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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)

FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2018

The board (the “Board”) of directors (the “Directors”) of China Health Group Limited (the “Company”) announces the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2018 together with the comparative figures for the corresponding year ended 31 March 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the year ended 31 March	
	<i>Notes</i>	2018	2017
		HK\$’000	HK\$’000
Revenue	5	24,247	14,989
Cost of services		(10,489)	(6,009)
Gross profit		13,758	8,980
Other income	6	7,008	5,199
Selling and distribution expenses		(609)	(656)
Administrative expenses		(46,817)	(82,603)
Finance costs	7	(188)	–
Fair value gain on investment property		137	–
Impairment of other receivables		(10,005)	–

		For the year ended 31 March	
		2018	2017
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
LOSS BEFORE TAX	8	(36,716)	(69,080)
Income tax	9	<u>(2,530)</u>	<u>(197)</u>
LOSS FOR THE YEAR		<u>(39,246)</u>	<u>(69,277)</u>
LOSS PER SHARE	<i>10</i>		
Basic		<u>(HK0.99 cents)</u>	<u>(HK1.91 cents)</u>
Diluted		<u>(HK0.99 cents)</u>	<u>(HK1.91 cents)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 March	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
LOSS FOR THE YEAR	<u>(39,246)</u>	<u>(69,277)</u>
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translation of foreign operations	<u>14,904</u>	<u>(1,097)</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u><u>(24,342)</u></u>	<u><u>(70,374)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		1,250	1,507
Goodwill		–	–
Intangible assets		17,098	16,496
Investment properties		18,875	–
Available for sale investments		–	22,558
Prepayment for acquisition of properties		–	11,843
Loan receivables		82,041	58,858
		119,264	111,262
CURRENT ASSETS			
Inventories		201	–
Trade and factoring loan receivables	<i>11</i>	19,708	1,691
Prepayments, deposits and other receivables		35,244	50,092
Loan receivables		11,867	–
Cash and bank balances		38,997	7,087
		106,017	58,870
CURRENT LIABILITIES			
Trade payables	<i>12</i>	80	–
Other payables and accrued expenses		61,461	60,130
Tax payable		2,680	–
		64,221	60,130
NET CURRENT ASSETS/(LIABILITIES)		41,796	(1,260)
TOTAL ASSETS LESS CURRENT LIABILITIES		161,060	110,002
NET ASSETS		161,060	110,002
EQUITY			
Equity attributable to owners of the Company			
Share capital	<i>13</i>	363,995	321,995
Reserves		(202,935)	(211,993)
TOTAL EQUITY		161,060	110,002

Notes:

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and principal place of business is located at Unit 801, 8/F., China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.

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

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

Basis of consolidation

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

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

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

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

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

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

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

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

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

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

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

In the current year, the Group has applied a number of amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are mandatorily effective for an accounting period that begins on or after 1 April 2017. These amendments have been applied by the Group for the first time in the current year unless otherwise specified. The impact of these amendments are described below.

Amendments to HKAS 7 Disclosure Initiative

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

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

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

Annual Improvements to HKFRSs 2014-2016 Cycle - Amendments to HKFRS 12, Disclosure of Interests in Other Entities

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity’s interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

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

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

HKFRS 9	Financial Instruments ¹
HKFRS 15 and amendments to HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle ⁴
HK (IFRIC) Interpretation 22	Foreign Currency Transactions and Advance Consideration ¹
HK (IFRIC) Interpretation 23	Uncertainty over Income Tax Treatments ²

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

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

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

⁴ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

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

HKFRS 9 Financial Instruments

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

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

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

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

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

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

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

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

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

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

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

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

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

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

HKFRS 16 Leases

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

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

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

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

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

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

The amendments clarify the following:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

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

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

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

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

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

Amendments to HKAS 40 Transfers of Investment Property

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

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

HK(IFRIC) Interpretation 23 Uncertainty over Income Tax Treatments

This Interpretation clarifies how to apply the recognition and measurement requirements in HKAS 12 when there is uncertainty over income tax treatments.

