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)

2018
INTERIM REPORT

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE DIRECTORS
Mr. Zhang Fan
Mr. Chung Ho
Mr. Wang Jingming
Mr. Weng Yu

NON-EXECUTIVE DIRECTORS
Mr. Xing Yong
Mr. Wang Yuexiang
Mr. Huang Lianhai
Mr. Qiu Peiyuan

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Xiao Zuhe
Mr. Xin Hua
Mr. Jiang Xuejun
Mr. Du Yanhua

COMPANY SECRETARY
Mr. Tsui Siu Hung Raymond

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Hamilton HM11
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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
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141 Des Voeux Road Central
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PRINCIPAL BANKER
The Bank of East Asia Limited
10 Des Voeux Road Central
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AUDITORS
Elite Partners CPA Limited
10/F, 8 Observatory Road,
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LEGAL ADVISER
K&L Gates
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Butterfield Fund Services (Bermuda) Limited
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Tengis Limited
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STOCK CODE
673

COMPANY WEBSITE
http://www.ch-groups.com

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2018

		Six months ended 30 September	
	Notes	**2018** **HK$'000** **(Unaudited)**	2017 HK$'000 (Unaudited)
Revenue	*5*	**6,040**	13,044
Cost of services		**(297)**	(7,426)
Gross profit		**5,743**	5,618
Other income	*6*	**9,292**	2,053
Administrative expenses		**(19,216)**	(26,033)
LOSS BEFORE TAX	*7*	**(4,181)**	(18,362)
Income tax	*8*	**–**	–
LOSS FOR THE PERIOD		**(4,181)**	(18,362)
OTHER COMPREHENSIVE (LOSS)/INCOME			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(13,013)**	249

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

	Notes	Six months ended 30 September **2018** ***HK$'000*** **(Unaudited)**	 2017 *HK$'000* (Unaudited)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF INCOME TAX OF NIL		**(13,013)**	249
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(17,194)**	(18,113)
LOSS PER SHARE			
– Basic and diluted (HK cents)	*9*	**(0.10)**	(0.47)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	Notes	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**925**	1,250
Intangible assets		**15,136**	17,098
Investment properties		**17,180**	18,875
Loan receivables	*10*	**5,053**	82,041
Total non-current assets		**38,294**	119,264
CURRENT ASSETS			
Inventories		**525**	201
Trade and factoring loan receivables	*11*	**16,475**	19,708
Prepayments, deposits and other receivables		**37,854**	35,244
Loan receivables	*10*	**77,285**	11,867
Cash and bank balances		**28,103**	38,997
Total current assets		**160,242**	106,017
CURRENT LIABILITIES			
Trade payables	*12*	**170**	80
Other payables and accrued expenses		**50,532**	56,766
Amounts due to deconsolidated subsidiaries		**4,630**	4,695
Tax payables		**2,747**	2,680
Total current liabilities		**58,079**	64,221

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

	Notes	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
NET CURRENT ASSETS		**102,163**	41,796
TOTAL ASSETS LESS CURRENT LIABILITIES		**140,457**	161,060
NET ASSETS		**140,457**	161,060
EQUITY			
Equity attributable to owners of the Company			
Issued capital	13	**363,995**	363,995
Reserves		**(223,538)**	(202,935)
TOTAL EQUITY		**140,457**	161,060

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2018

	Share capital	Share premium	Contributed surplus	Convertible bonds reserve	Foreign currency translation reserve	Share options reserve	Accumulated losses	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2017 (audited)	321,995	476,558	57,124	60,000	(2,242)	–	(803,433)	110,002
Loss for the period	–	–	–	–	–	–	(18,362)	(18,362)
Other comprehensive income for the period	–	–	–	–	249	–	–	249
Total comprehensive income/(loss) for the period	–	–	–	–	249	–	(18,362)	(18,113)
Subscription of shares	42,000	29,400	–	–	–	–	–	71,400
Grant of share options	–	–	–	–	–	4,000	–	4,000
At 30 September 2017 (unaudited)	363,995	505,958	57,124	60,000	(1,993)	4,000	(821,795)	167,289
At 1 April 2018 (audited)	**363,995**	**505,958**	**57,124**	**60,000**	**12,662**	**4,000**	**(842,679)**	**161,060**
Initial application of HKFRS 9 *(note 3)*	**–**	**–**	**–**	**–**	**–**	**–**	**(3,409)**	**(3,409)**
As restated	**363,995**	**505,958**	**57,124**	**60,000**	**12,662**	**4,000**	**(846,088)**	**157,651**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(4,181)**	**(4,181)**
Other comprehensive income for the period	**–**	**–**	**–**	**–**	**(13,013)**	**–**	**–**	**(13,013)**
Total comprehensive loss for the period	**–**	**–**	**–**	**–**	**(13,013)**	**–**	**(4,181)**	**(17,194)**
At 30 September 2018 (unaudited)	**363,995**	**505,958**	**57,124**	**60,000**	**(351)**	**4,000**	**(850,269)**	**140,457**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2018

