TIAN YUAN HEALTHCARE

天元医疗

CHINA TIAN YUAN HEALTHCARE GROUP LIMITED

中國天元醫療集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 557)

2018

Interim financial report

for the six months ended 30 June 2018

CONTENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2018 - unaudited

	Note	**Six months ended 30 June** **2018** *HK$'000*	**2017** *HK$'000*
Revenue		79,095	54,545
Cost of sales		(10,749)	(10,769)
Gross profit		68,346	43,776
Other net gains	4	17,769	3,308
Administrative expenses	5	(103,499)	(82,178)
Loss from operating activities		(17,384)	(35,094)
Finance costs	6	(565)	(694)
Share of losses of associates		(1,450)	(499)
Loss before taxation		(19,399)	(36,287)
Income tax expense	7	—	(8)
Loss for the period	8	(19,399)	(36,295)
Attributable to:			
Equity shareholders of the Company		(10,462)	(29,100)
Non-controlling interests		(8,937)	(7,195)
Loss for the period		(19,399)	(36,295)
Earnings per share		*HK Cents*	*HK Cents*
Basic loss per share	9	(2.62)	(7.61)
Diluted loss per share	9	(2.62)	(7.61)

The notes on pages 9 to 30 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2018 - unaudited

	Note	Six months ended 30 June 2018 HK$'000	2017 HK$'000
Loss for the period		(19,399)	(36,295)
Other comprehensive income for the period (after taxation):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		1,333	1,171
Exchange differences on monetary items forming net investment in a foreign operation		134	214
		1,467	1,385
Items that will not be reclassified subsequently to profit or loss:			
Reclassified available-for-sale financial assets measured at cost less accumulated impairment losses to financial assets at fair value through other comprehensive income (non-recycling) upon the adoption of HKFRS 9	11	29,057	—
Loss on disposal of financial assets at fair value through other comprehensive income, net of tax	11	(4,030)	—
		25,027	—
Total other comprehensive income for the period		26,494	1,385
Total comprehensive income for the period		7,095	(34,910)
Attributable to:			
Equity shareholders of the Company		15,660	(27,917)
Non-controlling interests		(8,565)	(6,993)
Total comprehensive income for the period		7,095	(34,910)

The notes on pages 9 to 30 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018 - unaudited

	Note	**As at 30 June 2018** *HK$'000*	**As at 31 December 2017** *HK$'000*
Non-current assets			
Property, plant and equipment		54,585	55,383
Intangible assets		152,461	161,311
Goodwill		96,421	94,837
Available-for-sale financial assets	11	—	18,321
Interest in associates		5,257	6,682
Trade and other receivables	14	23,420	28,567
Other financial assets	12	8,103	13,120
Total non-current assets		340,247	378,221
Current assets			
Trading securities		28,815	47,077
Trade and other receivables	14	89,930	42,669
Loan receivables	13	209,718	113,408
Current tax recoverable		2,629	2,884
Cash and cash equivalents	15	54,275	134,857
		385,367	340,895
Current liabilities			
Trade and other payables	16	(34,496)	(33,578)
Interest-bearing borrowings	17	(942)	(922)
Loan from non-controlling interests	18	(14,712)	—
Provision for taxation		(2,675)	(2,600)
		(52,825)	(37,100)
Net current assets		332,542	303,795
Total assets less current liabilities		672,789	682,016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2018-unaudited

	Note	**As at 30 June 2018** *HK$'000*	**As at 31 December 2017** *HK$'000*
Non-current liabilities			
Deferred rental expense		(1,795)	(586)
Deferred consideration		(1,728)	(1,719)
Deferred tax liabilities		(15,972)	(15,908)
Dividends received in excess of earnings from equity-method accounted joint venture		(228)	(227)
Interest-bearing borrowings	17	(28,585)	(28,946)
Loan from non-controlling interests	18	(38,056)	(42,787)
Other financial liabilities	19	(4,274)	(16,787)
		(90,638)	(106,960)
NET ASSETS		582,151	575,056
CAPITAL AND RESERVES			
Share capital		398,980	398,980
Share premium		20,663	20,663
Reserves		83,794	68,134
Total equity attributable to equity shareholders of the Company		503,437	487,777
Non-controlling interests		78,714	87,279
TOTAL EQUITY		582,151	575,056

The notes on pages 9 to 30 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2018 – unaudited

	Share Capital HK$'000	Capital Redemption Reserve HK$'000	Exchange Reserve HK$'000	Revenue Reserves HK$'000	Total HK$'000	Non-Controlling Interests HK$'000	Total Equity HK$'000
	Attributable to equity shareholders of the Company						
Balance at 1 January 2017	382,450	676	(491)	52,020	434,655	34,588	469,243
Changes in equity for the six months ended 30 June 2017:							
Loss for the period	–	–	–	(29,100)	(29,100)	(7,195)	(36,295)
Other comprehensive income							
Exchange differences on translation of financial statements of foreign operations	–	–	969	–	969	202	1,171
Exchange differences on monetary items forming net investment in a foreign operation	–	–	214	–	214	–	214
Total comprehensive income for the period	–	–	1,183	(29,100)	(27,917)	(6,993)	(34,910)
Balance at 30 June 2017	382,450	676	692	22,920	406,738	27,595	434,333

	Note	Share Capital HK$'000	Share Premium HK$'000	Capital Redemption Reserve HK$'000	Exchange Reserve HK$'000	Fair Value[1] Reserve (non-recycling) HK$'000	Revenue Reserves HK$'000	Total HK$'000	Non-Controlling Interests HK$'000	Total Equity HK$'000
		Attributable to equity shareholders of the Company								
Balance at 1 January 2018		398,980	20,663	676	561	–	66,897	487,777	87,279	575,056
Adjustment on initial application of HKFRS9 (net of tax)	2(a)	–	–	–	–	29,057	–	29,057	–	29,057
Adjusted balance at 1 January 2018		398,980	20,663	676	561	29,057	66,897	516,834	87,279	604,113
Changes in equity for the six months ended 30 June 2018:										
Loss for the period		–	–	–	–	–	(10,462)	(10,462)	(8,937)	(19,399)
Other comprehensive income										
Loss on disposal of financial assets at fair value through other comprehensive income		–	–	–	–	(4,030)	–	(4,030)	–	(4,030)
Exchange differences on translation of financial statements of foreign operations		–	–	–	961	–	–	961	372	1,333
Exchange differences on monetary items forming net investment in a foreign operation		–	–	–	134	–	–	134	–	134
Total comprehensive income for the period		–	–	–	1,095	(4,030)	(10,462)	(13,397)	(8,565)	(21,962)
Balance at 30 June 2018		398,980	20,663	676	1,656	25,027	56,435	503,437	78,714	582,151

1. The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of financial assets at fair value through other comprehensive income and loss on disposal of the financial assets.