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 three reportable operating segments as follows:

- Hospital management service;
- Trading of medical equipment; and
- Business factoring.

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

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

The following is an analysis of the Group's revenue and results by operating segment for the year ended 31 March 2018 and 2017:

For the year ended 31 March 2018	Hospital management service <i>HK\$'000</i>	Trading of medical equipment <i>HK\$'000</i>	Business factoring <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue				
Revenue from external customers	<u>8,669</u>	<u>13,786</u>	<u>1,792</u>	<u>24,247</u>
Segment results	2,340	701	10	3,051
Reconciliation:				
Interest income and unallocated income				888
Corporate and other unallocated expenses				<u>(40,655)</u>
Loss before tax				<u>(36,716)</u>
Depreciation and amortisation	892	58	–	950
Reconciliation:				
Unallocated depreciation and amortisation				<u>483</u>
				<u>1,433</u>
For the year ended 31 March 2017	Hospital management service <i>HK\$'000</i>	Trading of medical equipment <i>HK\$'000</i>	Business factoring <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue				
Revenue from external customers	<u>2,664</u>	<u>12,325</u>	<u>–</u>	<u>14,989</u>
Segment results	(8,127)	3,003	–	(5,124)
Reconciliation:				
Interest income and unallocated income				5,199
Corporate and other unallocated expenses				<u>(69,155)</u>
Loss before tax				<u>(69,080)</u>
Depreciation and amortisation	435	12	–	447
Reconciliation:				
Unallocated depreciation and amortisation				<u>177</u>
				<u>624</u>

The following table is an analysis of the Group's assets and liabilities and other segment information as at 31 March 2018 and 2017:

For the year ended 31 March 2018

	Hospital management service <i>HK\$'000</i>	Trade of medical equipment <i>HK\$'000</i>	Business factoring <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	94,024	67,177	18,606	179,807
Corporate and other unallocated assets				<u>45,474</u>
Total assets				<u><u>225,281</u></u>
Segment liabilities	4,121	1,326	1,577	7,024
Corporate and other unallocated liabilities				<u>57,197</u>
Total liabilities				<u><u>64,221</u></u>

For the year ended 31 March 2017

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

Geographical information

For the years ended 31 March 2018 and 2017, the Group's operations and its non-current assets are principally located in the PRC, accordingly no geographical segment information is presented.

Information about major customers

During the year ended 31 March 2018, the Group had transactions with 2 (2017: 1) customer who contributed over 10% of the Group's total net revenue, which is summarised below:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Customer 1	16,615	14,037
Customer 2	4,794	N/A
	<u>21,409</u>	<u>14,037</u>

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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue:		
Income from provision of hospital management services (<i>note</i>)	8,669	2,664
Trading of medical equipment	13,786	12,325
Business factoring	1,792	–
	<u>24,247</u>	<u>14,989</u>

Note: The amount comprises (a) the management fee income from Shuanglun Hospital of approximately HK\$6,661,000 (2017: approximately HK\$1,712,000); the management fee income from Anping Bo'ai Hospital of approximately HK\$962,000 (2017: Nil); the management fee income from the Red Cross Hospital of Luanping County of approximately HK\$793,000 (2017: Nil); and the operating right income from Anping Bo'ai Hospital and Dingnan Chinese Medicine Hospital of approximately HK\$253,000 (2017: HK\$952,000) during the year.

Pursuant to the operating right agreements for Anping Bo'ai Hospital and Dingnan Chinese Medicine Hospital (collectively the "Operating Right Agreements") entered into in September 2016 and November 2016 respectively, the Group is entitled to 85% to 90% of revenue generated from Anping Bo'ai Hospital and Dingnan Chinese Medicine Hospital respectively and bears certain costs for both hospitals as specified in the Operating Right Agreements from the date of commencement of grant of operating rights. In this connection, the Group's share of revenue amounted to approximately HK\$11,883,000 (2017: HK\$17,925,000) and the cost of services borne by the Group amounted to approximately HK\$11,630,000 (2017: HK\$16,973,000) under the Operating Right Agreements. Having considered the current operation including but not limited to staff employment and procurement of medicine of both hospitals which are currently paid by both hospitals on behalf of the Group, the revenue under the Operating Right Agreements was presented and recognised in the consolidated statement of profit or loss of the Group for the year ended 31 March 2018 and 2017 based on the consideration received or receivable from the hospitals, representing the Group's share of revenue after deducting the cost of services recharged from both hospitals during the year.

