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China Wah Yan Healthcare Limited
中國華仁醫療有限公司

*(Incorporated in Hong Kong with limited liability)*
**(Stock Code: 648)**

# 2016 INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of China Wah Yan Healthcare Limited (the "**Company**") would like to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2016, which have been reviewed by the audit committee of the Company, as follows:

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2016** | 2015 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| | | **(Unaudited)** | (Unaudited) |
| Revenue | 3 | **79,847** | 57,922 |
| Cost of services and goods sold | | **(58,628)** | (32,899) |
| Gross profit | | **21,219** | 25,023 |
| Other gains and losses | | **22,023** | 1,315 |
| Distribution costs | | **(8,494)** | (4,179) |
| Administrative expenses | | **(62,605)** | (48,992) |
| Change in fair value of financial assets at fair value through profit or loss | | **(22,590)** | 23,682 |
| (Loss)/gain arising from change in fair value of investment properties | | **(18,536)** | 1,692 |
| Impairment loss on available-for-sale financial assets | | **(194,144)** | — |
| Impairment loss on trade receivables | | **—** | (17,528) |
| Net gain on disposals of subsidiaries | 13 | **63,348** | — |
| Gain on bargin purchase of subsidiaries | 14 | **46,476** | — |
| Share of results of associates | | **16** | — |
| Share of results of a joint venture | | **65** | 6,983 |
| Finance costs | | **(13,088)** | (8,624) |
| Loss before taxation | | **(166,310)** | (20,628) |
| Income tax | 4 | **(94)** | (3,334) |
| Loss for the period | 5 | **(166,404)** | (23,962) |

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

| | Notes | Six months ended 30 June **2016** *HK$'000* **(Unaudited)** | 2015 *HK$'000* (Unaudited) |
|---|---|---|---|
| Loss for the period | | **(166,404)** | (23,962) |
| **Other comprehensive (loss)/income for the period** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translating foreign operations: | | | |
| Exchange differences arising during the period | | **(667)** | 3,961 |
| Reclassification adjustments relating to foreign operations disposed of during the period | | **(72,191)** | — |
| | | **(72,858)** | 3,961 |
| Loss on revaluation of available-for-sale financial assets | | **—** | (11,859) |
| Other comprehensive loss for the period, net of tax | | **(72,858)** | (7,898) |
| **Total comprehensive loss for the period** | | **(239,262)** | (31,860) |
| **Loss for the period attributable to:** | | | |
| Owners of the Company | | **(157,593)** | (14,872) |
| Non-controlling interests | | **(8,811)** | (9,090) |
| | | **(166,404)** | (23,962) |
| **Total comprehensive loss for the period attributable to:** | | | |
| Owners of the Company | | **(229,799)** | (23,528) |
| Non-controlling interests | | **(9,463)** | (8,332) |
| | | **(239,262)** | (31,860) |
| Loss per share attributable to the owners of the Company | 7 | | |
| — Basic and diluted *(HK cents)* | | **(5.36)** | (1.10) |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | *Notes* | **As at 30 June 2016** *HK$'000* **(Unaudited)** | As at 31 December 2015 *HK$'000* (Audited) |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | **62,702** | 26,986 |
| Land use right | 8 | **8,317** | 3,506 |
| Investment properties | 8 | **95,000** | 150,600 |
| Goodwill | | **67,857** | 61,237 |
| Investment in associates | | **64,322** | — |
| Investment in a joint venture | | **13,143** | — |
| Other intangible assets | 8 | **54,671** | 3,610 |
| Available-for-sale financial assets | 9 | **256,117** | 335,324 |
| Long-term prepayments and deposits | | **2,196** | 108,921 |
| | | **624,325** | 690,184 |
| **Current assets** | | | |
| Land use right | | **235** | 84 |
| Inventories | | **27,582** | 11,099 |
| Trade receivables | 10 | **16,715** | 24,011 |
| Other receivables, prepayments and deposits | | **79,333** | 133,473 |
| Loan receivables | | **11,618** | — |
| Tax recoverable | | **275** | — |
| Available-for-sale financial assets | 9 | **—** | 67,858 |
| Financial assets at fair value through profit or loss | | **76,074** | 75,584 |
| Cash and bank balances | | **104,251** | 91,713 |
| | | **316,083** | 403,822 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