The notes on pages 9 to 30 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2018 - unaudited

	Six months ended 30 June	
	2018	**2017**
	HK$'000	*HK$'000*
Operating activities		
Cash used in operations	(126,685)	(72,609)
Dividend received	218	779
Interest received	7,129	1,545
Tax refunded/(paid)	267	(309)
Net cash used in operating activities	(119,071)	(70,594)
Investing activities		
Investment in an associate	–	(1,792)
Payment for purchase of property, plant and equipment	(875)	(6,378)
Prepayments	–	(118,030)
Proceeds from sale of trading securities	29,887	52,662
Net cash generated from/(used in) investing activities	29,012	(73,538)
Financing activities		
Interest paid	(609)	(694)
Loan from non-controlling interests	10,585	19,513
Repayment of borrowings	(341)	(341)
Increase in cash pledged	(66)	(498)
Net cash generated from financing activities	9,569	17,980

	Six months ended 30 June	
	2018	**2017**
	HK$'000	*HK$'000*
Net decrease in cash and cash equivalents	(80,490)	(126,152)
Cash and cash equivalents at 1 January	132,294	337,789
Effect of foreign exchange rates changes	(158)	2,356
Cash and cash equivalents at 30 June (Note A)	51,646	213,993

Note A:

Cash and cash equivalents at 30 June 2018 and 30 June 2017 comprise:

	Note	**As at 30 June 2018** *HK$'000*	**As at 30 June 2017** *HK$'000*
Deposits with banks and other financial institutions		15,701	189,913
Cash at bank and in hand		38,574	26,734
Cash and cash equivalents per consolidated statement of financial position		54,275	216,647
Less: Cash pledged for interest-bearing borrowings	17	(2,629)	(2,654)
Cash and cash equivalents per condensed consolidated cash flow statement		51,646	213,993

The notes on pages 9 to 30 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance on 30 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes included an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report has not been audited or reviewed by the auditors pursuant to International Standards on Auditing or International Standards on Review Engagements.

The interim financial report has been reviewed by the audit committee of the Company.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements.

- HKFRS 9, *Financial instruments*
- HKFRS15, *Revenue from Contract with Customers*
- HK (IFRIC) 22, *Foreign currency transactions and advance consideration.*

HKFRS 9, Financial instruments

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognized the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

(a) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVTOCI) and at fair value through profit or loss (FVTPL). These supersede HKAS 39's categories of held-to-maturities investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI (non-recycling) then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group's financial assets that were measured at amortised cost and FVTPL continue with their respective classification and measurements with the adoption of HKFRS 9.

With respect to the Group's investment in equity securities that were classified as "available-for-sale", these are investments in equity securities which the Group has the option to irrevocably designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group had elected this designation option for these investments held on 1 January 2018 and has recognised fair value changes in respect of these investments in other comprehensive income as they arise. This gave rise to a change in accounting policy as the Group measure the available-for-sale investment at cost less accumulated impairment losses previously.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amount of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	**Adjustments/ reclassification due to adoption of HKFRS 9**	**HKFRS 9 carrying amount at 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Available-for-sale financial assets	18,321	(18,321)	—
Financial assets at fair value through other comprehensive income	—	47,378	47,378
Fair value reserve	—	29,057	29,057

Upon the initial adoption of HKFRS 9, fair value gain of HK$29 million related to the remeasurement of financial assets at fair value through other comprehensive income has been recognised in fair value reserve (non-recycling) at 1 January 2018.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement does not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances.The adoption of the new impairment requirements did not result in any differences between the accumulated impairment loss at that date as compared with that recognised under HKAS 39.

HKFRS 15, Revenue from contract with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaced the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction Contracts*, which specifies the accounting for revenue from construction contracts.

The adoption of HKFRS 15 does not have any material impact on the financial position and the financial result of the Group.

HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

3. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by products and services. The Group has identified the following four reportable segments based on the information that is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment:

- Investment holding: This segment relates to investments in listed equity investments, unlisted marketable equity mutual funds held as trading securities and investment in an unlisted equity fund. Currently, the Group's equity investment portfolio classified as trading securities includes equity securities listed on the NASDAQ Stock Market and The Philippines Stock Exchange, Inc. and investment portfolio in Hong Kong.

- Hospitality: This segment primarily derives the revenue from the provision of hotel management, hotel reservation, revenue management services, risk management services and procurement services to the hospitality industry as well as owning and managing hotels. Currently, the Group's activities in this reportable segment are mainly carried out in the United States.

- Healthcare: This segment primarily derives the revenue from the provision of procurement, marketing and management services to the medical industry as well as royalty fees from the licensing of trademarks. Currently, the Group's activities in this segment are carried out in Hong Kong and Korea.

- Money lending and related business: This segment primarily derives the revenue from the interests earned from the provision of loans to third parties, as well as referral and handling fees receivable for the provision of loan related services and the introduction of prospective lenders and borrowers.

(a) Segment results, assets and liabilities

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets, goodwill and current assets with the exception of current tax recoverable. Segments liabilities include interest-bearing borrowings, trade and other payables and dividends received in excess of earnings from equity-method accounted joint venture, with the exception of current and deferred tax liabilities.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by and expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses include the Group's share of revenue and expense arising from the activities of the Group's joint operation.

The measure used for reporting segment profit is "profit from operations". In addition to receiving segment information concerning profit from operations, management is provided with segment information concerning revenue, interest income, depreciation and amortisation, foreign exchange gain/loss, valuation gain/loss on trading securities, changes in fair value of other financial assets/liabilities and deferred consideration and additions to non-current segment assets used by the segments in their operations.

(b) Information about profit or loss, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below:

	Investment Holding		Hospitality		Healthcare		Money Lending and Related Business		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the six months ended 30 June:										
Revenue from external customers	218	779	55,186	52,188	13,186	–	–	–	68,590	52,967
Interest income	425	1,567	–	11	–	–	10,080	–	10,505	1,578
Reportable segment revenue	643	2,346	55,186	52,199	13,186	–	10,080	–	79,095	54,545
Reportable segment (loss)/profit	(8,848)	(21,836)	(22,441)	(14,451)	1,810	–	10,080	–	(19,399)	(36,287)
Depreciation and amortisation	(155)	(154)	(3,959)	(2,588)	(7,699)	–	–	–	(11,813)	(2,742)
Net realised and unrealised valuation gain on trading securities	11,154	2,486	–	–	–	–	–	–	11,154	2,486
Net realised and unrealised foreign exchange (loss)/gain	(767)	2,481	(31)	(62)	(47)	–	–	–	(845)	2,419
Changes in fair value of other financial assets/liabilities and deferred consideration	7,489	–	–	–	–	–	–	–	7,489	–
Additions to non-current assets	9	10	866	866	–	–	–	–	875	876
As at 30 June/31 December:										
Reportable segment assets	320,213	225,155	108,870	116,811	84,184	258,226	209,718	116,040	722,985	716,232
Reportable segment liabilities	10,140	8,039	114,236	99,859	440	17,654	–	–	124,816	125,552