6. OTHER INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Exchange gain	59	2
Loan interest income	5,676	2,496
Interest income	93	31
Rental income	1,179	–
Sundry income	1	2,670
	<hr/> 7,008 <hr/>	<hr/> 2,670 <hr/>

7. FINANCE COST

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest on other borrowing	188	–
	<hr/> 188 <hr/>	<hr/> – <hr/>

8. LOSS BEFORE TAX

Loss before tax is arrived at after charging the following:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Auditors' remuneration	700	1,080
Depreciation of property, plant and equipment	549	191
Loss on disposal of property, plant and equipment	–	164
Amortisation of intangible assets	884	433
Rental expenses in respect of office premises	6,119	2,458
Staff costs (including directors' emoluments)		
– Salaries, wages, and other benefits	18,424	12,235
– Contributions to defined contribution retirement plans	400	143
	<hr/> 18,424 <hr/>	<hr/> 12,235 <hr/>

9. INCOME TAX

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

Subsidiaries established in PRC are subject to the PRC enterprise income tax at the standard rate of 25% (2017: 25%).

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current tax- PRC Provision for the year	<u>2,530</u>	<u>197</u>

10. LOSS PER SHARE

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Loss attributable to owners of the Company, used in the basis loss per share calculation:	<u>(39,246)</u>	<u>(69,277)</u>
	2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares in issue during the year	3,565,153	2,852,461
Effect of convertible bonds	<u>400,000</u>	<u>767,487</u>
Weighted average number of ordinary shares for the purpose of calculating loss per share	<u>3,965,153</u>	<u>3,619,948</u>

(a) Basic loss per share

For the year ended 31 March 2018, the calculation of basic loss per share amount is based on the net loss for the year of approximately HK\$39,246,000 (2017: approximately HK\$69,277,000) attributable to the equity holders of the Company, and weighted average of approximately 3,965,153,000 (2017: approximately 3,619,948,000) ordinary shares in issue during the year.

(b) Diluted loss per share

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

11. TRADE AND FACTORING LOAN RECEIVABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade and factoring loan receivables:		
Commercial business factoring	1,645	–
Trade of medical equipment	7,165	–
Hospital management	10,898	1,691
	<u>19,708</u>	<u>1,691</u>
	<u><u>19,708</u></u>	<u><u>1,691</u></u>

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

- (i) Provision of hospital management service is with credit terms of 90 days.
- (ii) Trading of medical equipment business is with credit terms of 90 days.
- (iii) Provision of business factoring services is with credit terms of 30 days.

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 1 month	13,048	913
1 – 3 month	654	252
Over 3 month	6,006	526
	<u>19,708</u>	<u>1,691</u>
	<u><u>19,708</u></u>	<u><u>1,691</u></u>

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 90 days	–	526
91 – 180 days	3,269	–
Over 180 days	2,737	–
	<u>6,006</u>	<u>526</u>
	<u><u>6,006</u></u>	<u><u>526</u></u>

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

12. TRADE PAYABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade payables	<u>80</u>	<u>–</u>

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

Within 1 months	59	–
1-3 months	–	–
Over 3 months	<u>21</u>	<u>–</u>
	<u>80</u>	<u>–</u>