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	**(6,490)**	(19,713)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(2,878)**	(2,206)
NET CASH FLOWS GENERATED FROM FINANCING ACTIVITIES	**–**	71,400
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(9,368)**	49,481
Effect of foreign exchange rate changes, net	**(1,526)**	(2,596)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**38,997**	7,087
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**28,103**	53,972
Analysis of cash and cash equivalents:		
Cash and bank balances	**28,103**	53,972

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at 26 Burnaby Street, Hamilton HM 11, Bermuda; and principal place of business is located at Unit 801, 8/F., China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.

2. BASIS OF PREPARATION

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

The accounting policies and the basis of preparation adopted in the preparation of these interim condensed consolidated financial statements are consistent with those adopted in the annual consolidated financial statements of the Group for the year ended 31 March 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. The unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except for when otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES

The Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 April 2018. HKFRSs comprise HKFRSs, HKAS and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accounting policies adopted and methods of computation used in the condensed consolidated interim financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2018, except for the adoption of new standards as set out below.

The Group has initially adopted HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" from 1 April 2018 and the Group has changed its accounting policies as a result of adopting these standards. The impact of the adoption of these standards and the nature and effect of the change in accounting policies are further described below.

HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 "Financial Instruments: Recognition and Measurement" that relate to the classification and measurement of financial assets and financial liabilities, impairment for financial assets and hedge accounting.

In accordance with the transitional provisions in HKFRS 9, the Group has taken the exemption under HKFRS 9 not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in opening retained profits as at 1 April 2018. Accordingly, the information presented for 2017 has been presented, as previously reported, under HKAS 39.

The amount by which each financial statement line item is affected by the adoption of HKFRS 9 on the date of initial application is shown as follows.

	Carrying amount as at 31 March 2018 *HK$'000*	**Effect of adoption of HKFRS 9** *(note ii)* *HK$'000*	**Carrying amount as at 1 April 2018** *HK$'000*
Condensed consolidated statement of financial position (extract)			
Trade and factoring loan receivables	19,708	(592)	19,116
Loan receivables	93,908	(2,817)	91,091
Accumulated losses (reserves)	(842,679)	(3,409)	(846,088)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 9 Financial Instruments (Continued)

(i) Classification and measurement

From 1 April 2018, all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

– 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 amount outstanding, are subsequently measured at amortised cost;

– debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income ("FVTOCI");

– all other debt investments and equity investments are subsequently measured at fair value through profit or loss ("FVTPL").

Despite the aforegoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

– the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is not held for trading in other comprehensive income; and

– the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 9 Financial Instruments (Continued)

(i) Classification and measurement (Continued)

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment (see note (ii) below).

The adoption of HKFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

On 1 April 2018 (the date of initial application of HKFRS 9), the Group has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories.

The following table shows the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 April 2018.

	Original measurement category under HKAS 39	**New measurement category under HKFRS 9**	**Original carrying amount under HKAS 39** *HK$'000*	**New carrying amount under HKFRS 9** *HK$'000*
Financial assets				
Trade and factoring loan receivables	Amortised cost (Loans and receivables)	Amortised cost	19,708	19,116
Deposits and other receivables	Amortised cost (Loans and receivables)	Amortised cost	34,612	34,612
Loans receivables	Amortised cost (Loans and receivables)	Amortised cost	93,908	91,091
Cash and bank balances	Amortised cost (Loans and receivables)	Amortised cost	38,997	38,997
Financial liabilities				
Trade payables	Amortised cost	Amortised cost	80	80
Other payables and accrued expenses	Amortised cost	Amortised cost	61,461	61,461

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 9 Financial Instruments (Continued)

(i) ***Classification and measurement*** (Continued)

The following table reconciles the carrying amounts of financial assets at amortised cost under HKAS 39 to the carrying amounts under HKFRS 9 on transition to HKFRS 9 on 1 April 2018.