(c) Reconciliations of reportable segment assets and liabilities

	As at 30 June 2018 HK$'000	As at 31 December 2017 HK$'000
Assets		
Reportable segment assets	722,985	716,232
Current tax recoverable	2,629	2,884
Consolidated total assets	725,614	719,116
Liabilities		
Reportable segment liabilities	124,816	125,552
Deferred tax liabilities	15,972	15,908
Provision for taxation	2,675	2,600
Consolidated total liabilities	143,463	144,060

4. OTHER NET GAINS

	Six months ended 30 June	
	2018 *HK$'000*	**2017** *HK$'000*
Changes in fair values of other financial assets/liabilities and deferred consideration	7,489	—
Net realised and unrealised foreign exchange (loss)/gain	(845)	2,419
Net realised and unrealised valuation gain on trading securities	11,154	2,486
Provision for diminution in value of investment in associate	—	(1,792)
Miscellaneous income	(29)	195
	17,769	3,308

5. ADMINISTRATIVE EXPENSES

Administrative expenses comprise mainly:

a. Expenses incurred by the Group's Hospitality segment which include Sceptre Hospitality Resources, LLC and Sheraton Chapel Hill Hotel, North Carolina, U.S., a hotel jointly owned by a subsidiary of the Group.

b. Expenses incurred by the Group's Investment Holding segment including directors' remuneration and professional fees.

6. FINANCE COSTS

	Six months ended 30 June	
	2018	**2017**
	HK$'000	*HK$'000*
Amortisation of capitalised transaction costs	–	88
Interest expenses on borrowings	565	606
	565	694

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	**2017**
	HK$'000	*HK$'000*
Current tax - Overseas		
Provision for the period	–	8
Income tax expense from continuing operations	–	8

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2017: 16.5%) of the estimated assessable profits for the period ended 30 June 2018. Taxation for overseas subsidiaries has been provided on estimated assessable profits at the rates of taxation ruling in the relevant countries.

The Company is exempted from taxation in the Cayman Islands for a period of twenty years from 1989 under the provisions of Section 6 of the Tax Concessions Law (Revised) of the Cayman Islands. The tax concession was renewed for a further period of twenty years from 2 June 2009.

As at 30 June 2018, the Group has not recognised deferred tax assets in respect of tax losses and other temporary differences of approximately HK$67.6 million (31 December 2017: HK$101.5 million) as it is not probable that there will be sufficient future taxable profits against which the Group can utilise the benefits. The tax losses do not expire under the current tax legislations.

8. LOSS FOR THE PERIOD

Loss for the period is arrived at after charging/(crediting):

	Six months ended 30 June	
	2018	**2017**
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	1,880	1,487
Amortisation of intangible assets	9,933	1,255
Operating lease charges – rental of properties	6,590	3,269
Dividend and interest income	(10,723)	(2,357)

9. EARNINGS PER SHARE

a) Basic losses per share

The calculation of basic losses per share is based on loss attributable to ordinary equity shareholders of the Company of HK$10.5 million (six months ended 30 June 2017: HK$29.1 million) and the weighted average number of ordinary shares of 398,979,524 (six months ended 30 June 2017: 382,449,524) in issue during the period.

b) Diluted losses per share

Diluted losses per share is the same as the basic losses per share because the Group has no dilutive securities that are convertible into shares during the six months ended 30 June 2018 and 30 June 2017.

10. DIVIDENDS

a) Dividend attributable to the interim period

The directors of the Company (the "Directors") have resolved not to declare an interim dividend for the six months ended 30 June 2018 (2017: nil).

b) There were no dividends attributable to the previous financial year, approved and paid during the interim period of 2018 and 2017.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

In May 2018, the Group had disposed its investment in a closed-ended unlisted private equity fund, named as BEA Blue Sky Real Estate Fund LP, which was reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income as at 1 January 2018 and a fair value gain of HK$29 million has been recognised in fair value reserve (non-recycling).

At the time of disposal, the redemption price is US$5.5 million, and the Group recorded a loss on disposal of HK$4 million in other comprehensive income.

12. OTHER FINANCIAL ASSETS

The other financial assets relate to the dividend forgone by non-controlling shareholders of HK$7,852,000 (31 December 2017: HK$12,632,000) and revenue and profit guarantee from non-controlling shareholders of HK$251,000 (31 December 2017: HK$ 488,000). These other financial assets are measured at fair value.

13. LOAN RECEIVABLES

The Group granted five loans to third parties. Two of the loans bear interest at rate of 12% (31 December 2017: 12%) per annum and are repayable within one year in which one of the loans is secured by the pledge of properties owned by two individuals who have also extended personal guarantee in favour of the borrower and other loan is secured by personal guarantee in favour of the borrower. The remaining loans are unsecured and bear interest at rates of 10%-14% (31 December 2017: 10%) per annum and are repayable within one year.

After the period ended, one of the loans did not meet the original repayment date. The Company and the borrower of such loan are in the course of negotiation in relation to the repayment arrangement in respect of such loan with a view of creation of a new facility.

The repayment date of another loan which did not meet the original repayment date during the period has been extended and is repayable within one year.

14. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are third-party trade receivables (net of allowance for doubtful debts) with the following ageing analysis based on invoice date:

	As at 30 June 2018 *HK$'000*	As at 31 December 2017 *HK$'000*
Less than 1 month	14,919	19,431
1 to 3 months	3,697	8,545
3 to 12 months	9,765	2,930
Total third-party trade receivables, net of impairment loss	28,381	30,906
Consideration receivable	43,485	—
Other receivables and deposits	10,086	8,801
Loans and receivable	81,952	39,707
Prepayments	31,398	31,529
	113,350	71,236
Non-current	23,420	28,567
Current	89,930	42,669
	113,350	71,236

a) Trade receivables are due within 30 days from the date of invoice. Receivables with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from its customers.

All trade and other receivables are expected to be recovered within one year.

b) Consideration receivable relate to disposal of financial assets at fair value through other comprehensive income.

c) Other receivables and deposits consists mainly of rental deposits.

d) Prepayments mainly consist of professional fee of HK$26.5 million (31 December 2017: HK$27.9 million) paid in advance to business consultants who provide advisory services on the businesses of the Group.

