# 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)*

(Stock Code: 673)

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

The board (the "Board") of directors (the "Directors") of China Health Group Limited (the "Company") would like to present the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2017 (the "Period"). These unaudited condensed consolidated interim financial statements have been reviewed by the Audit Committee of the Company.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
*FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017*

| | | **Six months ended 30 September** | |
|---|---|---|---|
| | | **2017** | 2016 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| | | **(Unaudited)** | (Unaudited) |
| Revenue | *5* | **13,044** | 701 |
| Cost of services | | **(7,426)** | – |
| Gross profit | | **5,618** | 701 |
| Other gain | | **2,053** | 627 |
| Administrative expenses | | **(26,033)** | (45,613) |

| | Notes | Six months ended 30 September **2017** ***HK$'000*** **(Unaudited)** | 2016 *HK$'000* (Unaudited) |
|---|---|---|---|
| **LOSS BEFORE TAX** | *6* | **(18,362)** | (44,285) |
| Income tax | *7* | **–** | – |
| **LOSS FOR THE PERIOD** | | **(18,362)** | (44,285) |
| **OTHER COMPREHENSIVE INCOME/(LOSS)** | | | |
| Item that may be subsequently reclassified to profit or loss: | | | |
| Exchange differences on translation of foreign operations | | **249** | (349) |
| **OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF INCOME TAX OF NIL** | | **249** | (349) |
| **TOTAL COMPREHENSIVE LOSS FOR THE PERIOD** | | **(18,113)** | (44,634) |
| LOSS PER SHARES – Basic and diluted (HK cents) | *8* | **(0.47)** | (1.22) |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*AS AT 30 SEPTEMBER 2017*

| | Notes | 30 September 2017 HK$'000 (Unaudited) | 31 March 2017 HK$'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **1,479** | 1,507 |
| Intangible assets | | **16,285** | 16,496 |
| Available-for-sale investments | | **23,474** | 22,558 |
| Prepayment for acquisition of properties | | **17,606** | 11,843 |
| Loan receivables | | **60,782** | 58,858 |
| Total non-current assets | | **119,626** | 111,262 |
| **CURRENT ASSETS** | | | |
| Trade receivables | *9* | **13,797** | 1,691 |
| Prepayments, deposits and other receivables | | **42,418** | 50,092 |
| Cash and bank balances | | **53,972** | 7,087 |
| Total current assets | | **110,187** | 58,870 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accrued expenses | | **57,873** | 55,505 |
| Amounts due to deconsolidated subsidiaries | | **4,651** | 4,625 |
| Total current liabilities | | **62,524** | 60,130 |
| **NET CURRENT ASSETS/(LIABILITIES)** | | **47,663** | (1,260) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **167,289** | 110,002 |
| **NET ASSETS** | | **167,289** | 110,002 |
| **EQUITY** | | | |
| Equity attributable to owners of the Company | | | |
| Issued capital | *10* | **363,995** | 321,995 |
| Reserves | | **(196,706)** | (211,993) |
| **TOTAL EQUITY** | | **167,289** | 110,002 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 September 2017*

| | 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 2016 (audited) | 211,995 | 421,558 | 57,124 | 225,000 | (1,145) | 1,656 | (735,812) | 180,376 |
| Loss for the period | – | – | – | – | – | – | (44,285) | (44,285) |
| Other comprehensive loss for the period | – | – | – | – | (349) | – | – | (349) |
| Total comprehensive loss for the period | – | – | – | – | (349) | – | (44,285) | (44,634) |
| Issue of shares upon conversion of convertible bonds | 110,000 | 55,000 | – | (165,000) | – | – | – | – |
| Lapse of share options | – | – | – | – | – | (1,656) | 1,656 | – |
| At 30 September 2016 (unaudited) | 321,995 | 476,558 | 57,124 | 60,000 | (1,494) | – | (778,441) | 135,742 |
| **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** |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 September 2017*