13. SHARE CAPITAL

	<i>Notes</i>	No of shares	Share capital <i>HK\$'000</i>
Authorised:			
Ordinary shares of HK\$0.1 each At 1 April 2016, 31 March 2017, 1 April 2017 and 31 March 2018		<u>100,000,000,000</u>	<u>10,000,000</u>
Issued and fully paid:			
At 1 April 2016		2,119,947,634	211,995
Issue of shares upon conversion of the convertible bonds	(i)	<u>1,100,000,000</u>	<u>110,000</u>
At 31 March 2017 and 1 April 2017		3,219,947,634	321,995
Subscription of shares	(ii)	<u>420,000,000</u>	<u>42,000</u>
At 31 March 2018		<u>3,639,947,634</u>	<u>363,995</u>

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 raising net proceeds of HK\$224.4 million.

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

As at 31 March 2018, the Company had outstanding CN of principal amount of approximately HK\$60,000,000 which will be mandatorily converted into 400,000,000 shares.

- (ii) 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.

EXTRACT FROM INDEPENDENT AUDITOR'S REPORT

The following is an extract of the report from the independent auditors, Elite Partners CPA Limited, on the Group's annual audited financial statements for the year ended 31 March 2018.

DISCLAIMER OF OPINION

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

BASIS FOR DISCLAIMER OF OPINION

1. Opening balances, corresponding figures and comparative financial statements

The auditors' report dated 30 June 2017 in respect of the audit of the consolidated financial statements of the Group for the year ended 31 March 2017 was disclaimed as a result of scope limitation (i) Opening balances, corresponding figures and comparative financial statement for the year ended 31 March 2017; (ii) transactions of the Group during the year ended 31 March 2017 (iii) deposit for possible acquisition; (iv) dividend payable on redeemable convertible cumulative preference shares; and (v) litigation. As a result, we were unable to obtain sufficient appropriate audit evidence regarding the opening balances and corresponding figures and there were no alternative audit procedures to satisfy ourselves as to whether the opening balances and corresponding figures were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the Group's assets and liabilities as at 31 March 2017 and 2018 and its results for the years ended 31 March 2017 and 2018, and the presentation and disclosure thereof in the consolidated financial statements.

Certain subsidiaries of the Group were deconsolidated in prior years due to the change in the Board composition in prior year. Due to circumstances that the consequential effect of the deconsolidated subsidiaries was qualified in prior year and such limitation of audit scope was still unresolved, the Group therefore did not have adequate information as to whether any contingent liabilities, related party's transaction and events after the reporting period should be accounted for and disclosed in the consolidated financial statements of the Group for the year ended 31 March 2018.

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

2. Deposit for possible acquisition

During the year ended 31 March 2018, the Group has impaired the amounts of approximately HK\$10,000,000 in relation to an earnest money paid for the possible acquisition (the “Earnest Money”).

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

We were unable to obtain sufficient appropriate audit evidence regarding the impairment of the Earnest Money because (i) there was inadequate documentary evidence available for us to verify the validity, existence, completeness and accuracy for the balance of the Earnest Money; (ii) we were unable to carry out any effective confirmation procedures for the purpose of confirming the balance of the Earnest Money; and (iii) there was no alternative audit procedures that we could perform to satisfy ourselves as to whether the timing and the treatment to impair the Earnest Money were appropriate.

3. Dividend payable on redeemable convertible cumulative preference shares

Included in other payables and accrued expenses was a dividend payable on redeemable convertible cumulative preference shares (the “Dividend Payable”) of approximately HK\$30,894,000. As disclosed in note 14 to the Company’s interim report dated 30 November 2015, the Company issued a promissory note in the principal amount of US\$4,000,000 (equivalent to approximately HK\$30,894,000) to settle the balance of the Dividend Payable (the “Promissory Note”). However, following the substantial change in the composition of the Board effective from 18 June 2016, the Directors were unable to locate and verify the supporting documents for the issuance of the Promissory Note as well as the settlement of the Dividend Payable. Accordingly, the Company reclassified the Promissory Note as the Dividend Payable (the “Re-classification”). As at 31 March 2018, the Company did not recognise any liability in respect of the Promissory Note.