15. CASH AND CASH EQUIVALENTS

	As at 30 June 2018 *HK$'000*	As at 31 December 2017 *HK$'000*
Deposits with banks and other financial institutions	15,701	110,781
Cash at bank and on hand	38,574	24,076
Cash and cash equivalents per consolidated statement of financial position	54,275	134,857
Less: Cash pledged for interest-bearing borrowings (Note 17)	(2,629)	(2,563)
Cash and cash equivalents available for use by the Group	51,646	132,294

16. TRADE AND OTHER PAYABLES

	As at 30 June 2018 *HK$'000*	As at 31 December 2017 *HK$'000*
Trade payables	9,737	6,463
Other payables and accrued charges	21,252	22,582
	30,989	29,045
Deferred income	3,507	4,533
	34,496	33,578

Trade and other payables, excluding deferred income, have the following ageing analysis based on due date as of the reporting date:

	As at 30 June 2018 *HK$'000*	**As at 31 December 2017** *HK$'000*
Due within 1 month or on demand	11,857	13,950
Due 1 to 3 months	4,230	3,941
Due 3 to 12 months	14,902	11,154
	30,989	29,045

17. INTEREST-BEARING BORROWINGS

	As at 30 June 2018 *HK$'000*	**As at 31 December 2017** *HK$'000*
Bank loan - secured	29,527	29,868
Repayable:		
Within 1 year	942	922
After 1 year but within 2 years	983	951
After 2 years but within 5 years	27,602	3,133
After 5 years	–	24,862
	28,585	28,946
	29,527	29,868

Security

The Group's term loan is secured by:

- a first priority mortgage of Sheraton Chapel Hill Hotel, its improvements, equipment and fixtures with a carrying amount of HK$35.8 million as at 30 June 2018 (31 December 2017: HK$36.2 million);
- assignments of all rights and benefits to sale, lease, agreements, trademarks and insurance proceeds in respect of Sheraton Chapel Hill Hotel;
- pledge of monies held in specific bank accounts of HK$2.6 million as at 30 June 2018 (31 December 2017: HK$2.6 million); and
- guarantee by Richfield Hospitality, Inc ("RHI"), an indirect subsidiary of the Group.

Non-recourse Carveout Guarantees

As of 30 June 2018, RHI and SWAN USA, Inc ("the Guarantors"), both being indirect subsidiaries of the Group, are guarantors for certain indebtedness relating to the Group's joint operation and associate, as set out below:

- RHI is a guarantor of indebtedness of the term loan entered into by SWAN Carolina Investor, LLC and SFI Carolina TIC SPE, LLC for Sheraton Chapel Hill Hotel as mentioned above. The term guarantee will expire on 6 May 2023.
- RHI and SWAN USA, Inc are guarantors of indebtedness of the term loans entered into by RBH Mezz, LLC and Rich Burlington Hotel, LLC, which are underlying investments of S-R Burlington Partners, LLC. The term guarantees has been refinanced and has an extended expiry date of 9 December 2020.

The above indebtedness are non-recourse in nature and the Group's liabilities are limited to the collaterals on which the individual loans are secured. The guarantees entered by the Guarantors provide the lender with recourse for any losses and expenses arising from specific acts such as fraud, misappropriation of rents and intentional damages ("covenants"). The obligations of the Guarantors are to the extent which the collaterals are insufficient to meet the lender's losses and expenses. These guarantees do not impose liability on the Guarantors for any other event such as the non-payment of loan by the borrower. The maximum potential liability of the Group under the guarantees is HK$212.9 million as at 30 June 2018 (31 December 2017: HK$165.6 million).

The management is of the view that the possibility of violating the above covenants and triggering any cash outflow within the scope of the above guarantees is remote. In addition, the above indebtedness are non-recourse in nature and the carrying amount of the individual collateral is in excess of its respective outstanding loan amount.

18. LOAN FROM NON-CONTROLLING INTERESTS

The loan from non-controlling interests is unsecured and interest free. The loan is due for repayment over the period from February 2019 to May 2020.

19. OTHER FINANCIAL LIABILITIES

The other financial liabilities relate to put and call option in relate to the acquisition of certain percentage of shareholding of non-controlling interests. The other financial liabilities are measured at fair value.

20. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

The following table presents the carrying value of Group's financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of inputs used in the valuation techniques as follows:

- Level 1 valuations: fair values measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: fair values measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: fair value measured using significant unobservable inputs.

	Fair value at 30 June 2018	Fair value measurements as at 30 June 2018 categorised into			Fair value at 31 December 2017	Fair value measurements as at 31 December 2017 categorised into		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurements								
Asset:								
Equity securities held for trading:								
– Listed	321	321	–	–	23,893	23,893	–	–
– Unlisted	28,494	–	–	28,494 [1]	23,184	–	–	23,184[1]
Other financial assets	7,806	–	–	7,806 [2]	13,120	–	–	13,120[2]
Deferred consideration	(1,728)	–	–	(1,728)[3]	(1,719)	–	–	(1,719)[3]
Other financial liabilities	(2,443)	–	–	(2,443)[4]	(16,787)	–	–	(16,787)[4]
	32,450	321	–	32,129	41,691	23,893	–	17,798

1 The fair value of the unlisted held-for-trading equity securities is determined based on the net asset value of the fund, which had underlying unlisted investments categorised as Level 3 in the fair value hierarchy. The fair value of such underlying investments is determined based on inputs such as contractual agreements, current and projected operating performance, rounds of financing and third-party transactions, discounted cash flow analysis and market-based information, including comparable company transactions, trading multiples and changes in market outlook, among other factors.

2 Other financial assets comprise dividend right foregone by non-controlling shareholders and revenue and profit guarantees from non-controlling shareholders. The fair value of the dividend right foregone is determine based on the discounted cash flows of future expected dividends to be foregone by the non-controlling shareholders. The fair value of the revenue and profit guarantee is determined based on the discounted cash flows of the expected compensation for each guaranteed period taking into consideration the probability of achieving the guaranteed revenue and profit for each guaranteed period.

3 The fair value of the deferred consideration is determined based on the expected additional consideration payable taking into consideration the level of revenues expected to be generated from the existing customers at the date of acquisition for the next 2 years from that date.

4 Other financial liabilities comprise the fair value of put and call option. The fair value of the put and call option is determined using Black-Scholes Option Pricing Model.

During the six months ended 30 June 2018 and the year ended 31 December 2017, there were no transfers between levels.

