers by organising and taking part in sports and fitness activities.

The Group is also committed to provide career opportunities to the locals and promoting the development of the community's economy.

Independent Auditor's Report



開元信德會計師事務所有限公司
ELITE PARTNERS CPA LIMITED
Certified Public Accountants

TO THE MEMBERS OF

CHINA HEALTH GROUP LIMITED

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

(Incorporated in Bermuda with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of China Health Group Limited ("the Company") and its subsidiaries (together referred to as the "Group") set out on pages 64 to 151, which comprise the consolidated statement of financial position as at 31 March 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Independent Auditor's Report

BASIS FOR DISCLAIMER OF OPINION

1. Opening balances, corresponding figures and comparative financial statements

The auditors' report dated 3 April 2017 in respect of the audit of the consolidated financial statements of the Group for the year ended 31 March 2016 was disclaimed as a result of scope limitation (i) de-consolidation of the De-consolidated Subsidiaries during the year ended 31 March 2016; (ii) lack of supporting documents for certain transactions entered into during the year ended 31 March 2016; (iii) no sufficient appropriate audit evidence for the deposit for the possible acquisition and its recoverability; (iv) lack of supporting documents for dividend payable on redeemable convertible cumulative preference shares; (v) no sufficient appropriate audit evidence and explanations for contingent liabilities and commitment; (vi) no sufficient appropriate audit evidence and explanations for events after the reporting period; and (vii) no sufficient appropriate audit evidence and explanations for related parties transactions. As a result, we were unable to obtain sufficient appropriate audit evidence regarding the opening balances and corresponding figures and there were no alternative audit procedures to satisfy ourselves as to whether the opening balances and corresponding figures were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's assets and liabilities as at 31 March 2016 and 2017 and its results for the years ended 31 March 2016 and 2017, and the presentation and disclosure thereof in the consolidated financial statements.

As disclosed in note 34, certain subsidiaries of the Group were deconsolidated in prior years due to the change in the Board composition in prior year. Due to circumstances that the consequential effect of the deconsolidated subsidiaries was qualified in prior year and such limitation of audit scope was still unresolved, the Group therefore did not have adequate information as to whether any contingent liabilities, related parties transaction and events after the reporting period should be accounted for and disclosed in the consolidated financial statements of the Group for the year ended 31 March 2017.

We were unable to obtain sufficient appropriate audit evidence regarding contingent liabilities, related parties transaction and events after the reporting period and there were no alternative audit procedures to satisfy ourselves as to whether the contingent liabilities, related parties transaction and events after the reporting period were free from material misstatement.

2. Transactions of the Group during the year ended 31 March 2017

Following the substantial change in the composition of the board of the Company with effective from 18 June 2016 as disclosed in note 2, the Directors were unable to locate the supporting documents for (i) certain transactions for the year ended 31 March 2017 and (ii) a bank account held by a subsidiary of the Group ("Transactions"). For the purpose of preparing the consolidated financial statements, the Transactions were charged/(credited) to profit or loss for the year ended 31 March 2017 and summarised below:

Independent Auditor's Report (Continued)

BASIS FOR DISCLAIMER OF OPINION *(Continued)*

2. Transactions of the Group during the year ended 31 March 2017 *(Continued)*

Transactions included in the consolidated statement of profit or loss

	<i>HK\$'000</i>
Other income	2,670
Administrative expenses	13,155

Due to the lack of supporting documents of the Transactions, we were unable to obtain sufficient appropriate audit evidence and explanation to the above transactions included in the consolidated financial statements of the Group and the resulting movement in the reserves. We were unable to obtain sufficient appropriate audit evidence regarding the Transactions and bank balances because (i) we were unable to carry out satisfactory audit procedures to obtain reasonable assurance regarding the completeness, accuracy, existence or occurrence, valuation, ownership, classification and disclosures of the Transactions undertaken by the Group; (ii) we were unable to carry out effective confirmation procedure in relation to certain bank balances for the purpose of our audit and no alternative audit procedures that we could perform to satisfy ourselves as to whether certain bank balances were free from material misstatement; and (iii) we were unable to carry out audit procedures that we consider necessary to satisfy ourselves as to the completeness and existence or occurrence of any other significant transactions, inter-group transactions, contingent liabilities, commitments, related party transactions and subsequent events relating to the Group. Any adjustments that might have been found to be necessary in respect of the above would have a consequential significant effect on the Group's net assets as at 31 March 2017 and the financial performance and cash flows of the Group for the year ended 31 March 2017 and may have resulted in additional information being disclosed in the consolidated financial statements as to the nature of the transactions.

3. Deposit for possible acquisition

Included in the Group's prepayment, deposits and other receivables as at 31 March 2017 was an earnest money paid for the possible acquisition with a total amount of approximately HK\$10,000,000 (the "Earnest Money").

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

Independent Auditor's Report (Continued)

BASIS FOR DISCLAIMER OF OPINION *(Continued)*

3. Deposit for possible acquisition *(Continued)*

We were unable to obtain sufficient appropriate audit evidence regarding the Earnest Money because: (i) we were unable to carry out effective confirmation procedures in relation to the Earnest Money for the purpose of our audit; (ii) there was inadequate documentary evidence available for us to satisfy ourselves as to the recoverability of the Earnest Money was appropriate; and (iii) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Earnest Money were free from material misstatement. Any adjustments found to be necessary would have an effect on the Group's net position as at 31 March 2017 and consequently, the net loss and cash flows of the Group for the year then ended, and the related disclosures thereof in the consolidated financial statements.

4. Dividend payable on redeemable convertible cumulative preference shares

Included in other payables and accrued expenses was a dividend payable on redeemable convertible cumulative preference shares (the "Dividend Payable") of approximately HK\$30,894,000. As disclosed in note 14 to the Company's interim report dated 30 November 2015, the Company issued a promissory note in the principal amount of US\$4,000,000 (equivalent to approximately HK\$30,894,000) to settle the balance of the Dividend Payable (the "Promissory Note"). However, following the substantial change in the composition of the Board effective from 18 June 2016, the Directors were unable to locate and verify the supporting documents for the issuance of the Promissory Note as well as the settlement of the Dividend Payable. Accordingly, the Company reclassified the Promissory Note as the Dividend Payable (the "Re-classification"). As at 31 March 2017, the Company did not recognise any liability in respect of the Promissory Note.

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

No alternative audit procedures in relation to the Dividend Payable could be performed to satisfy ourselves as to whether the accuracy, classification and disclosures of Dividend Payable as at 31 March 2017 were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balance of the Group's net financial position as at 31 March 2017 and the financial performance and cash flows of the Group for the year ended 31 March 2017, and the related disclosures thereof in the consolidated financial statements.

Independent Auditor's Report (Continued)

BASIS FOR DISCLAIMER OF OPINION *(Continued)*

5. Litigation

As disclosed in note 2, the former Directors and legal representative of Beijing Zhongwei KangHong Hospital Management Co Ltd. (the "Beijing Zhongwei"), an indirect wholly owned subsidiary of the Group, have not handed over all the licenses, stamps and books and records of Beijing Zhongwei to the Existing Management, accordingly the Group was unable to obtain appropriate evidence and explanations as to whether (i) any contingent liabilities and commitments committed by the Group were properly recorded and accounted for; and (ii) any related party disclosures and events after the reporting period were properly recorded, accounted for and disclosed in the consolidated financial statements of the Group for the year ended 31 March 2017.

We were unable to perform appropriate audit procedures to satisfy ourselves as to whether (i) the contingent liabilities and commitments; (ii) related parties transactions; and (iii) event after the reporting period for the year ended 31 March 2017 were free from material misstatements. Any adjustments that might have been found necessary may have a consequential effect on the Group's net assets as at 31 March 2017 and consequently the financial performance and cash flows of the Group for the year ended 31 March 2017, and the related disclosures thereof in the consolidated financial statements.

Had we been able to satisfy ourselves in respect of the matters mentioned in the items (1) to (5) above, adjustments might have been found to be necessary which would have had a consequential impact on the net assets of the Group as at 31 March 2017 and its net loss for the year ended 31 March 2017 and/or the comparative information, and may have resulted in additional information being disclosed in the financial statements as to the nature of these transactions and any material non-adjusting post balance sheet events.

MATERIAL UNCERTAINTY IN RELATION TO GOING CONCERN BASIS

We draw attention to note 2 of the consolidated financial statements, which indicates that the Group incurred a consolidated net loss of approximately HK\$69,277,000 for the year ended 31 March 2017 and had net current liabilities of HK\$1,260,000 as at 31 March 2017. These conditions, along with other matters as set forth in note 2, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not disclaimed on this matter.

Independent Auditor's Report (Continued)

RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards (the "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA and to issue an auditor's report. This report is made solely to you, in accordance with Section 90 of the Bermuda Companies Act 1981, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code.

Independent Auditor's Report (Continued)

REPORT ON OTHER MATTERS UNDER SECTIONS 407(2) AND 407(3) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the inability to obtain sufficient appropriate audit evidence about the items as described in the Basis for Disclaimer of Opinion section of our report above:

- we were unable to determine whether adequate accounting records had been kept; and
- we have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

The engagement partner on the audit resulting in this independent auditor's report is Chan Wai Nam William with Practising Certificate number P05957.