| | Six months ended 30 September | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| NET CASH FLOWS USED IN OPERATING ACTIVITIES | **(19,713)** | (58,154) |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | **(2,206)** | (17,434) |
| NET CASH FLOWS GENERATED FROM FINANCING ACTIVITIES | **71,400** | – |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | **49,481** | (75,588) |
| Effect of foreign exchange rate changes, net | **(2,596)** | (418) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | **7,087** | 205,027 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | **53,972** | 129,021 |
| Analysis of cash and cash equivalents: | | |
| Cash and bank balances | **53,972** | 129,021 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017*

### 1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at 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 2017, 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, except for certain financial instruments which are measured at fair value. The unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except for when otherwise indicated.

### 3. 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 2017. 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.

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.

## 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 two reportable operating segments as follows:

(i) hospital management service; and

(ii) trading of medical equipment.

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 2017 and 2016.

| | **Hospital management service** | | **Trading of medical equipment** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Segment revenue | | | | | | |
| Revenue from external customers | **3,689** | 701 | **9,355** | – | **13,044** | 701 |
| **Segment results** | **(462)** | (5,147) | **(2,703)** | – | **(3,165)** | (5,147) |
| Reconciliation: | | | | | | |
| Interest income and unallocated gains | | | | | **2,053** | 9 |
| Corporate and other unallocated expenses | | | | | **(17,250)** | (39,147) |
| Loss before tax | | | | | **(18,362)** | (44,285) |
| Depreciation and amortisation | **493** | 49 | **30** | – | **523** | 49 |

The following tables are an analysis of the Group's assets as at 30 September 2017 and 31 March 2017:

| | **As at 30 September 2017 (Unaudited)** | | |
|---|---|---|---|
| | **Hospital management service** | **Trading of medical equipment** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| SEGMENT ASSETS | **35,224** | **45,244** | **80,468** |
| Corporate and other unallocated assets | | | **149,345** |
| Total assets | | | **229,813** |

| | As at 31 March 2017 (Audited) | | |
|---|---|---|---|
| | Hospital management service | Trading of medical equipment | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| SEGMENT ASSETS | 73,728 | 36,347 | 110,075 |
| Corporate and other unallocated assets | | | 60,057 |
| Total assets | | | 170,132 |

## 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** | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Revenue:** | | |
| Income from provision of hospital management service *(note)* | **3,689** | 701 |
| Trading of medical equipment | **9,355** | – |
| | **13,044** | 701 |

*Note:* The amount comprises the management fee income from Shuangluan Hospital and Red Cross Hospital of Luanping County of approximately HK$3,056,000 (2016: HK$701,000) and the operating right income from Anping Bo'ai Hospital and Dingnan Chinese Medicine Hospital of approximately HK$633,000 (2016: nil) during the Period.

## 6. LOSS BEFORE TAX

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

| | **Six months ended 30 September** | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Depreciation of property, plant and equipment | **90** | 49 |
| Amortisation of intangible assets | **433** | – |
| Share-based payment expenses | **4,000** | – |
| Interest income | **(2,053)** | (627) |

## 7. 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% (2016: 25%).

## 8. LOSS PER SHARE

| | Six months ended 30 September | |
|---|---|---|
| | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Loss attributable to owners of the Company, used in the basic loss per share calculation | **(18,362)** | (44,285) |

| **Number of shares** | **2017** | 2016 |
|---|---|---|
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **3,888,472** | 3,619,947 |

For the period ended 30 September 2017, 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 (2016: Nil).

## 9. TRADE RECEIVABLES

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; and

(ii) Trading of medical equipment business is with credit terms of 90 days.