The movement in the Level 3 financial instruments measured at fair value is as follows:

Financial assets at fair value through profit or loss

	Unlisted equity securities *HK$'000*	**Other financial assets** *HK$'000*	**Deferred consideration** *HK$'000*	**Other financial liabilities** *HK$'000*
At 1 January 2017	14,418	–	–	–
Net unrealised valuation gain recognised in profit or loss	8,766	–	–	–
Arising from business combinations	–	13,120	(1,719)	(16,787)
At 31 December 2017	23,184	13,120	(1,719)	(16,787)
At 1 January 2018	23,184	13,120	(1,719)	(16,787)
Net unrealised valuation gain recognised in profit or loss	5,310	(5,314)	(9)	14,344
At 30 June 2018	28,494	7,806	(1,728)	(2,443)

The net unrealised valuation gain or loss of the unrealised equity securities for the period recognised in profit or loss is presented in "other net gains" in the consolidated statement of profit or loss.

Although the Group believes that its estimates of fair values are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair values. For fair value measurement in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

Type	Valuation method	Significant unobservable inputs	Inter-relationship between unobservable inputs and fair value measurement
Unlisted equity securities	Net assets value	Net asset value of the fund	The fair value increases as the net asset value of the fund increases
Other financial assets – dividend right forgone by non-controlling shareholders	Discounted cash flows	Discount rate	The fair value increases as the discount rate decreases
Other financial assets – revenue and profit guarantees from non-controlling shareholders	Discounted cash flows	Discount rate	The fair value increases as the discount rate decreases
Deferred consideration	Discounted cash flows	Discount rate	The fair value increases as the discount rate decreases
Other financial liabilities – put and call option	Black-Scholes Option Pricing Model	Risk-free rate, volatility rate	Option price increases when volatility rate increases Call option price increases and put option price decreases when risk-free rate increases

(b) Financial instruments not measured at fair value but for which the fair value is disclosed.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2018 and 31 December 2017 except for fixed rate borrowings.

The carrying amounts and fair values of the fixed rate borrowings are as follows:

	As at 30 June 2018 *HK$'000*	**As at 31 December 2017** *HK$'000*
Carrying amount	(29,527)	(29,868)
Fair value	(28,915)	(29,678)

21. COMMITMENTS

At 30 June 2018 and 31 December 2017, the total future minimum lease payments under non-cancellable operating leases payable are as follows:

	As at 30 June 2018 *HK$'000*	**As at 31 December 2017** *HK$'000*
Within 1 year	5,455	4,136
After 1 year but within 5 years	18,766	7,917
After 5 years	18,930	20,678
	43,151	32,731

The above leases run for an initial period of between one to ten years. One of the leases includes an option to renew the lease on expiry. The leases do not include contingent rental.

22. MATERIAL RELATED PARTY TRANSACTIONS

During the period, there were the following material related party transactions:

	Six months ended 30 June	
	2018	**2017**
	HK$'000	*HK$'000*
Business venture in which a non-controlling shareholder of a subsidiary is the owner		
Income received from trademark licensing	4,076	–
Income received from provision of procurement, marketing and management services	9,110	–
Joint operation		
Income received from provision of hospitality and other related services to a joint operation	–	338

23. CONTINGENT LIABILITIES

As at 30 June 2018, the Group had no material contingent liabilities (31 December 2017: Nil).

24. COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

25. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE AT THE SIX MONTHS ENDED 30 JUNE 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. The Group has not early adopted any new or amended standards in preparing this interim financial report. The Group has the following update to the information provided in the last annual financial statements in respect of HKFRS16, *Lease*, which may have a significant impact on the Group's consolidated financial statements.

HKFRS 16, *Lease*

The Group currently classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. Currently, the Group has only arrangements where it is acting as a lessee.

Once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for office space which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 21, at 30 June 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to HK$43,151,000 (31 December 2017: HK$32,731,000), the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted.

The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board (the “Board”) of directors (the “Directors”) of China Tian Yuan Healthcare Group Limited (the “Company”) hereby presents the unaudited interim financial information for the six months ended 30 June 2018 of the Company and its subsidiaries (collectively, the “Group”). The consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income of the Group for the six months ended 30 June 2018 and the consolidated statement of financial position of the Group as at 30 June 2018, along with selected explanatory notes, are unaudited but have been reviewed by the audit committee of the Company.

The Group recorded a net loss attributable to the equity shareholders of the Company of approximately HK$10.5 million for the period as compared with a net loss attributable to the equity shareholders of the Company of approximately HK$29.1 million in the previous corresponding period. The lower loss was mainly due to higher gross profit arising from healthcare business and money lending and related business and the net realised and unrealised valuation gain on trading securities for the period.

Investment Holding segment

The Group’s Investment Holding segment recorded net gain on fair value of other financial assets/liabilities and deferred consideration of approximately HK$7.5 million, net realised and unrealised valuation gain on trading securities of approximately HK$11.2 million which is partially affected by the net realised and unrealised foreign exchange loss of approximately HK$0.8 million. Overall, the total net realised and unrealised gain of approximately HK$17.9 million was recorded for the period as compared with the total net realised and unrealised gain of approximately HK$4.9 million in the previous corresponding period. Consequently, the Group’s Investment Holding segment reported a loss before tax of approximately HK$8.8 million for the period as compared with a loss before tax of approximately HK$21.8 million in the previous corresponding period.

Hospitality segment

Regarding the Group’s Hospitality segment, the Group’s U.S. hotel management arm, Richfield Hospitality, Inc. recorded lower management fee income of approximately HK$3.3 million for the period, down by approximately HK$0.8 million from approximately HK$4.1 million in the previous corresponding period. The decrease in revenue with higher administrative expenses resulted in a loss before tax of approximately HK$4.6 million for the period as compared with a loss before tax of approximately HK$1.6 million in the previous corresponding period.

The Sheraton Chapel Hill Hotel, North Carolina, U.S. contributed total revenue of approximately HK$10.4 million for the period as compared with approximately HK$11.3 million for the previous corresponding period. This resulted in the loss before tax of approximately HK$0.9 million for the period as compared with a profit contribution of approximately HK$0.1 million in the previous corresponding period.

The Group's 51% equity interest in Sceptre Hospitality Resources, LLC, together with its subsidiaries, Sceptre Hospitality Resources Pte. Ltd, Sceptre Hospitality Resources Europe S.L. and Cross-Tinental S.L. ("SHR Group"), the hospitality industry's leading expert for reservations connectivity, online channel marketing and revenue/channel-management services, recorded higher revenue of approximately HK$41.5 million, up by approximately HK$6.5 million or 19% from approximately HK$35.0 million in the previous corresponding period. However, SHR Group incurred higher administrative expenses during the period to support the revenue growth, resulting in an operating loss of approximately HK$15.4 million as compared with an operating loss of approximately HK$12.2 million in the previous corresponding period.

The Group also recognised share of loss from its associates, S-R Burlington Partners, LLC. of approximately HK$1.5 million for the period as compared with the share of loss from its associates of approximately HK$0.5 million in the previous corresponding period.

Consequently, the Group's Hospitality segment reported a loss before tax of approximately HK$22.4 million for the period as compared with a loss before tax of approximately HK$14.5 million in the previous corresponding period.