Elite Partners CPA Limited
Certified Public Accountants
10th Floor, 8 Observatory Road,
Tsim Sha Tsui, Kowloon,
Hong Kong
30 June 2017

Consolidated Statement of Profit or loss

For the Year ended 31 March 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Revenue	9	14,989	23,716
Cost of services		<u>(6,009)</u>	<u>(18,225)</u>
Gross profit		8,980	5,491
Other income and other gains	9	5,199	14,800
Selling and distribution expenses		(656)	(5,012)
Administrative expenses		(82,603)	(55,185)
Finance costs	10	–	(7,283)
Impairment loss on other receivables		–	(15,149)
Net loss recognised on de-consolidation of subsidiaries		<u>–</u>	<u>(15,969)</u>
Loss before tax	11	(69,080)	(78,307)
Income tax	12	<u>(197)</u>	<u>(128)</u>
Loss for the year		<u>(69,277)</u>	<u>(78,435)</u>
Attributable to:			
Owners of the Company		(69,277)	(73,214)
Non-controlling interests		<u>–</u>	<u>(5,221)</u>
		<u>(69,277)</u>	<u>(78,435)</u>
Loss per share	14		
Basic		<u>(HK1.91 cents)</u>	<u>(HK2.69 cents)</u>
Diluted		<u>(HK1.91 cents)</u>	<u>(HK2.69 cents)</u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year ended 31 March 2017

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss for the year	(69,277)	(78,435)
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	(1,097)	5,185
Reclassification adjustment relation to foreign operation de- consolidation during the year	—	(21,965)
Total comprehensive loss for the year	<u>(70,374)</u>	<u>(95,215)</u>
Attributable to:		
Owners of the Company	(70,374)	(89,994)
Non-controlling interests	—	(5,221)
	<u>(70,374)</u>	<u>(95,215)</u>

Consolidated Statement of Financial Position

At 31 March 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	15	1,507	238
Goodwill	16	–	–
Intangible assets	17	16,496	–
Available-for-sale investments	18	22,558	–
Prepayment for acquisition of properties		11,843	–
Loan receivables	19	58,858	17,985
		<u>111,262</u>	<u>18,223</u>
CURRENT ASSETS			
Trade receivables	20	1,691	562
Prepayments, deposits and other receivables	19	50,092	11,169
Cash and bank balances	21	7,087	205,027
		<u>58,870</u>	<u>216,758</u>
CURRENT LIABILITIES			
Other payables and accrued expenses	22	55,505	49,889
Amounts due to de-consolidated subsidiaries	23	4,625	4,716
		<u>60,130</u>	<u>54,605</u>

Consolidated Statement of Financial Position (Continued)

At 31 March 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
NET CURRENT (LIABILITIES)/ASSETS		<u>(1,260)</u>	<u>162,153</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>110,002</u>	<u>180,376</u>
NET ASSETS		<u>110,002</u>	<u>180,376</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	321,995	211,995
Reserves		<u>(211,993)</u>	<u>(31,619)</u>
TOTAL EQUITY		<u><u>110,002</u></u>	<u><u>180,376</u></u>

Approved and authorised for issue by the Board of Directors on 30 June 2017

Chung Ho
Director

Wang Jingming
Director

Consolidated Statement of Changes In Equity

For the Year ended 31 March 2017

	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
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(note a)	(note b)	(note c)	(note d)	(note e)	(note f)				
At 1 April 2015	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 year	-	-	-	-	-	-	-	(73,214)	(73,214)	(5,221)	(78,435)
Other comprehensive loss for the year	-	-	-	-	-	(16,780)	-	-	(16,780)	-	(16,780)
Total comprehensive loss for the year	-	-	-	-	-	(16,780)	-	(73,214)	(89,994)	(5,221)	(95,215)
Issue of shares upon conversion of the convertible bonds	130,000	65,000	-	-	(195,000)	-	-	-	-	-	-
Subscription of shares	13,666	24,598	-	-	-	-	-	-	38,264	-	38,264
De-consolidation of subsidiaries	-	-	-	(1,047)	-	-	-	-	(1,047)	(23,218)	(24,265)
Repayment of convertible bonds	-	-	-	-	(3,592)	-	-	3,592	-	-	-
Issue of convertible bonds	-	-	-	-	225,000	-	-	-	225,000	-	225,000
At 31 March 2016 and at 1 April 2016	211,995	421,558*	57,124*	-	225,000*	(1,145)*	1,656*	(735,812)*	180,376	-	180,376
Loss for the year	-	-	-	-	-	-	-	(69,277)	(69,277)	-	(69,277)
Other comprehensive loss for the year	-	-	-	-	-	(1,097)	-	-	(1,097)	-	(1,097)
Total comprehensive loss for the year	-	-	-	-	-	(1,097)	-	(69,277)	(70,374)	-	(70,374)
Lapse of share options	-	-	-	-	-	-	(1,656)	1,656	-	-	-
Issue of shares upon conversion of the convertible bonds	110,000	55,000	-	-	(165,000)	-	-	-	-	-	-
At 31 March 2017	321,995	476,558*	57,124*	-	60,000*	(2,242)*	-	(803,433)*	110,002	-	110,002

* These reserve amounts comprise the consolidated deficiency in reserves of approximately HK\$211,993,000 (2016: HK\$31,619,000) in the consolidated statement of financial position.

Consolidated Statement of Changes In Equity (Continued)

For the Year ended 31 March 2017

a) Share premium

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

(b) Contributed surplus

The contributed surplus arose in the previous years represented the net effect of the capital reduction, the share premium cancellation and the elimination of accumulated losses of the Company. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- it is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors of the Company, as at 31 March 2017 and 2016, the Company did not have any reserve available for distribution to shareholders.

(c) Statutory reserves

Statutory reserves, which are non-distributable, are appropriated from the profit after tax of subsidiaries of the Company in the People's Republic of China (the "PRC") under the applicable laws and regulations in the PRC.

(d) Convertible bonds reserve

The convertible bonds reserve represents the value of the unexercised/repurchased equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds set out in note 4 to the consolidated financial statements.

(e) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the consolidated financial statements.

(f) Share options reserve

Share options reserve represents the fair value of unexercised share options granted by the Company recognised in accordance with the accounting policy of share-based payments set out in note 4 to the consolidated financial statements.

Consolidated Statement of Cash Flows

For the Year ended 31 March 2017

	2017 HK\$'000	2016 HK\$'000
Cash flows from operating activities		
Loss before tax:	<u>(69,080)</u>	<u>(78,307)</u>
Adjustments for:		
Finance costs	–	7,283
Interest income	(31)	(1,082)
Loan interest income	(2,496)	–
Gain on investments	–	(379)
Depreciation of property, plant and equipment	191	111
Amortisation of intangible assets	433	–
Loss on disposal of property, plant and equipment	164	–
Impairment loss on other receivable	–	15,149
Loss on de-consolidation of subsidiaries	–	15,969
Reversal of other payables	–	<u>(12,728)</u>
Operating cash flow before movement in working capital	(70,819)	(53,984)
Increase in trade receivables	(1,201)	(11,254)
Increase/(decrease) in prepayments, deposits and other receivables	(39,262)	8,178
Decrease in trade payables	–	(1,325)
Increase/(decrease) in other payables and accrued expenses	<u>5,648</u>	<u>(2,281)</u>
Cash used in operations	(105,634)	(60,666)
Income tax paid	<u>(197)</u>	<u>(188)</u>
Net cash used in operating activities	(105,831)	(60,854)

Consolidated Statement of Cash Flows (Continued)

For the Year ended 31 March 2017

	2017 HK\$'000	2016 HK\$'000
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,629)	(296)
Bank interest received	31	1,082
Loan interest received	749	–
Acquisition of intangible assets	(17,326)	–
Loan to hospitals	(40,873)	(17,985)
(Acquisition)/disposal of available- For-sale financial assets	(22,558)	2,275
Prepayment for acquisition of properties	(11,843)	–
Cash outflow of de-consolidation of subsidiaries	–	(13,627)
Net cash used in investing activities	<u>(93,449)</u>	<u>(28,551)</u>
Cash flows from financing activities		
Repayment of preference shares dividend payable of a subsidiary	–	(12,963)
Repayment of promissory notes	–	(8,000)
Repayment of convertible bonds	–	(43,151)
Subscription of shares	–	38,264
Issue of convertible bonds	–	225,000
Net cash flows generated from financing activities	<u>–</u>	<u>199,150</u>
Net (decrease)/increase in cash and cash equivalents	(199,280)	109,745
Effect of foreign exchange rate changes, net	1,340	(6,047)
Cash and cash equivalents at beginning of the year	<u>205,027</u>	<u>101,329</u>
Cash and cash equivalents at end of the year	<u>7,087</u>	<u>205,027</u>
Analysis of cash and cash equivalents:		
Cash and bank balances	<u>7,087</u>	<u>205,027</u>

Notes to the Consolidated Financial Statements

For the Year ended 31 March 2017

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and principal place of business is located at Room 1705, World Wide House, 19 Des Voeux Road Central, Hong Kong.

The principal activity of the Company is investment holding, the principal activities of its subsidiaries are engaged in hospital management service and trading of medical equipment during the year.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The consolidated financial statements are presented in Hong Kong dollar ("HK\$") which is also the functional currency of the Company. The majority of the Company's subsidiaries are operating in the People's Republic of China (the "PRC") with RMB as their functional currency.

Change in composition of the board

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)

Change in composition of the Board (Continued)

After the change of the board composition on 18 June 2016, the accounting team in the PRC and the former directors did not provide the books and records and supporting documents of the Group to the existing directors and management of the Company (the "Existing Management") despite their repeated requests. As such, the Existing management was unable to locate supporting documents for certain transactions and balances (e.g. certain bank movements during the year ended 31 March 2017 which were charged to profit or loss and bank balances as at 31 March 2017 of certain subsidiaries of the Group). The Existing Management therefore were unable to determine the nature of certain transactions as detailed below:

	<i>HK\$'000</i>
Other income	2,670
Administrative expenses	13,155

Going concern assumption

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the following:

- (i) The Group incurred a consolidated net loss of approximately HK\$69,277,000 for the year ended 31 March 2017; and
- (ii) The Group's current liabilities exceeded its current assets by approximately HK\$1,260,000 as at 31 March 2017.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

Nevertheless, the directors of the Company are of the opinion that the Group will be able to finance its working capital and financial requirements given that (i) 420,000,000 shares at a subscription price of HK\$0.17 have been issued on 5 June 2017 with net proceeds of approximately HK\$71,300,000 to the Company and (ii) the security deposit of US\$4,000,000 (equivalent to approximately HK\$31,060,000) required by the court has been released to the Company in April 2017.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)

Going concern assumption (Continued)

The directors of the Company believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirement. Accordingly, these consolidated financial statements have been prepared on a going concern basis and do not include any adjustments that would be required should the Group fail to continue as a going concern.