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

| | **30 September 2017** *HK$'000* **(Unaudited)** | 31 March 2017 *HK$'000* (Audited) |
|---|---|---|
| Within 1 month | **7,346** | 913 |
| 1 to 3 months | **1,478** | 252 |
| over 3 months | **4,973** | 526 |
| | **13,797** | 1,691 |

**10. SHARE CAPITAL**

| | **Number of shares** | **Share capital** *HK$'000* |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HK0.1 each | | |
| At 1 April 2016, 31 March 2017, 1 April 2017 and 30 September 2017 | 100,000,000,000 | 10,000,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.1 each | | |
| At 1 April 2016 | 2,119,947,634 | 211,995 |
| Issue of shares upon conversion of the convertible bonds *(note i)* | 1,100,000,000 | 110,000 |
| **At 31 March 2017 and 1 April 2017** | **3,219,947,634** | **321,995** |
| **Subscription of shares** *(note ii)* | **420,000,000** | **42,000** |
| **At 30 September 2017** | **3,639,947,634** | **363,995** |

*Notes:*

(i) In November 2015, convertible notes ("CN") with an aggregate principal amount of HK$225,000,000 which can be converted into 1,500,000,000 shares at a conversion price of HK$0.15 per share (subject to adjustments) were issued to Zheng Hua Investment Limited ("Zheng Hua") and Pacas Worldwide Limited ("Pacas"), both Zheng Hua and Pacas are independent third party to the Company. The maturity date of the CN is on the third anniversary of the date of issue. At the maturity date, any outstanding principal amount of the CN will be compulsorily converted into ordinary shares at HK$0.15 per share. The issuance of CB raised net proceeds of HK$224.4 million.

On 21 June 2016 and 23 August 2016, convertible notes with principal amount of HK$30,000,000 and HK$135,000,000 were converted into 200,000,000 and 900,000,000 shares by Pacas and Zheng Hua respectively.

As at 30 September 2017, the Company had outstanding CN of principal amount of HK$60,000,000 which can be converted into 400,000,000 shares.

(ii) On 10 May 2017, the Company and the two independent subscribers entered into the subscription agreements 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 raising net proceeds of approximately HK$71,300,000.

## 11. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved by the Board on 28 November 2017.

## RESULTS REVIEW

For the Period, the Group reported a revenue of approximately HK$13,044,000, representing a significant increase of 17.6 times as compared to HK$701,000 for the previous period. The revenue comprises (a) trading income of medical equipment of approximately HK$9,355,000 (2016: nil); (b) management fee income from management of Shuangluan Hospital and Red Cross Hospital of Luanping County of approximately HK$3,056,000 (2016: HK$701,000); and (c) operating right income from management of Anping Bo'ai Hospital and Dingnan Chinese Medicine Hospital and of approximately HK$633,000 (2016: nil).

The Group's loss attributable to shareholders for the Period was approximately HK$18,362,000 as compared to HK$44,285,000 for the previous financial period. The increase in revenue was mainly due to recognition of trading income of medical equipment and increase in operating right income from hospitals operated by the Group during the Period. The decrease in net loss was mainly attributable to decrease in legal and professional fees and related expenses incurred in relation to the legal proceedings and disputes among shareholders and previous management of the Group, various litigations of the Group and fees for resumption of trading of shares of the Company during the Period. Basic loss per share for the Period was HK0.47 cents (2016: HK1.22 cents).

## REVIEW OF BUSINESS OPERATION

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

### 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 it is expected that the "Psychiatry Building" will be in operation this year.

The Group is entitled management fee equivalent to 6% of the revenue of Shuangluan Hospital. 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. The Group is entitled to a monthly operation and management income in an amount equal to 90% of the total monthly revenue generated from the business operation of Anping Bo'ai Hospital and bears certain expenses of Anping Bo'ai Hospital.

In September 2016, the Group and Mr. Sang Shiwen entered into an assets transfer agreement in relation to acquisition of properties of Anping Bo'ai Hospital at a consideration of RMB15 million (equivalent to HK$17.6 million). Such acquisition of properties was completed in November 2017.