Healthcare segment

On 31 August 2017, the Group effectively obtained approximately 51% of the enlarged issued share capital of PRIP Communications Limited ("PRIP") and obtained control of PRIP and its wholly-owned subsidiary DIAM Holdings Co., Ltd. ("DIAM"). PRIP and DIAM forms the Group's new Healthcare segment. PRIP contributed royalty income of approximately HK$4.1 million, and DIAM contributed service income of approximately HK$9.1 million during the period.

Money Lending and Related Business segment

Regarding the Group's newly setup Money Lending and Related Business segment, the Company contributed interest income from third parties loans of HK$10.1 million during the period. No such income arose in the previous corresponding period.

Others

Financial Position, Cash Flow and Borrowings

As at 30 June 2018, the Group's total assets stood at HK$725.6 million, up from HK$719.1 million as at 31 December 2017. The Group's net tangible assets per share increased to HK$0.64 as at 30 June 2018, increase from HK$0.58 as at 31 December 2017.

The Group reports its results in Hong Kong dollars and it is the objective of the Group to preserve its value in terms of Hong Kong dollars.

For the period, net cash outflow from operating activities amounted to HK$119.1 million. Net cash inflow from investing activities amounted to HK$29.0 million, which was mainly due to proceeds from sale of trading securities of HK$29.9 million, that was offset with the purchase of property, plant and equipment of HK$0.9 million during the period. Cash flows from financing activities amounted to HK$9.6 million, which was due to loan from non-controlling interests amounted to HK$10.6 million and was partially offset with the payment of the term loan and attributable interest for the refinancing of Sheraton Chapel Hill Hotel of HK$0.9 million and an increase of monies placed in specific bank accounts that were pledged for the same loan by HK$0.1 million.

Overall, there was a decrease of HK$80.5 million in net cash which, together with exchange loss of HK$0.2 million, resulted in the Group's cash and cash equivalents of HK$51.6 million as at 30 June 2018, down from HK$132.3 million as at 31 December 2017.

Taking into account of the Group's bank borrowings of HK$29.5 million, the Group was in a net cash position amounting to HK$22.1 million as at 30 June 2018. Hence, the Group's gearing ratio is 5.6% (2017: zero), which is expressed as a percentage of current and non-current loans and borrowings less cash and cash equivalents over total equity attributable to equity shareholders of the Company.

As at 30 June 2018, the Group's bank borrowings amounted to HK$29.5 million (31 December 2017: HK$29.9 million), of which HK$0.9 million was current, as recorded in the portion of short-term borrowing repayable within a period of one year, and HK$28.6 million was non-current and will be repayable within a period of more than one year. The bank loans of the Group are secured over Sheraton Chapel Hill Hotel with a carrying amount of HK$35.8 million and pledge of monies in specific bank accounts of HK$2.6 million and a non-recourse carveout guarantee by RHI. In addition, as at 30 June 2018, the Group has fully complied with the financial covenants agreed with the financial institutions.

Treasury Activities

Majority of the Group's cash is held in United States dollar and Renminbi cash deposits. It is the Group's view to maximise returns to shareholders and hence a portion of its portfolio is held in various currencies. We will closely monitor the Group's exposure to currency movement and take the appropriate action when necessary.

Directors and Employees

As at 30 June 2018, the Group had a total of 89 employees including Directors but excluding employees from Sheraton Chapel Hill Hotel, up from 84 as at 31 December 2017. There were 66 employees from Sheraton Chapel Hill Hotel as at 30 June 2018.

The total payroll costs for the period, including the Group's share of payroll costs for Sheraton Chapel Hill Hotel, were HK$58.9 million as compared with HK$50.8 million in the previous corresponding period. The increase in payroll costs is contributed by both the employees for the Hospitality segment and the directors for the Investment Holding segment. The Group's remuneration policies remained the same as revealed in the 2017 annual report.

The Group has conducted a range of training programmes to strengthen employees' all round skills and knowledge, aiming to well-equip them to cope with the development of the Group in the ever-changing economy.

PROSPECTS

The Group remains cautious in the midst of the global uncertainty, though real estate and hospitality markets in the U.S. have remained active. The Group is in consultation with its joint venture partners to respond to market interests in our investments.

The Group will adopt a prudent approach in managing the hospitality related businesses by ensuring costs are kept in line with the level of business activities in order to reduce loss in the segment.

Besides the hospitality segment, the Group is exploring the healthcare sector. China's plastic surgery industry is on a fast growth track. According to Zhongshang Industry Research Institute* (中商產業研究院), the medical aesthetic industry in China had a turnover amounted to RMB51.1 billion in 2015 and maintained an annual growth rate over 20% in the past 4 years. With the further improvement of living standards and higher acceptance of medical beauty in general public, the medical aesthetic market in China will further expand in the future. According to the research report published by Changjiang Securities* (長江證券), it is expected that the market size of the medical aesthetic industry in China will be amounted to RMB252.4 billion by 2025, which is nearly 5 times of the current market size and represents an enormous room for growth.

In order to diversify the business of the Group and maximise returns to the shareholders, the Group has been actively seeking various investment opportunities in high-growth healthcare-related industries, including but not limited to the plastic surgery and assisted reproductive IVF services in China and other Asia markets. On 16 May 2018, Tianyuan IVF Medical Investment Limited ("Tianyuan IVF"), a wholly-owned subsidiary of the Company, entered into a shareholders' agreement with Omega Consultant Co., Ltd.* (บริษัท โอเมก้า คอนซัลเทนท์ จำกัด) ("Omega") and Sukhaphapdee Aryuyeun Karnphat Co., Ltd.* (บริษัท สุขภาพดี-อายุยืนการแพทย์ จำกัด) ("Sukhaphapdee") pursuant to which Tianyuan IVF, Omega and Sukhaphapdee agreed to set up a joint venture company (the "Joint Venture") in Thailand which will engage in the business of developing, operating and investing in the In-Vitro Fertilization and other auxiliary services. The Joint Venture will apply for all required licenses for carrying out the Business in compliance with all the applicable laws in Thailand.

In addition, the Group commenced a new business segment since second half of 2017 by entering into money lending and related businesses which include lender or borrower referral business, fund matching, fund arrangement and/or fund participation (the "New Business Activities") but exclude any regulatory activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). The Group intends to develop the New Business Activities by leveraging and making good use of the resource and network of the two executive Directors in banking and finance industries.

In July 2018, Delightful Aesthetics Investment Limited, a wholly-owned subsidiary of the Company was granted a money lending licence under the Money Lenders Ordinance (Cap. 163 of the Laws of Hong Kong).