Basis of consolidation

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)

Basis of consolidation (Continued)

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

3.1 Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to HKFRSs issued by HKICPA that are mandatorily effective for an accounting period that begins on or after 1 April 2016. These amendments have been applied by the Group for the first time in the current year unless otherwise specified. The impact of these amendments are described below.

a) Amendments to HKFRS 10, HKFRS 12 and HKAS 28 Investment Entities: Applying the Consolidation Exception

The amendments mainly clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with HKFRS 10. The Company is not an investment entity. Also, given that the Company is a listed entity, the consolidation exception set out in the amendments will not be applicable to the Company and hence the application of these amendments has had no impact on the Group’s consolidated financial statements.

b) Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards should be applied. The amendments also require that a joint operator to disclose the relevant information required by HKFRS 3 and other standards for business combinations. The amendments require prospective application; prospectively in annual periods beginning on or after 1 January 2016. The Group did not have any such transactions in the current year and hence the application of these amendments has had no impact on the Group’s consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

3.1 Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

c) *Amendments to HKAS 1 Disclosure Initiative*

The amendments clarify that an entity need not provide a specific disclosure required by a HKFRS if the information resulting from that disclosure is not material (even if the HKFRS contains a list of specific requirements or describes them as minimum requirements). The amendments also give guidance on the bases of aggregating and disaggregating information for disclosure purposes. The amendments emphasise that an entity should consider whether to provide additional disclosures when compliance with the specific requirements in HKFRSs is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance. Furthermore, the amendments require that an entity’s share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other HKFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

d) *Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue-based amortisation is not an appropriate basis for amortisation of an intangible asset. The amendments states that such a presumption can only be rebutted in the following two limited circumstances:

- when the intangible asset is expressed as a measure of revenue; or
- when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

3.1 Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

d) *Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (Continued)*

With regard to the Group’s property, plant and equipment and intangible assets, the Group did not use revenue-based depreciation method and hence the amendments have not have any impact on the Group’s financial position and financial performance. Rather, the Group has been using the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively.

e) *Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants*

The amendments define a bearer plant that is a living plant that:

- a) is used in the production or supply of agricultural produce;
- b) is expected to bear produce for more than one period; and
- c) has a remote likelihood of being sold as agricultural produce except for incidental scrap sales.

The amendments require that biological assets that meet the definition of a bearer plant should be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The application of these amendments has had no impact on the Group’s consolidated financial statements as the Group is not engaged in agricultural activities.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

3.1 Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

f) Annual Improvements to HKFRSs 2012-2014 Cycle

The Annual Improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

Firstly, the amendments to HKFRS 5 introduce specific guidance for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in HKFRS 5 regarding the change of sale plan do not apply.

Secondly, the amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

Thirdly, the amendments to HKAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the Group’s consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

3.2 New and revised HKFRSs that are not mandatorily effective for the current year

The Group has not applied any of the following new and revised HKFRSs that have been issued but are not yet mandatorily effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15 and amendments to HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 7	Disclosure Initiative ⁴
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle ⁵
HK (IFRIC) Interpretation 22	Foreign Currency Transactions and Advance Consideration ¹

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for annual periods beginning on or after 1 January 2017

5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

The Group anticipates that the application of the above new or amended standards have no material impact on the results and the financial position of the Group.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

3.2 New and revised HKFRSs that are not mandatorily effective for the current year (Continued)

HKFRS 9 Financial Instruments

HKFRS 9 has introduced new requirements for a) classification and measurement of financial assets, b) impairment of financial assets and c) general hedge accounting.

Specifically, with regard to the classification and measurement of financial assets, HKFRS 9 requires all recognised financial assets that are within the scope of HKFRS 9 to be subsequently measured at amortised cost or fair value. Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of each of the subsequent accounting periods. Debt investments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. Further, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss and that cumulative fair value changes will not be reclassified to profit or loss upon derecognition of the investment.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

3.2 New and revised HKFRSs that are not mandatorily effective for the current year (Continued)

HKFRS 9 Financial Instruments (Continued)

With regard to impairment of financial assets, HKFRS 9 has adopted an expected credit loss model, as opposed to an incurred credit loss model required under HKAS 39. In general, the expected credit loss model requires an entity to assess the change in credit risk of the financial asset since initial recognition at each reporting date and to recognise the expected credit loss depending on the degree of the change in credit risk.

With regard to the general hedge accounting requirements, HKFRS 9 retains the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The Group is still in the process of assessing the impact of HKFRS 9. The directors of the Company believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

HKFRS 15 Revenue from Contracts with Customers and the clarifications to HKFRS 15

HKFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

3.2 New and revised HKFRSs that are not mandatorily effective for the current year (Continued)

HKFRS 15 Revenue from Contracts with Customers and the clarifications to HKFRS 15 (Continued)

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, HKFRS 15 introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Group is still in the process of assessing the impact of HKFRS 15. The directors of the Company believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

3.2 New and revised HKFRSs that are not mandatorily effective for the current year (Continued)

HKFRS 16 Leases

HKFRS 16 will supersede the current lease guidance including HKAS 17 *Leases* and the related interpretations when it becomes effective.

With regard to lessee accounting, the distinction of operating leases and finance leases, as required by HKAS 17, has been replaced by a model which requires a right-of-use asset and a corresponding liability to be recognised for all leases by lessees except for short-term leases and leases of low value assets. Specifically, the right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas, under the HKFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

With regard to lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, HKFRS 16 requires extensive disclosures in the financial statements.

The Group is in the process of assessing the impact of HKFRS 16. The directors of the Company believe that it is impractical to disclose the impact in these consolidated financial statements until the Group has completed the assessment.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

3.2 New and revised HKFRSs that are not mandatorily effective for the current year (Continued)

Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee’s tax obligation to meet the employee’s tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a ‘net settlement feature’, such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
- A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows: the original liability is derecognised. The equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date. Any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments and hence the directors of the Company do not anticipate that the application of the amendments in the future will have a significant impact on the Group’s consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

3.2 New and revised HKFRSs that are not mandatorily effective for the current year (Continued)

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to HKFRS 10 and HKAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

The Group did not enter into these transactions in the current year. The directors of the Company anticipate that the application of these amendments may have an impact on the Group’s consolidated financial statements in future periods should such transactions arise.

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to make disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The directors of the Company do not anticipate that the application of these amendments will have a material impact on the Group’s consolidated financial statements.

Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments provide a number of guidance to help entities assess and estimate whether sufficient taxable profits will be available against which it can utilise a deductible temporary difference. The directors of the Company do not anticipate that the application of these amendments will have a material impact on the Group’s consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

3.2 New and revised HKFRSs that are not mandatorily effective for the current year (Continued)

Amendments to HKAS 40 Transfers of Investment Property

The amendments clarify that an entity should transfer a property to, or from, investment property when, and only when, there is a change in use. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The amendments emphasises that a change in management’s intentions for the use of a property, in isolation, does not provide evidence of a change in use. Further, the amendments clarify that the list of circumstances set out in paragraph 57 of HKAS 40 are examples only.

The amendments require an entity to apply the amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments (i.e. the date of initial application). At the date of initial application, an entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date.

The directors of the Company do not anticipate that the application of these amendments will have a material impact on the Group’s consolidated financial statements.

HK (IFRIC) 22 Foreign Currency Transactions and Advance Consideration

This Interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to be used on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The Interpretation concludes that the date of the transaction for the abovementioned purpose is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The directors of the Company do not anticipate that the application of the Interpretation will have a material impact on the Group’s consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 March. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charge to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint venture of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of cash item of property, plant and equipment to residual values over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvement	20%
Furniture, fixtures and equipment	20%
Motor vehicles	30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Leases

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss ("FVTPL") are recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables, cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or not classified as financial assets at fair value through profit or loss, loans and receivables or held-for-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets (Continued)

Financial assets carried at amortised cost (Continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to directors, interest-bearing loans from a director and a shareholder are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds containing liability and equity components

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity (convertible bonds reserve).

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into a fixed number of ordinary shares of the Company, will remain in convertible bonds reserve until the embedded option is exercised (in which case the balance stated in convertible bonds reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds reserve will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Redeemable convertible cumulative preference shares

Redeemable convertible cumulative preference shares which entitle the holder to convert into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price are regarded as hybrid instruments that consist of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative component is measured at fair value with gains or losses recognised in profit or loss.

Transaction costs are apportioned between the liability and derivative components of the redeemable convertible cumulative preference shares based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the redeemable convertible cumulative preference shares using the effective interest method. Transaction costs relating to the derivative component are charged to profit or loss immediately.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Derecognition (Continued)

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or it expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognised in profit or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including assets similar in nature to cash, which are not restricted as to use.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- a) service income is recognised when the services are rendered;
- b) revenue from trading of goods is recognised when goods are delivered to the Group's customers. Delivery does not occur until the products have been transported to the specified location, the risks of obsolescence and loss have been transferred to the customer.
- c) interest income from banks and independent third parties, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period/recognised as an expenses in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

Share options granted to advisors/consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

Retirement benefits costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 5% of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

All borrowing costs are expensed in the period which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency (i.e. HK\$) of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the foreign currency translation reserve).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or disposal involving loss of control over subsidiaries that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Going concern basis

Management makes an assessment of the Group's ability to continue as a going concern when preparing the consolidated financial statements. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the date of the financial statement. The degree of consideration depends on the facts in each case. Management believes that the Group is able to continue as a going concern after taking into account the measures, financial supports and the future profitable operations. Accordingly, management has prepared the consolidated financial statements on a going concern basis. An adverse change in any of the above conditions would require the consolidated financial statements to be prepared on an alternative authoritative basis and such basis, together with the fact that the consolidated financial statements is not prepared on a going concern basis, would need to be disclosed. If the Group was unable to continue as a going concern, adjustments relating to the recoverability and classification of recorded asset amounts or classification of liabilities may need to be incorporated into the consolidated financial statements.