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

No alternative audit procedures in relation to the Dividend Payable could be performed to satisfy ourselves as to whether the accuracy, classification and disclosures of Dividend Payable as at 31 March 2018 were free from material misstatement. Any adjustments that might have been found necessary may have an effect on the balance of the Group’s net financial position as at 31 March 2018 and the financial performance and cash flows of the Group for the year ended 31 March 2018, and the related disclosures thereof in the consolidated financial statements.

4. Litigation

The former Directors and legal representative of Beijing Zhongwei KangHong Hospital Management Co Ltd. (the “Beijing Zhongwei”), an indirect wholly owned subsidiary of the Group, have not handed over all the licenses, stamps and books and records of Beijing Zhongwei to the Existing Management, accordingly the Group was unable to obtain appropriate evidence and explanations as to whether (i) any contingent liabilities and commitments committed by the Group were properly recorded and accounted for; and (ii) any related party disclosures and events after the reporting period were properly recorded, accounted for and disclosed in the consolidated financial statements of the Group for the year ended 31 March 2018.

We were unable to perform appropriate audit procedures to satisfy ourselves as to whether (i) the contingent liabilities and commitments; (ii) related parties transactions; and (iii) event after the reporting period for the year ended 31 March 2018 were free from material misstatements. Any adjustments that might have been found necessary may have a consequential effect on the Group's net assets as at 31 March 2018 and consequently the financial performance and cash flows of the Group for the year ended 31 March 2018, and the related disclosures thereof in the consolidated financial statements.

Had we been able to satisfy ourselves in respect of the matters mentioned in the items (1) to (4) above, adjustments might have been found to be necessary which would have had a consequential impact on the net assets of the Group as at 31 March 2018 and its net loss for the year ended 31 March 2018 and/or the comparative information, and may have resulted in additional information being disclosed in the financial statements as to the nature of these transactions and any material non-adjusting post balance sheet events.

FINAL DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

For the year ended 31 March 2018, the Group reported a revenue of approximately HK\$24.2 million, representing an increase of 61% as compared to HK\$15.0 million for the previous financial year. The revenue comprises (a) trading income of medical equipment of HK\$13.8 million (2017: HK\$12.3 million); (b) management fee income from management of Shuangluan Hospital and Red Cross Hospital of Luanping County of approximately HK\$8.4 million (2017: HK\$1.7 million); (c) operating right income from management of Anping Bo'ai Hospital and Dingnan Chinese Medicine Hospital of approximately HK\$0.2 million (2017: HK\$1 million), representing the Group's share of revenue of approximately HK\$11.8 million (2017: HK\$17.9 million) after deducting the cost of services recharged by the two hospitals of approximately HK\$11.6 million (2017: HK\$16.9 million); and (d) income from business factoring business of approximately HK\$1.8 million (2017: nil), during the year.

The Group's loss attributable to shareholders for the year was approximately HK\$39.2 million as compared to a net loss of approximately HK\$69.3 million for the previous financial year. The increase in revenue was mainly due to increases in trading income of medical equipment and operating right income from hospitals operated by the Group and recognition of income from business factoring business during the year. 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 year. Basic loss per share for the year was HK0.99 cents (2017: HK1.91 cents).

REVIEW OF BUSINESS OPERATION

For the year ended 31 March 2018, the existing business segments of the Group comprise (a) hospital management business; (b) medical equipment trading business; and (c) business factoring business.

Hospital management business

(1) 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. Up to December 2017, Shuangluan Hospital recorded annual revenue of over RMB80 million, representing an increase of 100% compared with last corresponding period. The second phase construction has been completed and is waiting for acceptance and is expected to 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.

(2) *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.

Following implementation of new management model, investment in equipment and leasehold improvement and improvement of the medical quality standard after taking over the operation of Anping Bo'ai Hospital by the Group, the hospital recorded a significant improvement in operation. It is expected that such revenue will increase more significantly in coming year.

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.