	Original carrying amount under HKAS 39	**Re-measurement** *(note ii)*	**New carrying amount under HKFRS 9**
	HK$'000	*HK$'000*	*HK$'000*
Trade and factoring loan receivables	19,708	(592)	19,116
Deposits and other receivables	34,612	–	34,612
Loans receivables	93,908	(2,817)	91,091
Cash and bank balances	38,997	–	38,997

(ii) ***Impairment***

The impairment of financial assets has changed from the incurred loss model under HKAS 39 to the expected credit loss model under HKFRS 9. Under the new expected loss approach, it is no longer necessary for a loss event to occur before an impairment loss is recognised. Impairment is made on the expected credit losses, which are the present value of the cash shortfalls over the expected life of the financial assets. The Group assesses on a forward looking basis the expected credit losses associated with debt instruments carried at amortised cost or FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and other receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires lifetime expected losses to be recognised from initial recognition of the receivables. The Group has established a provision matrix that is based on the Group's historical default experience, adjusted for factors that are specific to the debtors and an assessment of both the current as well as the forecast direction of conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 9 Financial Instruments (Continued)

(ii) Impairment (Continued)

Applying the expected credit loss model resulted in the recognition of additional impairment for the Group's trade and factoring loan receivables on 1 April 2018 as follows:

	HK$'000
Loss allowance at 31 March 2018 under HKAS 39	–
Additional impairment recognised at 1 April 2018	3,409
Loss allowance at 1 April 2018 under HKFRS 9	3,409

The additional impairment is recognised in retained profits, resulting in a decrease in trade and factoring loan receivables of approximately HK$3,409,000 and decrease in accumulated losses of approximately HK$3,409,000 as at 1 April 2018.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. Considering the nature of the Group's principal activities, the adoption of HKFRS 15 does not have material impact on the Group's revenue recognition and HKFRS 15 had no material impact on amounts and/or disclosures reported in these condensed consolidated interim financial statements.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Company has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

4. OPERATING SEGMENT INFORMATION

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

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

(i) hospital management service;

(ii) trading of medical equipment;

(iii) Business factoring; and

(iv) Property investment.

Segment assets excluded available-for-sale investments 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.

The following is an analysis of the Group's revenue and results by operating segment for the six months ended 30 September 2018 and 2017.

	Hospital management service		Trading of medical equipment		Business factoring		Property investment		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*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Segment revenue										
Revenue from external customers	**2,888**	3,689	**370**	9,355	**1,967**	–	**815**	–	**6,040**	13,044
Segment results	**7,186**	(462)	**(1,381)**	(2,703)	**495**	–	**815**	–	**7,115**	(3,165)
Reconciliation:										
Interest income and unallocated gains									**88**	2,053
Corporate and other unallocated expenses									**(11,384)**	(17,250)
Loss before tax									**(4,181)**	(18,362)
Depreciation and amortisation	**471**	493	**9**	30	**-**	-	**-**	-	**480**	523

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

4. OPERATING SEGMENT INFORMATION (Continued)

The following tables are an analysis of the Group's assets as at 30 September 2018 and 31 March 2018:

	As at 30 September 2018 (Unaudited)				
	Hospital management service *HK$'000*	**Trading of medical equipment** *HK$'000*	**Business factoring** *HK$'000*	**Property investment** *HK$'000*	**Total** *HK$'000*
SEGMENT ASSETS	**77,660**	**62,625**	**16,737**	**17,993**	**175,015**
Corporate and other unallocated assets					**23,521**
Total assets					**198,536**
SEGMENT LIABILITIES	**3,551**	**405**	**290**	**–**	**4,246**
Corporate and other unallocated liabilities					**53,833**
Total liabilities					**58,079**

	As at 31 March 2018 (Audited)			
	Hospital management service *HK$'000*	Trading of medical equipment *HK$'000*	Business factoring *HK$'000*	Total *HK$'000*
SEGMENT ASSETS	94,024	67,177	18,606	179,807
Corporate and other unallocated assets				45,474
Total assets				225,281
SEGMENT LIABILITIES	4,121	1,326	1,577	7,024
Corporate and other unallocated liabilities				57,197
Total liabilities				64,221

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

5. REVENUE

Revenue from the Group's principal activities, which is also the Group's revenue, 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:

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue:		
Income from provision of hospital management service *(note)*	**2,888**	3,689
Trading of medical equipment	**370**	9,355
Business factoring	**1,967**	–
Rental income	**815**	–
	6,040	13,044

Note: The amount comprises the management fee income from Shuangluan Hospital, Anping Bo'ai Hospital, and Red Cross Hospital of Luanping County of approximately HK$2,888,000 (2017: HK$3,056,000). There was no operating right income from Anping Bo'ai Hospital and Dingnan Chinese Medicine Hospital during the Period (2017: HK$633,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