Impairment of trade and other receivables

The Group makes impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of the customers and other debtors and the current market condition. The directors of the Company reassess the impairment at the end of each reporting period.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Intangible assets and amortisation

The Group determines the estimated useful lives and related amortisation for the Group's intangible assets. The useful lives of intangible assets are assessed based on the expected usage and technical obsolescence from the changes in the market demands or services output from the assets. Intangible assets with finite useful lives are amortised over the expected useful economic lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for the intangible assets with finite useful lives are reviewed by the management at least at the end of each reporting period.

Impairment of intangible assets

The Group tests whether intangible assets which have finite useful lives have suffered any impairment whenever there is any indication that the assets have been impaired. The recoverable amounts have been determined based on value-in-use calculations. These calculations require the use of estimates. In determining the value-in-use, expected cash flows generated from the use of the contractual rights are discounted to their present value, which requires significant judgement relating to the level of volume of game console being sold, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Had the actual results been different from the management's estimate, such difference will impact the carrying value of intangible assets in the year in which such determination is made.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company (i.e. issued share capital and reserves)

The directors of the Company review the capital structure periodically. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through adjusting the new share issues, share buy-back and the issue of new debt or the redemption of existing debt or sell assets to reduce debt.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Financial assets		
Loans and receivables:		
Trade receivables	1,691	562
Loan receivables	58,858	17,985
Deposits and other receivables	47,364	11,169
Cash and bank balances	<u>7,087</u>	<u>205,027</u>
	115,000	234,743
Available for sale financial assets	<u>22,558</u>	–
Total financial assets	<u><u>137,558</u></u>	<u><u>234,743</u></u>
Financial liabilities		
Financial liabilities at amortised cost:		
Other payables and accrued expenses	55,505	49,889
Amounts due to de-consolidated subsidiaries	<u>4,625</u>	<u>4,716</u>
Total financial liabilities	<u><u>60,130</u></u>	<u><u>54,605</u></u>

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, available-for-sale financial assets, cash and bank balances, trade and other payables and amount due to de-consolidated subsidiaries. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include currency risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group did not have a foreign currency hedging policy as at the end of the reporting period. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2017 HK\$'000	2016 HK\$'000
RMB	<u>11,279</u>	<u>–</u>

At 31 March 2017, if RMB had strengthened/weakened by 10% against HK\$ with all other variables held constant, post-tax profit/loss after tax for the year would have been HK\$1,128,000 higher/lower (2016: Nil higher/lower), mainly as a result of foreign exchange gains/losses on translation of RMB denominated other receivables.

In the opinion of directors, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 March 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group only trades with recognised and creditworthy third parties. As at 31 March 2017, the Group has concentration of credit risk of 62% (2016: 100%) and 100% (2016: 100%) as the total trade receivables was due from the Group's largest customer and the five largest customers, respectively. However, receivable balances are monitored on an ongoing basis, the directors of the Company review the recoverable amount of each individual trade debt and loan regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

7. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2017			2016		
	Less than 1 year or on demand	1-5 years	Total	Less than 1 year or on demand	1-5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-derivative financial liabilities						
Other payables	55,505	-	55,505	49,889	-	49,889
Amounts due to de- consolidated subsidiaries	4,625	-	4,625	4,716	-	4,716
	<u>60,130</u>	<u>-</u>	<u>60,130</u>	<u>54,605</u>	<u>-</u>	<u>54,605</u>

(c) Fair value and fair value hierarchy

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position of the Group approximate their fair values due to their immediate or short-term maturities.

Fair value measurements recognised in the consolidated statement of financial position The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

7. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value and fair value hierarchy *(Continued)*

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

8. 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 segment reporting purpose, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- Hospital management service;
- Trading of medical equipment;
- Healthcare service (note); and
- B-to-C consumer service of E-distribution of mobile pre-charge (note).

Note: Subsidiaries under this operating segment had been de-consolidated in the prior year as disclosed in note 34 to the consolidated financial statement.

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

Segment liabilities excluded amounts due to de-consolidated subsidiaries and other corporate liabilities as these liabilities are managed on a group basis.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

8. OPERATING SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's revenue and results by operating segment for the year ended 31 March 2017 and 2016:

For the year ended 31 March 2017	Hospital management service HK\$'000	Trading of medical equipment HK\$'000	Total HK\$'000
Segment revenue			
Revenue from external customers	<u>2,664</u>	<u>12,325</u>	<u>14,989</u>
Segment results	(8,127)	3,003	(5,124)
Reconciliation:			
Interest income and unallocated income			5,199
Corporate and other unallocated expenses			<u>(69,155)</u>
Loss before tax			<u>(69,080)</u>
Depreciation and amortisation	435	12	477
Reconciliation			
Unallocated depreciation and amortisation			<u>177</u>
			<u>624</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

8. OPERATING SEGMENT INFORMATION (Continued)

For the year ended 31 March 2016	B to C Consumer service <i>HK\$'000</i>	Healthcare service <i>HK\$'000</i>	Hospital management service <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue				
Revenue from external customers	<u>8,810</u>	<u>14,332</u>	<u>574</u>	<u>23,716</u>
Segment results	(1,735)	(20,417)	508	(21,644)
Reconciliation:				
Interest income and unallocated income				7,893
Corporate and other unallocated expenses				(40,949)
Finance costs unallocated				(7,283)
Impairment loss on other receivables				(355)
Net loss recognised on deconsolidated subsidiaries				<u>(15,969)</u>
Loss before tax				<u>(78,307)</u>
Depreciation and amortisation	52	1		53
Reconciliation				
Unallocated depreciation and amortization				<u>58</u>
				<u>111</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

8. OPERATING SEGMENT INFORMATION (Continued)

The following table is an analysis of the Group's assets and liabilities and other segment information as at 31 March 2017 and 2016:

For the year ended 31 March 2017

	Hospital management service HK\$'000	Trade of medical equipment HK\$'000	Total HK\$'000
Segment assets	73,728	36,347	110,075
Corporate and other unallocated assets			60,057
Total assets			170,132
Segment liabilities	430	529	959
Corporate and other unallocated liabilities			59,171
Total liabilities			60,130

For the year ended 31 March 2016

	B to C Consumer service HK\$'000	Healthcare service HK\$'000	Hospital management service HK\$'000	Total HK\$'000
Segment assets	-	-	22,538	22,538
Corporate and other unallocated assets				212,443
Total assets				234,981
Segment liabilities	-	-	-	-
Corporate and other unallocated liabilities				54,605
Total liabilities				54,605

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

8. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

For the years ended 31 March 2017 and 2016, the Group's operations and its non-current assets are principally located in the PRC, accordingly no geographical segment information is presented.

Information about major customers

During the year ended 31 March 2017, the Group had transactions with 1 (2016: 2) customers who contributed over 10% of the Group's total net revenue, which is summarised below:

	2017 HK\$'000	2016 HK\$'000
Customer 1	–	8,810
Customer 2	–	14,332
Customer 3	<u>14,037</u>	<u>574</u>
	<u>14,037</u>	<u>23,716</u>

9. REVENUE AND OTHER INCOME AND GAINS

Revenue from the Group's principal activities, which is also the Group's turnover, represented the net invoiced value of goods sold and services provided, net of allowances for returns, trade discounts and value-added tax. An analysis of the Group's revenue and other income and gains is as follows:

	2017 HK\$'000	2016 HK\$'000
Revenue:		
Income from provision of hospital management services (note)	2,664	574
Trading of medical equipment	12,325	–
Income from provision of healthcare service	–	14,332
Commission income earned from provision of B to C consumer service	<u>–</u>	<u>8,810</u>
	<u>14,989</u>	<u>23,716</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

9. REVENUE AND OTHER INCOME AND GAINS (Continued)

Note: The amount comprises (a) the management fee income from Shuangluan Hospital of approximately HK\$1,712,000 (2016: approximately HK\$574,000); and the operating right income from Anping Bo'ai Hospital and Dingnan Chinese Medicine Hospital of approximately HK\$952,000 (2016: nil) during the year.

Pursuant to the operating right agreements for Anping Bo'ai Hospital and Dingnan Chinese Medicine Hospital (collectively the "Operating Right Agreements") entered into in September 2016 and November 2016 respectively, the Group is entitled to 85% to 90% of revenue generated from Anping Bo'ai Hospital and Dingnan Chinese Medicine Hospital respectively and bears certain costs for both hospitals as specified in the Operating Right Agreements from the date of commencement of grant of operating rights. In this connection, the Group's share of revenue amounted to approximately HK\$17,925,000 (2016: nil) and the cost of services borne by the Group amounted to approximately HK\$16,973,000 (2016: nil) under the Operating Right Agreements. Having considered the current operation including but not limited to staff employment and procurement of medicine of both hospitals which are currently paid by both hospitals on behalf of the Group, the revenue under the Operating Right Agreements was presented and recognised in the consolidated statement of profit or loss of the Group for the year ended 31 March 2017 based on the consideration received or receivable from the hospitals, representing the Group's share of revenue after deducting the cost of services recharged from both hospitals during the year.