(3) *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. After reviewing the operation environment of Dingnang Chinese Medicine Hospital and change of relevant regulations and policies, the Group terminated the management of Dingnang Chinese Medicine Hospital effective from 1 December 2017.

(4) *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% (which will increase to 5% if the hospital records profit) of the revenue of Red Cross Hospital of Luanping County. Construction of new Red Cross Hospital of Luanping County has been completed and it is in the progress of leasehold improvement and equipment installation. The hospital is expected to launch services in 2018.

(5) Yueyang City Baling Hospital Company Limited

On 9 December 2017, the Company, 北京中衛康融醫院管理有限公司 (Beijing Kangrong Hospital Management Company Limited*) (“Beijing Kangrong”, a wholly-owned subsidiary of the Company), and 岳陽市巴陵醫院有限公司 (“Yueyang City Baling Hospital Company Limited”) (“Baling Hospital”) and all the owners of Baling Hospital (the “Owners”) entered into an agreement, pursuant to which (i) Beijing Kangrong shall be granted the right to management of Baling Hospital for the period of one year from 1 January 2018; and (ii) the Company shall have an exclusive right during the period of 6 months from the date of the agreement to perform due diligence review on and negotiate with the Owners on the possible acquisition of a 51% equity interest in Baling Hospital.

Pursuant to the agreement, Beijing Kangrong shall pay a sum of RMB3 million (equivalent to approximately HK\$3.5 million) as a security deposit (the “Deposit”). In the event the net profit of Baling Hospital for the year ending 31 December 2018 exceeds RMB3 million, Beijing Kangrong and the Owners shall be entitled to the profits in excess of RMB3 million on a 80:20 ratio and the Deposit shall be returned to Beijing Kangrong in full. If the net profit of Baling Hospital for the year ending 31 December 2018 is less than RMB3 million, Beijing Kangrong shall bear the shortfall which shall be deducted from the Deposit. Any remaining balance of the Deposit after the aforesaid deduction shall be returned to Beijing Kangrong. Details of the above were disclosed in the announcement of the Company dated 12 December 2017.

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

During the year, the Group commenced 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.

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 14 November 2017, the Company entered into a cooperation 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. Further details of the framework agreement were set out in the announcement dated 14 November 2017.

On 25 March 2018, the Company, 深圳市北科融匯生命科技有限公司 (Shenzhen Beike Ronghui Life Technology Company Limited*) ("Beike Ronghui Life Technology") and 深圳市融匯仁和投資管理有限公司 (Shenzhen Ronghui Renhe Investment Management Company Limited*) ("Ronghui Renhe Investment Management") entered into a strategic cooperation agreement, pursuant to which the parties agreed to cooperate in the following areas: (i) develop research centre for life sciences; (ii) consider the application of life sciences technology in the hospitals managed by the Group; and (iii) explore capital raising opportunities to fund the development of life sciences business. Beike Ronghui Life Technology is a joint venture between Shenzhen Beike Biotechnology Co., Ltd. and Ronghui Renhe Investment Management established for the provision of operational and management services for innovative medical and healthcare value chain, spanning from cell storage, biological big data and health management. Ronghui Renhe Investment Management is an investment management company focusing on promoting the combined use of life sciences and artificial intelligence to develop innovative medical and wellness value chain. Currently Ronghui Renhe Investment Management has invested in six medical and healthcare projects in Guizhou, the PRC. Further details of the Framework Agreement were set out in the announcement dated 26 March 2018.

The Group is 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. The Group will also carry out finance leasing business 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.

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

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 PRC 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.

The Group entered into the limited partnership agreement to invest RMB20,000,000 (approximately HK\$22,400,000) in a healthcare industry investment fund, namely Gongqingcheng Xinhenfu Medical Investment Management Partnership (Limited Partnership) (共青城鑫恒富醫療投資管理合夥企業(有限合夥)), as a limited partner of the fund in March 2017. Such investment was terminated and investment sum of RMB19,000,000 (approximately HK\$23,180,000) has been refunded to the Group during the year.