6. OTHER INCOME

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Bank interest income	**189**	36
Loan interest income	**4,016**	2,017
Reverse of over-provision on impairment	**133**	–
Recover from amount due to deconsolidated subsidiary	**4,410**	–
Exchange gain	**88**	–
Consultancy income	**449**	–
Sundry income	**7**	–
	9,292	2,053

7. LOSS BEFORE TAX

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

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**273**	90
Amortisation of intangible assets	**447**	433
Share-based payment expenses	**–**	4,000
Interest income	**(4,205)**	(2,053)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

8. INCOME TAX

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

Subsidiaries established in the People's Republic of China (the "PRC") are subject to the PRC enterprise income tax at the standard rate of 25% (2017: 25%).

9. LOSS PER SHARE

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company, used in the basic loss per share calculation	**(4,181)**	(18,362)
Number of shares	**2018**	2017
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic loss per share	**4,039,947**	3,888,472

For the period ended 30 September 2018, the outstanding share options had an anti-dilutive effect on the basic loss per share and were ignored in the calculation of diluted loss per share (2017: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

10. LOAN RECEIVABLES

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Loan receivables – secured *(note)*	**5,514**	6,246
Loan receivables – unsecured	**76,824**	87,662
	82,338	93,908
Presented as		
– current assets	**77,285**	11,867
– non-current assets	**5,053**	82,041
	82,338	93,908

Note: As at 30 September 2018, the secured loan receivable of approximately HK$5,514,000 (31 March 2018: HK$6,246,000) was guarantee by the director of the borrower.

The Group's loan receivables are recoverable as follows:

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Within one year	**5,053**	11,867
After 1 year but within 2 years	**77,285**	82,041
	82,338	93,908

The above loan receivables are subject to the fulfilment of covenants specified in the related loan agreements. If the counterparties were to breach the covenants, the loan receivables would become repayable on demand. As at 30 September 2018 and 31 March 2018, none of the covenants were breached.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

10. LOAN RECEIVABLES (Continued)

Movement of loan receivables are as follows:

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Beginning of the period	**93,908**	58,858
Initial application of HKFRS 9	**(2,817)**	–
Additions	**4,887**	28,276
Repayment	**(6,588)**	–
Reverse on provision of impairment	**51**	–
Exchange realignment	**(7,103)**	6,774
End of the period	**82,338**	93,908

The following table shows effective interest rate of various borrowings of the Group:

	30 September 2018 (Unaudited) %	30 September 2018 (Unaudited) HK$'000	31 March 2018 (Audited) %	31 March 2018 (Audited) HK$'000
Fixed rate:				
Loan receivables	**8**	**2,211**	8	1,873
Loan receivables	**10**	**10,567**	10	12,469
Loan receivables	**7**	**69,560**	7	79,566
		82,338		93,908

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

11. TRADE AND FACTORING LOAN RECEIVABLES

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Trade and factoring loan receivables:		
Commercial business factoring	**1,158**	1,645
Trade of medical equipment	**5,318**	7,165
Hospital management	**9,999**	10,898
	16,475	19,708

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

(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;

(iii) Provision of business factoring services is with credit terms of 30 days; and

(iv) Provision of rental income is with credit terms of 30 days.

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

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Within 1 month	**1,167**	13,048
1 to 3 months	**2,285**	654
over 3 months	**13,023**	6,006
	16,475	19,708

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

11. TRADE AND FACTORING LOAN RECEIVABLES (Continued)

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

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Within 90 days	557	–
91 – 180 days	6,460	3,269
Over 180 days	6,006	2,737
	13,023	6,006

Trade and factoring loan 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.

12. TRADE PAYABLES

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Trade payables	170	80

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

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Within one month	163	59
Over three months	7	21
	170	80

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

13. SHARE CAPITAL

	Number of shares	Share capital
		HK$'000
Authorised:		
Ordinary shares of HK0.1 each		
At 1 April 2017, 31 March 2018, 1 April 2018 and 30 September 2018	100,000,000,000	10,000,000
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
At 1 April 2017, 31 March 2018 and 1 April 2018	**3,219,947,634**	**321,995**
Subscription of shares *(note)*	**420,000,000**	**42,000**
At 30 September 2018	**3,639,947,634**	**363,995**

Note:

On 5 June 2017, pursuant to the placing and subscription agreement dated 10 May 2017, 420,000,000 ordinary shares of HK$0.1 each were allotted and issued at the market price of HK$0.17 per share. The net proceeds from the placing are approximately HK$71,300,000. The Company intends to apply approximately HK$40,000,000 for the development of finance leasing business of the Group and the balance for general working capital purpose.

14. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved by the Board on 30 November 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

For the Period, the Group reported a revenue of approximately HK$6 million, representing a decrease of 54% as compared to approximately HK$13 million for the previous period. The revenue comprises (a) trading income of medical equipment of approximately HK$0.3 million (2017: HK$9.4 million); (b) management fee income from hospital management of approximately HK$2.8 million (2017: HK$3.7 million); (c) income from business factoring business of approximately HK$2 million (2017: nil); and (d) income from property investment of HK$0.9 million (2017: nil). The decrease in revenue was mainly due to decrease in trading income of medical equipment as a result of decrease in demand for new equipments of the hospitals during the Period.

The Group's loss attributable to shareholders for the Period was approximately HK$4.2 million as compared to approximately HK$18.4 million for the previous financial period. The decrease in net loss was mainly attributable to decrease in administrative expenses as a result of cost saving measures taken by the Group which led to decrease in operating costs during the Period. Basic loss per share for the Period was HK0.10 cents (2017: HK0.47 cents).

REVIEW OF BUSINESS OPERATION

For the Period, the existing business segments of the Group comprise (a) hospital management business; (b) medical equipment trading business; (c) business factoring business; and (d) property investment.

Hospital management 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. Shuangluan Hospital was relocated to a new site in 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. The second phase construction of "Psychiatry Building" has been completed and the "Psychiatry Building" has been in operation this year. From April 2018 to September 2018, Shuangluan Hospital recorded revenue of over RMB55.5 million, representing an increase of 36% compared with last corresponding period.

The Group is entitled management fee equivalent to 3% of the revenue of Shuangluan Hospital and recorded management fee of approximately HK$1.9 million during the Period. 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

The Group took over the operation of 安平博愛醫院 ("Anping Bo'ai Hospital") in October 2016. Currently, the Group is entitled management fee equivalent to 6% of the revenue of Anping Bo'ai Hospital and recorded management fee of approximately HK$0.6 million during the Period.

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

The Group took over the operation of 灤平縣紅十字醫院 ("Red Cross Hospital of Luanping County") and 灤平縣鴻福養老護理院 ("Hong Fu Eldercare and Nursing Home of Luanping County") in April 2017. Currently, the Group is entitled management fee equivalent to 3% of the revenue of Red Cross Hospital of Luanping County and recorded management fee of approximately HK$0.3 million during the Period.

Yueyang City Baling Hospital Company Limited

The Group took over the operation of 岳陽市巴陵醫院有限公司 ("Yueyang City Baling Hospital Company Limited") in January 2018. The Group did not entitle any management fee during the Period.

Medical equipment trading

The Group 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.

Business factoring business

The Group carried out business factoring business for hospitals which also brings in steady revenue and profits to the Group as well as provides the necessary funding to hospitals for improving quality of services by these hospitals.

Property investment

The Group completed acquisition of properties of Anping Bo'ai Hospital at a consideration of RMB15 million in November 2017 and recorded rental income of approximately HK$0.9 million during the Period.

FUTURE PROSPECT

Faced with enormous medical health demand brought by significant urbanization and aging population in the People's Republic of China ("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.

On 1 November 2018, the Company entered into the strategic cooperation agreement with Hunan Junlin Private Equity Fund Management Co., Ltd., which is a fund management company specializing in investments in different industries and is a well-known enterprise in Hunan Province, in relation to the formation of a fund. The Group intends to invest not more than RMB25 million (equivalent to approximately HK$28 million) to the fund, representing approximately 33.3% of the fund size, and the Group will become a limited partner of the fund which will be established for the investment medical and healthcare industry by way of mergers and acquisitions in the PRC. Further details of the strategic cooperation agreement were set out in the announcement dated 1 November 2018.

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 Board, the Group has entered into a rapid and healthy development track, and gradually forming a hospital chain group in the next few years to create maximum value for the shareholders.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

There were no other significant investments, material acquisitions and disposals during the Period.

UPDATE OF USE OF PROCEEDS

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. The proceeds were utilized as (i) HK$1.5 million for the business factoring business; (ii) approximately HK$5.5 million for payment of medicine procurement and medical equipment; (iii) approximately HK$22.7 million for office rental, salaries and other operating expenses; and (iv) approximately HK$35.9 million for loan to certain parties including hospitals. The remaining unutilised proceeds are kept at banks of the Group.