	2017 HK\$'000	2016 HK\$'000
Other income and gains:		
Gain on investment	–	379
Exchange gain	2	573
Loan interest income	2,496	–
Bank interest income	31	1,082
Reversal of other payables	–	12,728
Sundry income	2,670	38
	<u>5,199</u>	<u>14,800</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31 March 2017

10. FINANCE COST

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Dividend payable to convertible preference share issued by a subsidiary	–	6,696
Effective interest expenses on liability component of redeemable convertible cumulative preference shares wholly repayable within five years	–	587
	<u>–</u>	<u>7,283</u>

11. LOSS BEFORE TAX

Loss before tax is arrived at after charging the following:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Auditors' remuneration	1,080	1,100
Depreciation of property, plant and equipment	191	111
Loss on disposal of property, plant and equipment	164	–
Amortisation of intangible assets	433	–
Rental expenses in respect of office premises	2,458	495
Staff costs (including directors' emoluments)		
– Salaries, wages, and other benefits	12,235	10,960
– Contributions to defined contribution retirement plans	143	212
Impairment loss on other receivables	–	15,149

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

12. INCOME TAX

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

Subsidiaries established in PRC are subject to the PRC enterprise income tax at the standard rate of 25% (2016: 25%).

	2017 HK\$'000	2016 HK\$'000
Current tax - PRC		
Provision for the year	<u>197</u>	<u>128</u>

A reconciliation of the tax expense applicable to loss before tax at the statutory rates of the PRC, where the majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rates, is as follows:

	2017 HK\$'000	2016 HK\$'000
Loss before tax	<u>(69,080)</u>	<u>(78,307)</u>
Tax at the statutory rate in the PRC of 25%	(17,270)	(19,577)
Effect of different tax rate of subsidiaries operating in other jurisdictions	5,593	2,365
Tax effect of non-taxable income	(1,720)	-
Tax effect of non-deductible expenses	11,562	7,714
Tax losses not recognised	<u>2,032</u>	<u>9,626</u>
Tax charge for the year	<u>197</u>	<u>128</u>

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

13. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

Directors' emoluments

The emoluments paid or payable to each of the 33 (2016: 10) directors of the Company were as follows:

Year ended 31 March 2017

		Directors'	Salaries and other	Contributions to retirement benefit	Total
	<i>Note</i>	fees	benefits	schemes	HK\$'000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
EXECUTIVE DIRECTORS					
Mr. Weng Yu	<i>a</i>	–	472	–	472
Mr. Wang Yongqing	<i>a</i>	–	369	–	369
Mr. Chung Ho		–	2,250	14	2,264
Mr. Wang Jingming		–	1,800	–	1,800
Mr. Zhang Fan	<i>c</i>	–	450	–	450
Mr. Jia Hong Sheng	<i>b</i>	–	540	–	540
Dr. Li Zhong Yuan	<i>b</i>	–	–	–	–
Mr. Zhou Bao Yi	<i>b</i>	–	–	–	–
Mr. Zhao Kai	<i>d</i>	–	–	–	–
NON-EXECUTIVE DIRECTORS					
Mr. Ying Wei	<i>a</i>	–	79	–	79
Mr. Zhang Song	<i>a</i>	–	79	–	79
Ms. Wei Changying	<i>a</i>	–	79	–	79
Mr. Pei Kewei	<i>e</i>	–	100	–	100
Mr. Xing Yong	<i>a</i>	–	79	–	79
Mr. Wang Zili	<i>a</i>	–	79	–	79
Mr. Wang Xiaolin	<i>a</i>	–	79	–	79
Mr. Wang Yuexiang	<i>a</i>	–	79	–	79
Mr. Li Xuguang	<i>c</i>	–	–	–	–
Ms. Wang Fang	<i>f</i>	–	50	–	50
Mr. Yang Cheng	<i>g</i>	–	100	–	100
Mr. Huang Bin	<i>g</i>	–	50	–	50
Ms. He Lijuan	<i>f</i>	–	50	–	50

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

13. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES (Continued)

Directors' emoluments (Continued)

		Directors'	Salaries and other	Contributions to retirement benefit schemes	Total
	Note	fees	benefits	benefit	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
INDEPENDENT NON-EXECUTIVE DIRECTORS					
Mr. Xiao Zuhe	<i>a</i>	94	–	–	94
Mr. Wang Qingyou	<i>a</i>	94	–	–	94
Mr. Zou Lian	<i>a</i>	94	–	–	94
Ms. Yang Huimin	<i>a</i>	79	–	–	79
Mr. Liang Qi	<i>a</i>	79	–	–	79
Mr. Xin Hua	<i>a</i>	79	–	–	79
Mr. Jiang Xuejun	<i>g</i>	11	–	–	11
Mr. Mu Xiang Ming	<i>b</i>	–	–	–	–
Mr. Jiang Bo	<i>b</i>	–	–	–	–
Dr. Yan Shi Yun	<i>b</i>	–	–	–	–
Mr. Zhao Hua	<i>b</i>	–	–	–	–
		530	6,784	14	7,328

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

13. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES (Continued)

Directors' emoluments (Continued)

Year ended 31 March 2016

		Directors'	Salaries and	Contributions	
	Note	fees	other	to retirement	Total
		HK\$'000	benefits	schemes	HK\$'000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
EXECUTIVE DIRECTORS					
Mr. Chung Ho		–	1,350	14	1,364
Mr. Wang Jingming		–	1,800	–	1,800
Mr. Jia Hong Sheng	<i>b</i>	–	2,160	–	2,160
Dr. Li Zhong Yuan	<i>b</i>	–	–	–	–
Mr. Zhou Bao Yi	<i>b</i>	–	–	–	–
Mr. Zhao Kai	<i>b</i>	–	–	–	–
INDEPENDENT NON-EXECUTIVE DIRECTORS					
Mr. Mu Xiang Ming	<i>b</i>	–	–	–	–
Mr. Jiang Bo	<i>b</i>	–	–	–	–
Dr. Yan Shi Yun	<i>b</i>	–	–	–	–
Mr. Zhao Hua	<i>b</i>	–	–	–	–
		–	5,310	14	5,324

No director had waived any emoluments during the years ended 31 March 2017 and 2016.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

13. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES (Continued)

Directors' emoluments (Continued)

Notes:

- a) Mr. Weng Yu, Mr. Wang Yongqing, Mr. Ying Wei, Mr. Zhang Song, Ms. Wei Changying, Mr. Xing Yong, Mr. Wang Zili, Mr. Wang Xiaolin, Mr. Wang Yuexiang, Mr. Xiao Zuhe, Mr. Wang Qingyou, Mr. Zou Lian, Ms. Yang Huimin, Mr. Liang Qi and Mr. Xin Hua have been appointed as directors of the Company with effective from 18 June 2016.
- b) Mr. Jia Hong Sheng, Dr. Li Zhong Yuan, Mr. Zhou Bao Yi, Mr. Mu Xiang Ming, Mr. Jiang Bo, Dr. Yan Shi Yun and Mr. Zhao Hua have been removed from directors of the Company on 18 June 2016.
- c) Mr. Zhang Fan and Mr. Li Xuguang have been appointed as directors of the Company with effective from 16 December 2016.
- d) Mr. Zhao Kai has been appointed as an executive director of the Company with effective from 5 January 2016 and removed from executive director of the Company with effective from 18 June 2016.
- e) Mr. Pei Kewei, Mr. Yang Cheng and Mr. Huang Bin have been appointed as non-executive directors of the Company with effective from 18 June 2016 and resigned from non-executive directors of the Company with effective from 21 February 2017.
- f) Ms. Wang Fang and Ms. He Lijuan have been appointed as non-executive directors of the Company with effective from 18 June 2016 and resigned from non-executive directors of the Company with effective from 16 December 2016.
- g) Mr. Jiang Xuejun has been appointed as an independent non-executive director of the Company with effective from 21 February 2017.

Salaries, allowance and benefits in kind paid to or for the executive directors are generally emoluments paid or receivable in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

13. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

(Continued)

Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two (2016: three) were directors of the Company whose emoluments are presented above. The emoluments of the remaining three individuals in 2017 were as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries, allowances and benefits in kind	2,142	1,169
Contributions to retirement benefit schemes	30	13
	<u>2,172</u>	<u>1,182</u>

The number of highest paid employees that are not directors of the Company whose remuneration falls within the following bands is as follows:

	Number of employees	
	2017	2016
Nil to HK\$1,000,000	<u>3</u>	<u>2</u>

No emoluments have been paid or payable by the Group to any of the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 March 2017 and 2016.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

14. LOSS PER SHARE

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss attributable to owners of the Company, used in the basis loss per share calculation:	<u>(69,277)</u>	<u>(73,214)</u>
	2017 <i>'000</i>	2016 <i>'000</i>
Number of shares		
Weighted average number of ordinary shares in issue during the year	2,852,461	2,029,250
Effect of mandatory converted convertible bonds	<u>767,487</u>	<u>697,551</u>
Weighted average number of ordinary shares for the purpose of calculating loss per share	<u><u>3,619,948</u></u>	<u><u>2,726,801</u></u>

(a) Basic loss per share

For the year ended 31 March 2017, the calculation of basic loss per share amount is based on the net loss for the year of approximately HK\$69,277,000 (2016: approximately HK\$73,214,000) attributable to the equity holders of the Company, and weighted average of approximately 3,619,948,000 (2016: approximately 2,726,801,000) ordinary shares in issue during the year.