The Group will continue to hold some trading securities and will monitor and make appropriate changes on the investment portfolio from time to time to adapt to the economic environment. In addition, the Group will explore different short-term investment plans to improve its investment return by using the cash reserves on hand in different currencies. From time to time, there could be continued adjustments attributable to unrealised gains or losses arising from the fair value measurement of the Group's trading securities and unrealised gains or losses on the revaluation of foreign currency cash deposits.

AUDIT COMMITTEE

The members of the audit committee of the Company (the "Audit Committee") comprise 3 independent non-executive Directors namely Mr. Yuen Kwok Kuen (Chairman). Mr. Hu Baihe and Mr. Guo Jingbin. The Audit Committee has reviewed the unaudited interim financial report of the Group for the period with no disagreement.

INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: nil).

DISCLOSURE UNDER RULE 13.20 OF THE LISTING RULES

The Group had granted facilities to independent third parties and remained outstanding as at 30 June 2018, which is required to be included in this interim report in accordance with Rule 13.20 of the Listing Rules. The summarized information on the facilities is set out as below:

	Facility agreement A	**Facility agreement B**
Date of agreement	14 July 2017	16 January 2018
Borrower	Lead Dragon Limited	Shining Treasure Limited
Guarantor(s)	Mr. Li Ming & Mr. Zhang Shihong	Ms. Cao Qin
Principal	US$13,000,000	RMB50,000,000
Interest rate	12% per annum	12% per annum
Term	12 months from date of facility agreement	12 months from date of facility agreement
Default Interest	40% per annum	40% per annum
Guarantee	Personal guarantee to be provided by the Guarantors in favor of the Company to secure the obligations of the Borrower (as regards Mr. Zhang Shihong's obligations, subject to certain limitations as disclosed in the announcement of the Company dated 4 April 2018)	Personal guarantee to be provided by the Guarantor in favor of the Company to secure the obligations of the Borrower
Security	The second legal charge over a residential property in Hong Kong charged by the Mr. Li Ming in favour of the Company, subject to the existing first mortgage over the said residential property and the second legal charge over a residential property in Hong Kong charged by the Mr. Zhang Shihong in favour of the Company, subject to the existing first mortgage over the said residential property and subject however to certain limitations	Nil
Status	The Company and the Borrower are in the course of negotiation in relation to the repayment arrangement with a view of creation of a new facility	Nil

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") which has been duly adopted by the Board as the code of corporate governance of the Company throughout the period.

The Company reviews its corporate governance practices from time to time to ensure compliance with the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding Directors' securities transactions. All Directors have confirmed that they have complied with the Model Code throughout the period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE

The Group had no material acquisitions and disposals of subsidiaries, associates and joint venture during the period.

SHARE AWARD SCHEME

On 9 December 2016, the Company adopted a share award scheme (the "Share Award Scheme"), pursuant to which the Board may propose or determine the grant of the Company's shares (the "Award Shares") to any Directors, employees or third party service providers of the Group (the "Beneficiaries") as incentives and rewards so as (i) to provide the Beneficiaries with an opportunity to acquire a proprietary interest in the Company; (ii) to encourage and retain the Beneficiaries to work with the Group; and (iii) to provide additional incentive for the Beneficiaries to achieve performance goals, with a view to achieving the objectives of increasing the value of the Company and aligning the interests of the Beneficiaries directly to the shareholders of the Company through ownership of shares subject to such conditions as the Board may deem appropriate at its discretion.

Determination of Proposed Beneficiaries

The grant of Award Shares under the Share Award Scheme to any eligible person will be proposed by the remuneration committee of the Company (the "Remuneration Committee") and approved by the Board. The Board shall:

(i) consider whether to accept the proposal from the Remuneration Committee (with or without amendments); and

(ii) if the proposal is accepted (with or without amendments), select from among the proposed eligible person those persons who will be entitled to receive Award Shares under the Share Award Scheme and determine the number of Award Shares that each proposed beneficiary will be entitled to be granted.

The selection of proposed beneficiaries and determination of the number of Award Shares to which each proposed Beneficiary will be entitled will be made pursuant to a resolution of the Remuneration Committee.

Grant of Award Shares

The Company will notify each relevant proposed Beneficiary of his entitlement to Award Shares by way of a notice of award. The notice of award will specify the terms and conditions of the award and the Share Award Scheme such as the number of Award Shares entitled, the vesting criteria and conditions, the vesting date and such other details as the Board may consider necessary.

Each grant of Award Shares under the Share Award Scheme to any connected person shall be subject to the prior approval of the independent non-executive Directors (excluding any independent non-executive Director who is a proposed Beneficiary). If any proposed grant of Award Shares to any connected person in relation to the Company or any of its subsidiaries under the Share Award Scheme would result in the total number of Award Shares being issued to such connected person during the 12-month period immediately preceding the date of such proposed grant exceeding 1% of the total issued share capital of the Company as at the date of such proposed grant, then such proposed grant must be approved by the shareholders of the Company in a general meeting at which such connected person and his associates shall abstain from voting. The Company will comply with the relevant requirements under Chapter 14A of the Listing Rules for any grant and issue of Shares to connected persons of the Company.

Maximum Number of Award Share Grants

The aggregate number of Award Shares, whether they are new Shares to be allotted and issued by the Company or existing Shares to be purchased on-market by the Trustee, underlying all grants made pursuant to the Share Award Scheme shall not exceed in total 10% of the Company's issued share capital as at the adoption date.

Rights Attached to the Award Shares

Any Award Shares transferred to a Beneficiary pursuant to the Share Award Scheme will be subject to all the provisions of the Articles of the Company and will form a single class with the fully paid Shares in issue on the relevant date.

Shares Awarded

The Board has resolved to award ("Connected Award") an aggregate of 37,862,500 shares ("Connected Award Shares") to Mr. Jiang Yulin, the Chairman of the Board and an Executive Director, on 9 December 2016. The issue and allotment of new shares to Mr. Jiang has been approved by the independent shareholders of the Company at its extraordinary general meeting ("EGM") on 29 March 2018. During the six months period ended 30 June 2018, no new shares award was granted.