FUND RAISING ACTIVITY

On 11 September 2018, the Company and a trustee, which holds the subscription shares on trust for 25 persons who are employees and/or consultant of the members of the Group, entered into the subscription agreement in respect of 100,000,000 Subscription Shares at a subscription price of HK$0.10 per subscription share. The gross proceeds and net proceeds from the subscription are HK$10 million and HK$9,600,000 (representing HK$0.096 per subscription share) respectively, which will be used for the Group's future business development, investment and general working capital purposes. The subscription is not yet completed as at date of this report. Details of the subscription were disclosed in the announcement of the Company dated 11 September 2018.

Save as disclosed above, there was no other fund raising activity during the Period.

LIQUIDITY AND CAPITAL RESOURCES

The Group mainly financed its day to day operations by internally generated cash flow and fund raising activity as stated above during the Period. As at 30 September 2018, the Group's cash and cash equivalents amounted to approximately HK$28.1 million (31 March 2018: HK$39 million).

As at 30 September 2018, the current assets and net current assets of the Group are approximately HK$160.2 million (31 March 2018: HK$106 million) and HK$102.2 million (31 March 2018: HK$41.8 million) respectively, representing a current ratio of 2.76 (31 March 2018: 1.65).

As at 30 September 2018, a dividend payable on redeemable convertible cumulative preference shares in the sum of US$4 million (31 March 2018: US$4 million) (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 30 September 2018, the gearing ratio was 0.22 (31 March 2018: 0.19), calculated by dividing dividend payable on redeemable convertible cumulative preference shares (representing debt owed by the Company) by shareholders' equity of approximately HK$140.5 million (31 March 2018: HK$161.1 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:

Dividend payable on redeemable convertible cumulative preference shares

On 12 September 2016, the Company has received a statutory demand from Li Hong Holdings Limited ("Li Hong") in respect of repayment of dividend payable on redeemable convertible cumulative preference shares in the sum of US$4,000,000 (equivalent to approximately HK$30,894,000) (the "Alleged Outstanding Sum"). Such amount has been included in other payables and accrued expenses in consolidated balance sheet as at 31 March 2016. An originating summons (the "Originating Summons") has been issued in the Court by the Company against Li Hong on 27 September 2016. Pursuant to the Originating Summons, the Company is seeking, amongst others, the reliefs against Li Hong (1) an order that Li Hong be restrained from presenting any petition for the winding up of the Company based on the Alleged Outstanding Sum; and (2) costs.

A hearing took place on 30 September 2016 at the Court, during which Li Hong has undertaken not to file a winding up petition against the Company based on the Alleged Outstanding Sum and the Company has undertaken (i) to pay the sum of US$4,000,000 or its equivalent into the Court within 21 days from the date of the hearing; and (ii) to comply with any order the Court may make if the Court later finds that Li Hong's undertaking has caused loss to Li Hong or any other party and decides that Li Hong or that other party should be compensated for that loss. On 8 February 2017, another Court hearing took place and it was ordered at the hearing, among other things, that (i) Li Hong be restrained from presenting any petition for the winding up the Company based on the Alleged Outstanding Sum; and (ii) the sum of US$4,000,000 or its equivalent paid into the Court be released to the Company. Pursuant to the reasons for judgement handed down by the Court dated 29 March 2017, it was concluded that the Company has shown that there is bona fide dispute of the Alleged Outstanding Sum on substantial grounds and the presentation of a winding-up petition by Li Hong would be an abuse of process. The Court further commented that new information filed for the Company lend credence to the Company's case that the Promissory Note was in fact issued by the Company pursuant to a backdoor arrangement made or participated in by Dr. Li for his benefit, though not necessarily for his sole or exclusive benefit, and that Li Hong was Dr. Li's nominee for the purpose of receiving the Promissory Note. As stated in the judgment, it follows that it must at least be open to serious argument that the Promissory Note is not enforceable by Li Hong against the Company, because the issue of the Promissory Note by the Company to Dr. Li's nominee (Li Hong) would involve a breach of fiduciary duty on Dr. Li's part of which Li Hong had knowledge. It was also mentioned in the judgment that Li Hong clearly does not have a valid cause of action against the Company based on a letter dated 31 July 2015 issued by Capital Foresight Limited and/or an agreement dated 23 November 2012 between the Company and Capital Foresight Limited being alleged evidence for the Statutory Demand as Li Hong is not a party to either of those documents and neither of those documents give rise to any contract or claim enforceable by Li Hong against the Company.