(b) Diluted loss per share

The computation of diluted loss per share does not assume the exercise of the Company's share options for both years because their assumed exercise would result in an increase in loss per share. Accordingly, no diluted loss per share has been presented.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement <i>HK\$'000</i>	Furniture fixtures and equipment <i>HK\$'000</i>	Motor Vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At 1 April 2015	–	613	1,663	2,276
Addition	296	–	–	296
Exchange realignment	–	(23)	(62)	(85)
De-consolidation of subsidiaries	–	(590)	(1,601)	(2,191)
At 31 March 2016 and 1 April 2016	296	–	–	296
Addition	1,245	384	–	1,629
Written off	(296)	–	–	(296)
Exchange realignment	–	(6)	–	(6)
At 31 March 2017	1,245	378	–	1,623
Accumulated depreciation:				
At 1 April 2015	–	551	1,663	2,214
Provided for the year	58	53	–	111
Exchange realignment	–	(22)	(62)	(84)
De-consolidation of subsidiaries	–	(582)	(1,601)	(2,183)
At 31 March 2016 and 1 April 2016	58	–	–	58
Provided for the year	165	26	–	191
Disposal	(132)	–	–	(132)
Exchange realignment	–	(1)	–	(1)
At 31 March 2017	91	25	–	116
Net carrying values				
At 31 March 2017	<u>1,154</u>	<u>353</u>	<u>–</u>	<u>1,507</u>
At 31 March 2016	<u>238</u>	<u>–</u>	<u>–</u>	<u>238</u>

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

16. GOODWILL

	2017 HK\$'000	2016 HK\$'000
At 1 April	–	742
De-consolidation of subsidiaries (note 34)	–	(742)
At 31 March	<u>–</u>	<u>–</u>

Goodwill acquired through business combination has been allocated to the healthcare segment. Since certain of Group's subsidiaries in the Healthcare Services Segment has been de-consolidated from the consolidated financial statements of the Group on 1 October 2015, the corresponding goodwill was de-recognised accordingly.

17. INTANGIBLE ASSETS

	Operating right for hospital HK\$'000 (note i)	Distribution right for selling cooling systems HK\$'000 (note ii)	Total HK\$'000
Cost			
At 1 April 2015, at 31 March 2016 and at 1 April 2016	–	53,503	53,503
Addition	17,326	–	17,326
Exchange realignment	(407)	–	(407)
At 31 March 2017	<u>16,919</u>	<u>53,503</u>	<u>70,422</u>
Accumulated amortisation and impairment			
At 1 April 2015, at 31 March 2016 and at 1 April 2016	–	53,503	53,503
Amortisation	433	–	433
Exchange realignment	(10)	–	(10)
At 31 March 2017	<u>423</u>	<u>53,503</u>	<u>53,926</u>
Carrying amounts			
At 31 March 2017	<u>16,496</u>	<u>–</u>	<u>16,496</u>
At 31 March 2016	<u>–</u>	<u>–</u>	<u>–</u>

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

17. INTANGIBLE ASSETS (Continued)

- (i) The operating right of hospital was acquired from an independent third party during the year ended 31 March 2017. Pursuant to the operating rights agreement, the Group is entitled to share certain percentage of income generated from hospital and bear the agreed cost. The useful life of the operating rights of hospital was 20 years.
- (ii) Subsequent to the completion of the acquisition of Anew Capital Limited and its subsidiaries (together, the "Anew Group") by the Group in late 2012, Anew Group, in cooperation with Beijing Oriental Capital Technology Company Limited ("Oriental Capital"), which has entered into a cooperative agreement with Anew Group for cooperation of selling and distributing Voith Turbo's cooling systems in the PRC, have invested various resources in marketing and promoting the cooling systems in the railway industry in the PRC and strived for being a qualified supplier of cooling systems for high-speed trains recognised by the Ministry of Railway ("MOR") in the PRC, which was originally responsible for both policy planning and management of the operation of the railway system in the PRC.

In March 2013, nevertheless, the State Council announced an institutional reform and transformation program for the railway industry, pursuant to which MOR's railway planning and policy making functions are entrusted to the Ministry of Communications ("MOC"), its other administrative functions rest with a new organisation, the State Railways Administration ("SRA"), while MOR's commercial activities are being passed and transferred over to the China Railways Corporation ("CRC") newly established then. According to the State Council's program, CRC shall transport passengers and freight, and be responsible for operating and managing the country's rail network. CRC shall draft investment plans for railway construction, and put forward to the government proposals to fund and build the lines. CRC shall also be responsible for implementing railway projects and be accountable, as the main responsible body, for safety. MOR no longer exists after such reform. Since the institutional reform for the railway industry, the railway construction and investment policy have been going through significant adjustments. To the best knowledge and information of the Directors, there is no increase in new orders of high-speed trains while a few of orders for some models have been suspended and no new suppliers of cooling systems have been approved by CRC since the industry reform. Up till now, Anew Group has not attained the qualification as an approved supplier of cooling systems for high-speed trains yet. As a result, no revenue from the cooling system distribution business has been recorded by the Group since completion of the acquisition of Anew Capital Limited by the Group.

18. AVAILABLE-FOR-SALE INVESTMENT

On 7 March 2017, 中衛健康產業(深圳)有限公司, a wholly-owned subsidiary of the Company and 深圳市高新奇濤鑫投資基金管理有限公司, an independent third party, entered into a limited partnership agreement (the "Fund") as a limited partner. The Fund was established in the PRC as an exempted limited partnership with the main purpose of investment in the medical and health care areas and hospitals. Pursuant to the agreement, the Group contributed RMB20,000,000, equivalent to approximately HK\$22,558,000, which represented approximately 26.67% of total contribution of the Fund. As at 31 March 2017, the net asset value of the Fund was approximately RMB75,000,000, equivalent to approximately HK\$84,593,000. In the opinion of the directors, the net asset value of the Fund approximates to its fair value.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

19. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	2017 HK\$'000	2016 HK\$'000
Other receivables (<i>note i, ii, iii and iv</i>)	105,965	29,154
Less: Non-current portion of loan receivables (<i>note i and ii</i>)	<u>(58,858)</u>	<u>(17,985)</u>
	47,107	11,169
Prepayments	2,728	–
Deposits	<u>257</u>	<u>–</u>
Current portion of prepayment, deposit and other receivables	<u><u>50,092</u></u>	<u><u>11,169</u></u>

Notes:

- (i) As at 31 March 2017, approximately RMB2,000,000 (equivalent to approximately HK\$2,256,000) (2016: Nil) were a loan to Anping Bo'ai Hospital, an independent third party. The loan is unsecured, interest at 10% per annum and repayable in three years from the date of drawdown.
- (ii) As at 31 March 2017, approximately RMB50,000,000 (equivalent to approximately HK\$56,602,000) were a loan to Shuangluan Hospital, an independent third party. (2016: RMB15,000,000 (equivalent to approximately HK\$17,985,000)). The loan is unsecured, interest at 7% per annum and repayable within three years from the date of drawdown.
- (iii) As at 31 March 2017, approximately US\$4,000,000 (equivalent to approximately HK\$31,060,000) (2016: Nil) were paid into the court as disclosed in note 32(j) of the consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

19. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

- (iv) As at 31 March 2017, included in the Group's prepayment, deposits and other receivables was an earnest money paid for the possible acquisition with a total amount of approximately HK\$10,000,000 (2016:HK\$10,000,000) (the "Earnest Money").

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

20. TRADE RECEIVABLES

	2017 HK\$'000	2016 HK\$'000
Trade receivables	<u>1,691</u>	<u>562</u>

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

- (i) Provision of hospital management service is with credit terms of 90 days.
- (ii) Trading of medical equipment business is with credit terms of 90 days.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

20. TRADE RECEIVABLES (Continued)

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

	2017 HK\$'000	2016 HK\$'000
Within 1 month	913	562
1 – 3 month	252	–
Over 3 month	526	–
	<u>1,691</u>	<u>562</u>

Aging of trade receivables which are past due but not impaired:

	2017 HK\$'000	2016 HK\$'000
Within 90 days	526	–
91 – 180 days	–	–
Over 180 days	–	–
	<u>526</u>	<u>–</u>

Trade receivables that were past due but not impaired were related to the customers for whom there is no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

21. CASH AND BANK BALANCES

The carrying amounts of the Group's cash and bank balances are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
RMB	3,567	3,201
HK\$	3,478	201,757
US\$	42	69
	<u>7,087</u>	<u>205,027</u>

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

22. OTHER PAYABLES AND ACCRUED EXPENSES

	2017 HK\$'000	2016 HK\$'000
Other payable (<i>notes</i>)	53,052	42,496
Accruals	<u>2,453</u>	<u>7,393</u>
	<u>55,505</u>	<u>49,889</u>

Notes:

- (i) As at 31 March 2017, approximately US\$4,000,000 (equivalent to approximately HK\$30,894,000) (2016: US\$4,000,000 (equivalent to approximately HK\$30,894,000)) were a dividend payable on redeemable convertible cumulative preference shares as disclosed in note 25 of the consolidated financial statements.
- (ii) As at 31 March 2017, approximately HK\$9,864,000 (2016: HK\$9,864,000) were interest on liability component of convertible bonds as disclosed in note 24 of the consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

23. AMOUNTS DUE TO DE-CONSOLIDATED SUBSIDIARIES

The amounts due to de-consolidated subsidiaries are unsecured, interest free and repayable on demand.

Details of de-consolidation of subsidiaries was disclosed in note 34 of the consolidated financial statements.

24. LIABILITY COMPONENT OF CONVERTIBLE BONDS

On 19 May 2005, the Company issued convertible bonds (the "CB") with nominal value of US\$6,600,000 due on 18 May 2009. CB carries interest at 3% per annum payable semi-annually in arrears with the first interest payment due on 18 November 2005 and the last interest payment due on 18 May 2009. CB entitles the holder to convert the bonds into new ordinary shares of the Company at a conversion price, subject to adjustment, of HK\$2.525 per share during the period from 19 May 2005 to 18 May 2009. In addition, if CB remain outstanding on the maturity date, the Company will redeem the principal of CB at 100% of their face value.

The effective interest rate of the liability component of CB is 3% per annum.

As at and up to 31 March 2011, CB with aggregate principal amount of US\$1,210,000 (equivalent to approximately HK\$9,372,000) had been repurchased by the Group at an aggregate consideration of approximately HK\$4,818,800. There is no repurchase of CB by the Group subsequently.

On 18 May 2009, CB had matured, however, due to liquidity problem, the Group was unable to redeem CB at maturity. Subsequent to the maturity date of CB, the Company reached an understanding with the major holder of CB to conditionally postpone the payment by the Company of the outstanding debts of CB for three years to 17 May 2013.