**Dingnang Chinese Medicine Hospital**

The Group took over the operation of 定南縣中醫院 ("Dingnang Chinese Medicine Hospital) in November 2016. The Group is entitled to a monthly operation and management income in an amount equal to 85% of the total monthly revenue generated from the business operation of Dingnang Chinese Medicine Hospital and bears certain expenses of Dingnang Chinese Medicine Hospital.

**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. The Group is entitled management fee equivalent to 3% of the revenue of Red Cross Hospital of Luanping County.

**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 Period. This business facilitates the sourcing and supplying of high quality equipment to the hospitals managed by the Group, which in turn streamlines the hospital operations, maintains quality of services provided by the Group, and improves performance of the hospital management business accordingly. It is expected that this business continues to bring in stable revenue to the Group.

## FUTURE PROSPECT

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

The Group will carry out financing services for hospitals through a finance leasing company in the Shenzhen Qianhai Free Trade Area. The main business scope and vision of the finance leasing business will be provision of finance leasing and sale and leaseback service of medical equipment and provision of liquidity services to hospitals. The Group is also in progress of setting up a central medicine procurement system for supplying medicines to all hospitals managed by the Group. It is expected that such system would reduce the cost of medicines incurred by hospitals through centralized and bulk purchases from suppliers and therefore further improves the performance of the hospital management business.

On 14 November 2017, the Company entered into a cooperation framework agreement (the "Framework Agreement") with 東方資產管理(中國)有限公司 (Orient Asset Management (China) Co., Ltd., "Orient Asset") in relation to long-term cooperation between the parties including establishment of a fund with fund size of RMB500 million and a term of 5 years and objectives to invest in general and specialized hospitals with unique local strengths. Orient Asset is a wholly-owned subsidiary of China Orient Asset Management (International) Holding Limited, which is a wholly-owned subsidiary of China Orient Asset Management Co., Ltd., which in turn is owned by the Ministry of Finance of the PRC and the National Council for Social Security Fund as to 98% and 2%, respectively. With the strong support of Orient Asset, the Group will make use of its professional management and operational expertise in the healthcare industry and search actively the acquisition targets. Further details of the Framework Agreement were set out in the announcement dated 14 November 2017.

In light of the successful experience of the Group in managing hospitals, we have laid a foundation to carry out cooperation with public hospitals and launch primary healthcare service system. In the future, the Group will fully utilise the competitive edge of management model and human resources to cooperate with public hospitals through ways of merger and acquisition and/or reconstruction, and establish regional medical care service system and central medicine procurement system together. Under the leadership of the new Board, the Group has entered into a rapid and healthy development track, and gradually forming a hospital chain group in the next few years to create maximum value for the shareholders.

## SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

On 5 July 2017, the Company and an independent third party entered into a framework agreement in relation to a possible acquisition of a 67% equity interest in a hospital in Shenzhen, the People's Republic of China and the operating right of a nursing home operated by the hospital for a period of 30 years. The framework agreement was lapsed on 9 October 2017. Further details of the above were disclosed in the announcements of the Company dated 5 July 2017, 5 September 2017 and 9 October 2017.

Save as disclosed above, there were no other significant investments, material acquisitions and disposals during the Period.

## FUND RAISING ACTIVITY

On 10 May 2017, the Company and two independent subscribers entered into the subscription agreements (as supplemented on 31 May 2017) in relation to subscription of 420,000,000 shares of the Company at a subscription price of HK$0.17 per share. On 5 June 2017, an aggregate of 420,000,000 subscription shares were successfully allotted and issued to subscribers. The net proceeds of approximately HK$71,300,000, representing a net subscription price per subscription share of approximately HK$0.169, will be used as to (i) HK$40 million for the finance leasing business; (ii) approximately HK$17 million for staff salaries; (iii) approximately HK$4.3 million for office rental; and (iv) approximately HK$10 million for future investments if opportunity arises. Details of the subscription were set out in the announcements of the Company dated 10 May 2017, 24 May 2017, 31 May 2017 and 5 June 2017.