Details of the above have been set out in the announcements of the Company dated 28 September 2016, 3 October 2016 and 30 March 2017 (the "Announcements").

Further to a demand received by the Company (the "Demand") and upon internal investigation, the Company believes that the US$4 million in connection with HCMP2593/2016 as set out in the Announcements belongs to the Company on the following grounds: (1) that the agreement dated 23 November 2012 between the Company and Capital Foresight Limited (the "Agreement") executed by Dr. Li, a then executive director and chairman of the Company and removed on 18 June 2016, was purportedly entered into in breach of Dr. Li's fiduciary duties and without authority, and Capital Foresight Limited was knowingly complicit in this arrangement; (2) that the loan note dated 1 August 2015 and issued by the Company (under its former name China Healthcare Holdings Limited) (the "Loan Note"), executed by Dr. Li purportedly on behalf of the Company in favour of Li Hong was purportedly entered into in breach of Dr. Li's fiduciary duties, without authority and inconsistent with the Company's articles of association; and (3) the Agreement and the Loan Note were and are void or voidable and unenforceable. On 7 November 2017, a writ of summons under action number HCA 2549/2017 has been issued in the High Court of the Hong Kong Special Administrative Region by the Company against Dr. Li as 1st Defendant, Capital Foresight Limited as 2nd Defendant and Li Hong as 3rd Defendant. Pursuant to the writ, the Company is seeking, amongst others, the following reliefs against the defendants: (i) a declaration that the agreement dated 23 November 2012 between the Company and Capital Foresight Limited executed by Dr. Li is void or voidable and unenforceable; and (ii) a declaration that the loan note dated 1 August 2015 and issued by the Company is void or voidable and unenforceable. Please also refer to the announcement of the company dated 8 November 2017. Since the announcement acknowledgement of service is and statement of claim were filed in December 2017. Pursuant to a court order, this action has been consolidated with the action described in below paragraph and is currently in the pleadings stage.

On 24 November 2017 and in connection with the Demand, the Company received a writ of summons dated 9 November 2017 claiming for an order directing the Company to forthwith issue in favour of Capital Foresight Limited or its nominee a promissory note of US$4,000,000 pursuant to the Agreement, or alternatively US$4,000,000, interest and costs. Acknowledgement of service and statement of claim were filed in December 2017. Pursuant to an order, this action has been consolidated with the action described above and is currently in the pleadings stage.

Other actions initiated by the Group

1. 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 application by CHC Investment Holdings Limited for permission to bring a Derivative. The Action was heard on 16 November 2017 and the result of the application were delivered on 29 November 2017 and was successful. In or about 2018, Harvest Network Limited lodged an appeal against the decision. Having heard submissions from the parties, the BVI Court of Appeal held in favour of CHC Investment Holdings Limited and dismissed the appeal.

2. 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. On 31 March 2017, the Administrative Lawsuit has been discontinued by the Company. 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. A judgment in respect of the Civil Lawsuit II was obtained on 12 September 2017. Dongcheng District Court supported the request by Zhongwei Kanghong in Civil Lawsuit II. On 22 June 2018, business registration for such changes has been completed and the business licence has been obtained.

3. 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. The parties have exchanged witness statements in November 2018. The next Case Management Summons hearing is scheduled to be heard on 21 January 2019.

4. On 20 July 2017, the Company, as plaintiff, filed an originating summons against a law firm in Hong Kong (the "Defendant") seeking the determination of the High Court of Hong Kong ("High Court") on taxation of among other things profit costs in the aggregate sum of HK$2,142,769.24 (exclusive of the disbursements therein) of two of the Defendant's office bills which were delivered to the Company on or about 8 August 2016 and 25 July 2016 respectively and all other Defendant's office bill(s) issued against the Company. Details of the above have been set out in the announcement of the Company dated 22 August 2017. On 15 March 2018, the Company took out a Summons for Amending Originating Summons and Discovery ("the Plaintiff's Summons"), the Court made the directions on 8 June 2018 that the Plaintiff's Summons be adjourned for argument before a Judge to a date has been fixed on 12 December 2018 with 3 hours reserved and the substantive hearing of the Originating Summons to be heard by the same Judge of the Plaintiff's Summons.

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 30 September 2018, there were no material contingent liabilities of the Group (31 March 2018: nil).

CHARGE ON GROUP'S ASSETS

As at 30 September 2018, there was no charge on the Group's assets (31 March 2018: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2018, the Group employed 30 employees (31 March 2018: 35). The total staff cost including Directors' emoluments was approximately HK$7.1 as compared to approximately HK$11.3 million for the previous period. The Group continues to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Staff benefits include contributions to the Mandatory Provident Fund Schemes and 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 or exercised during the Period. There were 50,000,000 outstanding share options as at 30 September 2018.