During the year ended 31 March 2016, the outstanding principal amount were fully repaid and the outstanding interest payable on CB were reclassified to other payables as disclosed in note 22 of the consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

24. LIABILITY COMPONENT OF CONVERTIBLE BONDS *(Continued)*

The net proceeds received for the issue of CB have been split between the liability component and an equity component. The movement of the liability component is as follows:

	2017 HK\$'000	2016 HK\$'000
Carrying amount at 1 April	–	51,284
Interest charged for the year	–	1,731
Reclassification of other payables	–	(9,864)
Repayment	–	(43,151)
	<hr/>	<hr/>
Carrying amount at 31 March	<u>–</u>	<u>–</u>

25. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES

On 28 July 2006, the Company entered into a preference share agreement (“Original Agreement”) and issued 15,000 PS of US\$0.01 each for a total cash consideration of US\$15,000,000 (approximately HK\$117,000,000). The PS holder is entitled to 2% dividend per annum or 5% compounded semiannually subject to occurrence of special events as defined in the Original Agreement. Such maturity date is falling on the 5th anniversary of 28 July 2006 (i.e. 27 July 2011) or such later date (“conversion period”), but not later than the 7th anniversary of which the specific terms will be subjected to future agreement. An option embedded therein was granted to the PS holder that the preference shares could be converted at any time during the conversion period at the lower of HK\$0.3201; and 0.9 times of the volume-weighted average price of the Company’s ordinary shares for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice; such redemption amount shall include a markup of 20% per annum on the sum of principal and accumulated dividend payable at any early redemption date.

On 24 November 2012, the Company entered into a supplementary agreement (“Modification Agreement”) with the PS holder pursuant to which, the Company agreed to use its best endeavors to procure the fund raising to raise not less than US\$15 million (or its HK\$ equivalent) in net proceeds for the Company, of which US\$15 million (or its HK\$ equivalent) shall be applied to redeem the PS, on or before the 31 March 2013. Meanwhile, PS Holder agreed that it would not require the Company to redeem the PS nor would it exercise its conversion rights attached to all or any part of the PS at any time before 31 March 2013.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

25. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES *(Continued)*

Subject to completion of the fund raising, the Company will redeem, and PS holder will accept the redemption of, all of the PS and in full and final settlement of all rights that PS Holder may have in respect of the PS whether under the Bye-laws of the Company or otherwise at an aggregate price of not more than US\$19 million, which shall be satisfied as to US\$15 million by payment of cash and as to not more than US\$4 million by the issue of a promissory note by the Company.

On 31 March 2013, the Company has further revised the Modification Agreement by entering into a supplementary agreement (“Supplementary Agreement”) with the PS holder. Pursuant to which, the Company shall redeem, and PS holder shall accept to extend the date of full and final settlement on or before 30 November 2013. In addition, the Supplementary Agreement specifically granted a conversion right to the Company that the sum of accumulated dividend payable from 1 December 2012 to 30 November 2013 is eligible to be settled by procuring ordinary shares of the Company at a predetermined price of HK\$0.3201 or by cash at the date of maturity.

On 28 June 2013, the Company and the PS holder entered into an amendment agreement to the Supplementary Agreement of the PS Agreement dated 31 March 2013 (the “Amendment Agreement”).

Pursuant to the Amendment Agreement, the final settlement date to redeem the PS is extended from 30 November 2013 to 30 June 2014 provided that a non-refundable deposit of HK\$10 million (the “Deposit”) will be made to the PS holder before or by 29 June 2013 and the PS holder shall have the right to forfeit the Deposit if the redemption of the PS does not take place on or before 30 November 2013.

The calculation and settlement of the dividends of the PS from 1 December 2013 to 30 June 2014 shall be 6% per annum and the Company shall have the right to settle by way of share issuance of shares to the PS holder at a pre-determined price of HK\$0.3201 per share.

Since the terms of the Modification Agreement, Supplementary Agreement and Amendment Agreement were different from the Original Agreement, hence, the financial liability are extinguished. The valuations were carried out by an independent qualified professional valuation firm not connected to the Group.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

25. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES *(Continued)*

On 30 June 2014, the Company and the PS holder entered into a supplementary agreement to the Amendment Agreement of the PS Agreement dated 28 June 2013 (the "Supplementary Agreement 2014"). Pursuant to the Supplementary Agreement 2014, subject to the completion of the subscription agreement of the convertible note dated 3 June 2014 (the "Subscription of Convertible Note") as announced on 3 June 2014, the Company should redeem the PS principal in 5 days after the completion of the Subscription of Convertible Note, and settle all dividends. Should the company fail to complete the Subscription of Convertible Note, the settlement date to redeem the PS is further extended to 31 March 2015. Pursuant to the Supplementary Agreement 2014, the calculation and settlement of the dividends of the PS shall be:

- (1) US\$4 million from 28 July 2006 to 30 November 2012 (the "Dividend I"), which shall be settled by promissory notes issued by the Company;
- (2) 5% per annum from 1 December 2012 to 30 November 2013 (the "Dividend II"), for which the Company shall have the right to settle by
- (3) 6% per annum from 1 December 2013 to 30 June 2014 (the "Dividend III"), for which the Company shall have the right to settle by way of issuance of shares to the PS holder at a predetermined price of HK\$0.25 per share; and
- (4) 7% per annum from 1 July 2014 to 31 March 2015 (the "Dividend IV"), for which the Company shall have the right to settle by way of issuance of shares to the PS holder at a pre-determined price of HK\$0.15 per share.

On 8 January 2015, the Company has issued the convertible note in principal amount of HK\$195,000,000, the Company redeemed the PS principal accordingly.

	2017 HK\$'000	2016 HK\$'000
At the beginning of the year	–	43,857
Transfer to other payables and accrued expenses <i>(note)</i>	–	(30,894)
Repayment	–	(12,963)
	<hr/>	<hr/>
At the end of the year	–	–

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

25. REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES (Continued)

Note:

During the year ended 31 March 2016, dividend of approximately US\$4,000,000 (equivalent to HK\$30,894,000) were reclassified to other payables.

26. SHARE CAPITAL

	<i>Notes</i>	No of shares	Share capital <i>HK\$'000</i>
Authorised:			
Ordinary shares of HK\$0.1 each			
At 1 April 2015, 31 March 2016, 1 April 2016 and 31 March 2017		<u>100,000,000,000</u>	<u>10,000,000</u>
Issued and fully paid:			
At 1 April 2015		683,289,695	68,329
Subscription of shares	<i>(i)</i>	136,657,939	13,666
Issue of shares upon conversion of the convertible bonds	<i>(ii)</i>	<u>1,300,000,000</u>	<u>130,000</u>
At 31 March 2016 and 1 April 2016		2,119,947,634	211,995
Issue of shares upon conversion of the convertible bonds	<i>(iii)</i>	<u>1,100,000,000</u>	<u>110,000</u>
At 31 March 2017		<u>3,219,947,634</u>	<u>321,995</u>

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

26. SHARE CAPITAL *(Continued)*

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 to subscribe for the zero coupon convertible note at the initial conversion price of HK\$0.15 per share in principal amount of HK\$195,000,000. The convertible notes were issued on 8 January 2015 raising net proceeds of approximately HK\$194,500,000 which have been used for general working capital and/or settlement of outstanding liabilities of the Group. At the maturity date, any outstanding principal amount of the convertible note will be compulsorily converted into ordinary shares at HK\$0.15 per share. All convertible notes were converted into 1,300,000,000 conversion shares on 22 April 2015 and 5 May 2015.
- (iii) In November 2015, convertible notes (“CN”) 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 (subject to adjustments) were issued to Zheng Hua Investment Limited (“Zheng Hua”) and Pacas Worldwide Limited (“Pacas”), both Zheng Hua and Pacas are independent third party to the Company. The maturity date of the CN is on the third anniversary of the date of issue. At the maturity date, any outstanding principal amount of the CN will be compulsorily converted into ordinary shares at HK\$0.15 per share. The issuance of CB 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.

As at 31 March 2017, the Company had outstanding CN of principal amount of approximately HK\$60,000,000 which will be mandatorily converted into 400,000,000 shares.

Notes to the Consolidated Financial Statements (Continued)
31 March 2017

27. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
NON-CURRENT ASSETS		
Investments in subsidiaries	10	10
Property, plant and equipment	1,290	238
Amount due from subsidiaries (<i>note a</i>)	93,641	–
Other receivables	11,486	–
	<u>106,427</u>	<u>248</u>
CURRENT ASSETS		
Prepayments, deposits and other receivables	42,442	10,379
Amount due from subsidiaries (<i>note a</i>)	522	–
Cash and bank balances	3,007	201,705
	<u>45,971</u>	<u>212,084</u>
CURRENT LIABILITIES		
Other payables and accrued expenses	53,964	49,777
NET CURRENT (LIABILITIES)/ASSETS	<u>(7,993)</u>	<u>162,307</u>
NET ASSETS	<u><u>98,434</u></u>	<u><u>162,555</u></u>
EQUITY		
Issued capital	321,995	211,995
Reserves (<i>note b</i>)	(223,561)	(49,440)
Total equity	<u><u>98,434</u></u>	<u><u>162,555</u></u>

Approved and authorized for issue by the Board of Directors on 30 June 2017

Chung Ho
Director

Wang Jingming
Director

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

27. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

- (a) Amounts due from subsidiaries are unsecured, interest-free and repayable on demand.
- (b) The changes in equity of the Company are as follow:

	Share capital	Share premium	Contributed surplus	Convertible bonds reserve	Share options reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2015	68,329	331,960	57,124	198,592	1,656	(625,766)	31,895
Loss for the year	-	-	-	-	-	(132,604)	(132,604)
Issue of shares upon conversion of the convertible bonds	130,000	65,000	-	(195,000)	-	-	-
Subscription of shares	13,666	24,598	-	-	-	-	38,264
Repayment of convertible bonds	-	-	-	(3,592)	-	3,592	-
Issue of convertible bonds	-	-	-	225,000	-	-	225,000
At 31 March 2016 and at 1 April 2016	211,995	421,558	57,124	225,000	1,656	(754,778)	162,555
Loss for the year	-	-	-	-	-	(64,121)	(64,121)
Lapsed of option	-	-	-	-	(1,656)	1,656	-
Issue of shares upon conversion of the convertible bonds	110,000	55,000	-	(165,000)	-	-	-
At 31 March 2017	321,995	476,558	57,124	60,000	-	(817,243)	98,434

28. SHARE OPTIONS SCHEME

The Company operated a share option scheme which was expired on 7 April 2012 (the "Old Scheme") and a new share option scheme (the "New Scheme") was approved by the shareholders of the Company on 28 August 2012.