Save as disclosed above and lapse of subscription agreement in respect of subscription of 370,000,000 shares at HK$0.2 per share by an independent subscriber as disclosed in the announcement of the Company dated 14 July 2017 in October 2017, 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 2017, the Group's cash and cash equivalents amounted to approximately HK$54.0 million (31 March 2017: HK$7.1 million).

As at 30 September 2017, the current assets and net current assets of the Group are approximately HK$110.2 million (31 March 2017: HK$58.9 million) and HK$47.7 million (31 March 2017: net current liabilities of HK$1.3 million) respectively, representing a current ratio of 1.76 (31 March 2017: 0.98).

As at 30 September 2017, a dividend payable on redeemable convertible cumulative preference shares in the sum of US$4,000,000 (equivalent to approximately HK$30.9 million) was included in other payables and accrued expenses. As at 30 September 2017, the gearing ratio was 0.18 (31 March 2017: 0.28), calculated by dividing dividend payable on redeemable convertible cumulative preference shares (representing debt owed by the Company) by shareholders' equity of approximately HK$167.3 million (31 March 2017: HK$110 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 Period and up to date of this announcement:

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 action was heard on 16 November 2017 and pending judgment as at the date of this announcement.

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 discounted 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.

3. On 31 August 2016, CHC Investment Holdings Limited issued a writ of summons in the Court against each of Dr. Li Zhong Yuan (a former director of the Company), Mr. Zhou Bao Yi (a former director of the Company), Shanghai Huiqu E-commence Company Limited, Harvest Network Limited, World Success, 上海德意爾投資管理諮詢有限公司 (Shanghai De Yi Er Investment Management Consulting Co., Ltd.*) and 上海德豐信息網絡技術有限公司 (Shanghai Harvest Network Technology Co., Ltd.*) in respect of a very substantial disposal of the Company which was completed in November 2011. Further details of the above were disclosed in the announcement of the Company dated 1 September 2016. As at the date of this announcement, this action is still pending and there is no judgment in respect of the above lawsuit.

4. 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'').

5. 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.

6. 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.

7. 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. The Company is currently seeking legal advice on the matter.

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

## CHARGE ON GROUP'S ASSETS

As at 30 September 2017, there was no charge on the Group's assets (31 March 2017: nil).

## EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2017, the Group employed 31 employees (31 March 2017: 31). The total staff cost including Directors' emoluments was approximately HK$11,312,000 as compared to approximately HK$4,197,000 for the previous period. The Group continues to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Staff benefits include contributions to the Mandatory Provident Fund Schemes and 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. On 19 May 2017, the Company granted 50,000,000 share options to certain eligible participants. No share option was exercised during the year. There were 50,000,000 outstanding share options as at 30 September 2017.

## DIVIDEND

The Directors do not recommend the payment of any interim dividend to shareholders (2016: 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 change of directors on 25 July 2017. The Board will search for and appoint appropriate person(s) to fill the vacancies as soon as possible pursuant to the Rule 3.11 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 2017.

By order of the Board
**China Health Group Limited**
**Weng Yu**
*Executive Director*

Hong Kong, 28 November 2017

*As at the date of this announcement, the Board comprises five executive Directors, namely, Mr. Weng Yu, Mr. Wang Yongqing, Mr. Chung Ho, Mr. Wang Jingming and Mr. Zhang Fan; eight non-executive Directors, namely, Mr. Ying Wei, Mr. Zhang Song, Mr. Xing Yong, Mr. Wang Zili, Mr. Wang Yuexiang, Mr. Li Xuguang, Mr. Ma Zhaorui and Mr. Huang Lianhai; and six independent non-executive Directors, namely, Mr. Xiao Zuhe, Mr. Wang Qingyou, Mr. Zou Lian, Ms. Yang Huimin, Mr. Xin Hua and Mr. Jiang Xuejun.*