Subject to the satisfaction of vesting criteria and the conditions of the Connected Award, 37,862,500 shares will be issued and allotted by the Company to Mr. Jiang by six batches as approved at the EGM:

Batch	Date	Number of shares to be vested
1	30 September 2018	3,786,250
2	31 March 2019	3,786,250
3	31 March 2020	7,572,500
4	31 March 2021	7,572,500
5	31 March 2022	7,572,500
6	31 March 2023	7,572,500

Vesting Conditions of the Connected Award Shares

(i) the approval by the Independent Shareholders at the EGM in respect of the issue and allotment of the Connected Award Shares pursuant to the specific mandate obtained at the EGM;

(ii) the granting of the listing and dealing approval by the Hong Kong Stock Exchange in respect of the Connected Award Shares;

(iii) the achievement of (i), in relation to the 1st batch of the Connected Award Shares, a growth rate of not less than 10% on the average closing market capitalization of the Company (the "Average Market Capitalization") throughout the first half of year 2018 based on the 30-days average closing market capitalization of the Company immediately preceding the date of adoption of the Share Award Scheme (the "Benchmark Market Capitalization"); (ii), in relation to the 2nd batch of the Connected Award Shares, a growth rate of not less than 15% on the average closing market capitalization of the Company throughout the second half of year 2018 based on the Benchmark Market Capitalization; and (iii), in relation to the remaining batches of the Connected Award Shares, expected return on equity (the "Expected ROE") by the Company in each of the second to fifth year as recommended by the Remuneration Committee and approved by the Board from time to time, taking into account the economic environment and other appropriate factors as it thinks fit. The Remuneration Committee may also make recommendations on any adjustments for the forthcoming year for the Board's approval, taking into account the above factors. In any event, the Expected ROE will not be less than 12% (the "Minimum Expected ROE").

In determining whether the growth rate of the average closing market capitalization of the Company (the "Average Cap. Growth") is met, the Company will calculate the Average Cap. Growth for each of the first half and second half of year 2018 based on the following formula:

For the first half of year 2018:

$$\text{Increase in market capitalization of the Company} = \frac{\text{Average Market Capitalization}}{\text{Benchmark Market Capitalization}} - 1 \times 100\%$$

Where,

(a) Average Market Capitalization shall be calculated by dividing the sum of market capitalization of the Company for the period commencing on 1 January 2018 and ending on 30 June 2018 (both dates inclusive) (the "2018 First Six-Month Period") over the total number of trading days for that period; and

(b) Benchmark Market Capitalization shall be calculated by the sum of market capitalization of the Company for the thirty (30) trading days immediately prior to the date on which the Share Award Scheme is adopted by the Board over the total number of trading days for that period.

The first batch of the Connected Award Shares will not be vested to Mr. Jiang on 30 September 2018 since the increase in market capitalization of the Company for the 2018 First Six-Month Period is less than 10%.

For the second half of year 2018:

$$\text{Increase in market capitalization of the Company} = \frac{\text{Average Market Capitalization}}{\text{Benchmark Market Capitalization}} - 1 \times 100\%$$

Where,

(a) Average Market Capitalization shall be calculated by dividing the sum of market capitalization of the Company for the period commencing on 1 July 2018 and ending on 31 December 2018 (both dates inclusive) (the "2018 Second Six-Month Period") over the total number of trading days for that period; and

(b) Benchmark Market Capitalization shall be calculated by the sum of market capitalization of the Company for the thirty (30) trading days immediately prior to the date on which the Share Award Scheme is adopted by the Board over the total number of trading days for that period.

The second batch of the Connected Award Shares with the vesting date on 31 March 2019 shall vest if the increase in market capitalization of the Company for the 2018 Second Six-Month Period is not less than 15%.

In determining whether the Expected ROE is met, the Company will calculate the ROE of each year based on the following formula:

$$\text{Expected ROE} = \frac{\text{Net Income}}{\text{Shareholders' Equity}}$$

Where,

(a) Net Income shall be the net profit before taxation, interest, amortization and extraordinary item(s) of non-recurring in nature as shown in the latest published audited consolidated financial results of the Group before the relevant vesting date; and

(b) Shareholders' Equity shall be the total equity attributable to equity shareholders of the Company as shown in the audited consolidated financial results of the Group published in the year preceding the relevant vesting date.

The remaining batches of the Connected Award Shares with the vesting dates on 31 March 2020, 2021, 2022 and 2023 respectively shall vest if the ROE for the respective year is not less than 12%.

Any change in the above vesting conditions (including the Minimum Expected ROE) will be subject to the approval by the Independent Shareholders.

SHARE OPTION SCHEME

The Company does not have any share option scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2018, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

	Number of shares				
Name of Directors	Personal Interest	Corporate or Family Interests/ Trust & similar interest	Long/short Position	Total Share interests	Approximate percentage holding of issued share capital of the Company as at 30 June 2018
Jiang Yulin	37,862,500[(1)]	—	Long position	37,862,500	9.49%

Note 1: These interests represented awards of an aggregate of 37,862,500 shares resolved to be made by the Board on 9 December 2016 which were subject to certain vesting conditions, the details of which are set out in the section headed "Share Award Scheme" in this report. The aforesaid award to Mr. Jiang Yulin was approved at the EGM held on 29 March 2018. The shares will be issued and allotted to Mr. Jiang Yulin by 6 batches (subject to the fulfilment of the vesting conditions), with the first vesting date being 30 September 2018. Given the vesting conditions of the first batch of the Connected Award Shares are not met, the first batch of the Connected Award Shares shall not be issued and allotted to Mr. Jiang Yulin and shall be forfeited and lapsed. As such, the number of shares of the Company that Mr. Jiang Yulin will be interested in since 30 September 2018 shall be reduced from 37,862,500 to 34,076,250.

Save as disclosed herein, as at 30 June 2018, none of the Directors and the chief executives of the Company or their associates were interested or had any short position in any shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, so far is known to any Directors or the chief executives of the Company, the following persons (excluding the Directors and the chief executives of the Company) were interested in 5% or more of the issued share capital of the Company or had short position in shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares Held	Approximate Percentage holding of issued share capital of the Company as at 30 June 2018
Dong Jufeng *(Note)*	Interest of spouse/ Family interest	266,069,294	66.69%
Jia Tianjiang *(Note)*	Interest of controlled corporation/ Corporate interest	266,069,294	66.69%
China Tian Yuan Manganese Limited *(Note)*	Beneficial owner/ Beneficial interest	249,539,294	62.544%
	Person having seurity interest in shares	16,530,000	4.143%
Ningxia Tianyuan Manganese Industry Co., Ltd. *(Note)*	Interest of controlled corporation/ Corporate interest	266,069,294	66.69%

Note: China Tian Yuan Manganese Limited is a wholly owned subsidiary of Ningxia Tianyuan Manganese Industry Co., Ltd., a corporation controlled by Mr. Jia Tianjiang. By virtue of the SFO, Ningxia Tianyuan Manganese Industry Co., Ltd., Mr. Jia Tianjiang and his spouse, Ms. Dong Jufeng, are deemed to be interested in the 266,069,294 shares of the Company held by China Tian Yuan Manganese Limited.

Save as stated above, no person (excluding the Directors and the chief executives of the Company) was interested in or had a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 30 June 2018.

By order of the Board
China Tian Yuan Healthcare Group Limited
Jiang Yulin
Chairman

Hong Kong, 30 August 2018

* *For identification purposes only*