Pursuant to the Old Scheme, the exercise period of options shall not beyond the ten year period after the date of adoption of the Old Scheme while the exercise period of Options granted under the New Scheme shall not expire later than 10 years from the date on which the Board resolves to make an offer. Save for the abovementioned difference in exercise period, certain conditions in respect of the lapse of options and other necessary modifications and/or amendments made pursuant to the Listing Rules, there are no material differences between the terms of the Old Scheme and the New Scheme.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

28. SHARE OPTIONS SCHEME *(Continued)*

Under the New Scheme, the Board of Directors of the Company may grant options to eligible officers and employees, including the directors of the Company and its subsidiaries ("Eligible Persons"), to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties who (i) have previously been and continue to be retained by the Group to provide business, legal or tax consultancy services or other professional services, whose expertise is valuable to the business development of the Group; or (ii) introduce investment opportunities to the Group; or (iii) contribute by way of introduction of new business to the Group.

The maximum number of shares in respect of which options may be granted under the New Scheme and any other schemes of the Company is not permitted to exceed 10% of the shares of the Company in issue at the adoption date. The Company may seek approval by the Company's shareholders in general meeting for granting options beyond the 10% limit, provided that the options in excess of the limit are granted only to Eligible Persons specifically identified by the Company before such approval is sought. The maximum number of options that can be granted by the Company to the Eligible Persons has been refreshed to 10% of number of shares in issue. The total number of the shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme of the Company must not exceed 30% of the shares of the Company in issue from time to time.

The number of share in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital in issue or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days from the date of grant. Upon acceptance of the options, the Eligible Person shall pay HK\$1 to the Company by way of consideration for the grant. Options may be exercised at any time from the date of grant to the expiry date of the New Scheme. The exercise price is determined by the directors of the Company, and shall be the highest of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five trading days immediately preceding the date of grant and the nominal value of the Company's shares.

The outstanding share options as at 31 March 2016 was granted on 13 April 2010 with exercisable period from 13 April 2010 to 12 April 2020 and exercise price of HK\$0.5.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

28. SHARE OPTIONS SCHEME (Continued)

The following tables summarise the movements in the Company's share options during the year ended 31 March 2016 and 31 March 2017:

	2017		2016	
	Weighted average Exercise price in HK\$	No of share option	Weighted average Exercise price in HK\$	No of share option
At 1 April	0.5	5,970,000	0.5	5,970,000
Lapsed during the year	–	(5,970,000)	–	–
At 31 March	–	–	0.5	5,970,000

29. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases are payables as follows:

	2017 HK\$'000	2016 HK\$'000
Within one year	4,924	1,276
In the second to fifth years inclusive	7,173	2,978
	<u>12,097</u>	<u>4,254</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

30. CAPITAL COMMITMENT

At the end of the reporting period, the Group had outstanding commitments as follows:

	2017 HK\$'000	2016 HK\$'000
Contracted, but not provided for:		
Acquisition of property, plant and equipment	<u>8,459</u>	<u>–</u>

31. RELATED PARTY TRANSACTIONS

In addition to the transactions details elsewhere in the consolidated financial statements, the Group entered into the following related party transactions with related parties during the year:

Compensation of key management personnel of the Group are set out in note 13 to the consolidated financial statements.

32. LITIGATIONS

- (a) 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.
- (b) 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.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

32. LITIGATIONS (Continued)

(b) (Continued)

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.

(c) 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.

(d) 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.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

32. LITIGATIONS *(Continued)*

- (e) 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.
- (f) 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.
- (g) The Board noted an unauthorized remittance of approximately HK\$4.5 million from the bank account of World Success Investments Limited ("World Success"), a de-consolidated 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.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

32. LITIGATIONS (Continued)

(g) (Continued)

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, an affidavit exhibiting an affirmation by Dr. Li Zhong Yuan was filed with the court of the British Virgin Islands. By an order of the same court on 2 March 2017, the parties to the action were ordered to make submissions and to list the claim for hearing by prescribed deadlines. The action is still pending as at the date of this report.

- (h) 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.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

32. LITIGATIONS (Continued)

(h) (Continued)

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 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 August 2017.

(i) 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 announcement, there is no judgment in respect of the above lawsuit.

(j) 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.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

32. LITIGATIONS *(Continued)*

(j) *(Continued)*

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.

- (k) 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.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

32. LITIGATIONS *(Continued)*

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

33. EVENTS AFTER THE REPORTING PERIOD

- a) On 10 May 2017, the Company entered into the subscription agreements with two subscribers respectively pursuant to which the Company has conditionally agreed to allot and issue, and each of the two subscribers has conditionally agreed to subscribe for, an aggregate of 420,000,000 subscription shares at the subscription price of HK\$0.17 per subscription share. The subscriptions were completed on 5 June 2017 in accordance with the terms and conditions of the subscription agreements.
- b) On 19 May 2017, the Company granted share options to various eligible participants at subscription price HK\$0.18 per share under the share option scheme of the Company adopted on 28 August 2012 to subscribe for a total of 50,000,000 ordinary shares of HK\$0.1 each of the Company.
- c) In May 2017, approximately HK\$3.4 million (equivalent to RMB 3 million) has been paid for the provision of loans to Dingnan Chinese Medicine Hospital.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

34. DECONSOLIDATION OF SUBSIDIARIES

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

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

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

34. DECONSOLIDATION OF SUBSIDIARIES (Continued)

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

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

35. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform with the current year presentation. In the opinion of the Directors, such reclassifications provide a more appropriate presentation on the consolidated financial statements.

36. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 30 June 2017.

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the principal subsidiaries are as follows:

Name of Company	Place of incorporation/ registration and operations	Class of shares held	Issued/ registered capital	Percentage of equity attributable		Principal activities
				to the Company		
				Direct	Indirect	
Gomei Investment Limited	British Virgin Islands/ Hong Kong	Ordinary	US\$1	100%	-	Investment holding
China Healthcare Holdings (Hong Kong) Limited	Hong Kong	Ordinary	HK\$10,000	-	100%	Investment holding
Wisdom Profit Investment Limited	Hong Kong	Ordinary	HK\$10,000	-	100%	Investment holding
CHC Investment Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary	US\$100	-	100%	Investment holding
Long Heng Investments Limited	British Virgin Islands	Ordinary	US\$1	100%	-	Investment holding
Zhongwei Kanghong Investments Limited	Hong Kong	Ordinary	US\$1,000,000	-	100%	Investment holding
北京中衛康虹醫院管理有限公司 (Beijing Zhongwei Kanghong Hospital Management Co. Ltd) (note a)	PRC	Registered capital	RMB10,000,000	-	100%	Hospital management service
北京英智明商貿有限公司 (note a)	PRC	Registered capital	RMB1,000,000	-	100%	Trading of medical equipment
中衛健康產業(深圳)有限公司 (Zhongwei Health Industries (Shenzhen) Co., Ltd) (note a)	PRC	Registered capital	HK\$75,000,000	-	100%	Investment holding/ Healthcare Hospital management service
中衛國際融資租賃(深圳)有限公司	PRC	Registered capital	US\$30,000,000	-	100%	Finance leasing
北京中衛康融醫院管理有限公司	PRC	Registered capital	RMB10,000,000	-	100%	Hospital management service

Notes to the Consolidated Financial Statements (Continued)

31 March 2017

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Note:

- (a) Wholly-foreign-owned enterprises established under the PRC Law.

The above list includes the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results of the year or formed a substantial portion of the assets or liabilities of the Group. To give details of all the other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

Financial Summary

	Year ended 31 March				
	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000 (Restated)
RESULTS					
Revenue	<u>14,989</u>	<u>23,716</u>	<u>37,823</u>	<u>37,720</u>	<u>23,128</u>
(Loss)/profit before tax	<u>(69,080)</u>	<u>(78,307)</u>	<u>(68,231)</u>	<u>(108,148)</u>	<u>129,492</u>
Income tax expense	<u>(197)</u>	<u>(128)</u>	<u>(432)</u>	<u>(598)</u>	<u>(270)</u>
(Loss)/profit for the year	<u>(69,277)</u>	<u>(78,435)</u>	<u>(68,663)</u>	<u>(108,746)</u>	<u>129,222</u>
Attributable to:					
Owners of the Company	<u>(69,277)</u>	<u>(73,214)</u>	<u>(55,926)</u>	<u>(67,570)</u>	<u>140,609</u>
Non-controlling interests	<u>—</u>	<u>(5,221)</u>	<u>(12,737)</u>	<u>(41,176)</u>	<u>(11,387)</u>
	<u>(69,277)</u>	<u>(78,435)</u>	<u>(68,663)</u>	<u>(108,746)</u>	<u>129,222</u>
As at 31 March					
	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000 (Restated)
ASSETS AND LIABILITIES					
Total assets	<u>170,132</u>	<u>234,981</u>	<u>274,627</u>	<u>210,885</u>	<u>292,292</u>
Total liabilities	<u>(60,130)</u>	<u>(54,605)</u>	<u>(238,035)</u>	<u>(311,417)</u>	<u>(295,389)</u>
Net assets/(liabilities)	<u>110,002</u>	<u>180,376</u>	<u>36,592</u>	<u>(100,532)</u>	<u>(3,097)</u>