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

As at 30 September 2018, the interests or short positions of the directors and chief executives of the Company and their associates in the shares, underlying shares and convertible bonds of the Company or any of its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director/chief executive	Company/ Associated corporation	Capacity	Interests in shares (other than pursuant to equity derivatives)	Interests in underlying shares pursuant to equity derivatives	Total interest in shares/ underlying shares	Percentage of shares and underlying shares to issued shares
Mr. Zhang Fan	The Company	Personal	8,565,000 (L)	–	8,565,000 (L)	0.24%
Mr. Wang Jingming	The Company	Personal	11,901,000 (L)	–	11,901,000 (L)	0.33%
Mr. Xing Yong	The Company	Personal	1,398,000 (L)	–	1,398,000 (L)	0.04%

Remark: (L): Long position

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

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

As at 30 September 2018, so far as was known to the directors and the chief executive of the Company, the following persons (not being directors or chief executive of the Company of which interests were disclosed above) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of substantial shareholders	Capacity	Interests in shares	Interests in underlying shares pursuant to equity derivatives	Total interests in shares and underlying shares	Approximate percentage of shares and underlying shares held to issued shares as at 30 September 2018
Zheng Hua Investment Limited *(note 1)*	Beneficial owner	900,000,000(L)	400,000,000(L)	1,300,000,000(L)	35.71%
Speedy Brilliant Investments Limited *(note 2)*	Beneficial owner	276,510,000(L)	–	276,510,000(L)	7.60%
Mr. Zhou Disun *(note 2)*	Through controlled corporation	276,510,000(L)	–	276,510,000(L)	7.60%
Coral Point Global Limited *(note 3)*	Beneficial owner	210,000,000(L)	–	210,000,000(L)	5.77%
Mr. Ye Zhankun *(note 3)*	Through controlled corporation	210,000,000(L)	–	210,000,000(L)	5.77%
Pacas Worldwide Limited *(note 4)*	Beneficial owner	200,000,000(L)	–	200,000,000(L)	5.49%
Mr. Li Xuguang *(note 4)*	Through controlled corporation	200,000,000(L)	–	200,000,000(L)	5.49%

Remark: (L): Long position

Notes:

(1) Zheng Hua Investment Limited is wholly owned by Shanghai Ying Mao Investment Management Patnership (Limited Partnership). The interest in underlying shares represents the convertible notes which can be converted into 400,000,000 shares of the Company at conversion price of HK$0.15 each.

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

(3) Coral Point Global Limited is owned as to 77.59% by Mr. Ye Zhankun.

(4) Pacas Worldwide Limited is wholly owned by Mr. Li Xuguang, the former non-executive director of the Company.

SHARE OPTION SCHEME

The Company operated a share option scheme which was expired on 7 April 2012 and a new share option scheme (the "New Scheme") was approved by the shareholders of the Company on 28 August 2012. Further details of the New Scheme were disclosed in the annual report of the Company for the year ended 31 March 2018. There was no change in any terms of the New Scheme during the Period.

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

	Outstanding at 1 April 2018	Granted	Exercised	Lapsed/ cancelled	Reclassified	Outstanding at 30 September 2018
Employees and others	50,000,000	–	–	–	–	50,000,000
Total	50,000,000	–	–	–	–	50,000,000

Details of such grant of share options are set out below:

Date of grant	Exercise period	Exercise price	Closing price immediately before the date of grant
		HK$	HK$
19 May 2017	From 19 May 2017 to 18 May 2022	0.18	0.165

DIVIDEND

The Directors do not recommend the payment of any interim dividend to shareholders (2017: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE CODE

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

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

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

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

The Company has adopted the Model Code (Appendix 10 to the Listing Rules) as its own code of conduct regarding securities transactions by directors. Having made specific enquiry of all Directors, all Directors declared that they have complied with the Model Code during the Period.

NON-COMPLIANCE WITH LISTING RULE 3.10A

The number of independent non-executive Directors falls below the minimum number required under Rule 3.10A of the Listing Rules upon appointment of a non-executive Director on 4 June 2018. Following the resignation of Directors on 13 July 2018, the Company has fulfilled the requirement under Rule 3.10A of the Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including review of the unaudited interim financial statements for the six months ended 30 September 2018.

On behalf of the Board
China Health Group Limited
Zhang Fan
Chairman of the Board and Executive Director

Hong Kong, 30 November 2018