Save as disclosed above and in sections headed “Review of business operation” and “Future Prospect”, there were no other significant investments, material acquisitions and disposals during the year.

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. 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\$32.9 million for loan to certain parties including hospitals. The remaining unutilised proceeds are kept at banks of the Group. 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 year.

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 year. As at 31 March 2018, the Group's cash and cash equivalents amounted to approximately HK\$39.0 million (2017: HK\$7.1 million).

As at 31 March 2018, the current assets and net current assets of the Group are approximately HK\$106.0 million (2017: HK\$58.9 million) and HK\$41.8 million (2017: net current liabilities of HK\$1.3 million) respectively, representing a current ratio of 1.65 (2017: 0.98).

As at 31 March 2018, a dividend payable on redeemable convertible cumulative preference shares in the sum of US\$4,000,000 (equivalent to approximately HK\$30.9 million), which is in dispute as disclosed in the section headed "Material litigations" below, was included in other payables and accrued expenses.

As at 31 March 2018, the gearing ratio was 0.19 (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\$161.1 million (2017: HK\$110.0 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 announcement:

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.

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 31 August 2016, CHC Investment Holdings Limited issued a writ of summons in the Court against each of Dr. Li Zhong Yuan (a former director of the Company), Mr. Zhou Bao Yi (a former director of the Company), Shanghai Huiqu E-commerce Company Limited, Harvest Network Limited, World Success, 上海德意爾投資管理諮詢有限公司 (Shanghai De Yi Er Investment Management Consulting Co., Ltd.*) and 上海德豐信息網絡技術有限公司 (Shanghai Harvest Network Technology Co., Ltd.*) in respect of a very substantial disposal of the Company which was completed in November 2011. Further details of the above were disclosed in the announcement of the Company dated 1 September 2016. As at the date of this announcement, this action is still pending and there is no judgment in respect of the above lawsuit.
4. 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.
5. 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. The Defendant do file its opposing affirmation and the Company do file its affirmation in reply. 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 to be fixed 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 31 March 2018, there were no material contingent liabilities of the Group (2017: nil).

CHARGE ON GROUP'S ASSETS

As at 31 March 2018, there was no charge on the Group's assets (2017: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2018, the Group employed 35 employees (2017: 31). The total staff cost including Directors' emoluments was approximately HK\$18,824,000 as compared to approximately HK\$12,378,000 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 31 March 2018.

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 year, 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 year, 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 year 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 year.

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 an executive Director on 4 June 2018. 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.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting of the Company will be held on Wednesday, 12 September 2018 (the “AGM”). A notice convening the AGM will be published and despatched to the shareholders of the Company in due course.

In order to establish entitlements to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 6 September 2018 to Wednesday, 12 September 2018, both days inclusive, during which period no transfer of the shares can be registered. Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 5 September 2018.

REVIEW OF ANNUAL RESULTS

The Group's Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the auditing, internal controls and financial reporting matters including the review of the Group's audited results for the year ended 31 March 2018.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITOR

The figures in respect of the Group's results for the year ended 31 March 2018 as set out in the preliminary results announcement have been agreed by the Company's independent auditor, Elite Partners CPA Limited ("Elite Partners") to the amounts set out in the Group's consolidated financial statements. The work performed by Elite Partners in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Elite Partners on this preliminary results announcement.

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

Hong Kong, 29 June 2018

As at the date of this announcement, the Board comprises five executive Directors, namely, Mr. Zhang Fan (chairman), Mr. Chung Ho, Mr. Wang Jingming, Mr. Weng Yu and Mr. Wang Yongqing; six non-executive Directors, namely, Mr. Xing Yong, Mr. Wang Zili, Mr. Wang Yuexiang, Mr. Li Xuguang, Mr. Huang Lianhai and Mr. Qiu Peiyuan; and five independent non-executive Directors, namely, Mr. Xiao Zuhe, Mr. Wang Qingyou, Mr. Xin Hua, Mr. Jiang Xuejun and Mr. Du Yanhua.

* *For identification purpose only*