| | Notes | As at 30 June 2016 HK$'000 (Unaudited) | As at 31 December 2015 HK$'000 (Audited) |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade and other payables | 11 | **87,990** | 143,444 |
| Receipt in advance | | **67,940** | 77,807 |
| Tax payable | | **75** | 17,189 |
| Borrowings | | **228,515** | 129,835 |
| | | **384,520** | 368,275 |
| **Net current (liabilities)/assets** | | **(68,437)** | 35,547 |
| **Total assets less current liabilities** | | **555,888** | 725,731 |
| **Non-current liabilities** | | | |
| Other payable | 11 | **7,000** | 7,000 |
| Borrowings | | **79,272** | 67,684 |
| Convertible notes | | **1,976** | 1,963 |
| Bonds payable | | **123,365** | 96,828 |
| Promissory note | | **60,266** | — |
| Deferred tax liabilities | | **2,497** | 642 |
| | | **274,376** | 174,117 |
| **Net assets** | | **281,512** | 551,614 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 12 | **2,893,161** | 2,757,283 |
| Reserves | | **(2,681,944)** | (2,379,093) |
| Equity attributable to the owners of the Company | | **211,217** | 378,190 |
| Non-controlling interests | | **70,295** | 173,424 |
| **Total equity** | | **281,512** | 551,614 |

*Notes:*

## 1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2016 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 to the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). They have been prepared under the historical cost convention, except for certain properties and financial instruments, which are carried at fair values. The unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand except when otherwise indicated. The condensed consolidated interim financial statements are unaudited but have been reviewed by the audit committee of the Company.

As at 30 June 2016, the Group had net current liabilities of HK$68,437,000. The Directors have given careful consideration and believe that the Group has sufficient financial resources to meet its liabilities as and when they fall due. Therefore, the unaudited condensed interim financial statements are prepared on a going concern basis.

The financial information relating to the financial year ended 31 December 2015 that is included in this interim results announcement as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditors have reported on the above-mentioned financial statements. The independent auditors' report was unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance (or under their equivalent requirements found in section 141 of the predecessor Companies Ordinance (Cap. 32)).

## 2. CHANGES IN ACCOUNTING POLICIES

In the current period, the Group has applied, for the first time, the following new and revised standards and interpretations (collectively referred to as the "new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial period beginning from 1 January 2016. A summary of new and revised HKFRSs adopted by the Group is set out as follows:

| | |
|---|---|
| HKAS 1 (Amendments) | Disclosure Initiative |
| HKAS 16 and HKAS 38 (Amendments) | Clarification of Acceptable Methods of Depreciation and Amortisation |
| HKAS 16 and HKAS 41 (Amendments) | Agriculture: Bearer Plants |
| HKAS 27 (Amendments) | Equity Method in Separate Financial Statements |
| HKFRSs (Amendments) | Annual Improvements to HKFRSs 2012–2014 Cycle |
| HKFRS 10, HKFRS 12 and HKAS 28 (Amendments) | Investment Entities: Applying the Consolidation Exception |
| HKFRS 11 (Amendments) | Accounting for Acquisition of Interests in Joint Operations |
| HKFRS 14 | Regulatory Deferral Accounts |

The Directors considered that the application of the above new or revised HKFRSs would not have any material impact on the Group's financial performance and financial position for the current and prior periods.

## 3. REVENUE AND SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided.

Specifically, the Group's reportable and operating segments are as follows:

| | | | |
|---|---|---|---|
| (i) | Health management business | — | chain of sports and healthcare clubhouses in the People's Republic of China (the "**PRC**"). |
| (ii) | Medical and well-being business | — | chain of medical centres specialising in the diagnosis and treatment of tumours in the PRC; |
| | | — | chain of optical products and eye-care services retail shops in Hong Kong; |
| | | — | manufacturing and sale of pharmaceutical and health related products in the PRC and Hong Kong; |
| | | — | provision of medical laboratory testing services and health check services in Hong Kong; and |
| | | — | provision of obstetric and gynaecological services in Hong Kong. |
| (iii) | Asset management business | — | investment in financial/fixed/distressed assets and loan financing. |

**Segment revenue and results**

The following is an analysis of the Group's revenue and results by reportable segment:

For the six months ended 30 June 2016 (Unaudited)

| | **Health management business** *HK$'000* | **Medical and well-being business** *HK$'000* | **Asset management** *HK$'000* | **Consolidated** *HK$'000* |
|---|---|---|---|---|
| Segment revenue | | | | |
| External sales | **55,577** | **24,185** | **85** | **79,847** |
| Segment revenue | **55,577** | **24,185** | **85** | **79,847** |
| Segment results | **2,538** | **(10,572)** | **(224,715)** | **(232,749)** |
| *Reconciliation:* | | | | |
| Other gains and losses | | | | **2,894** |
| Central administration costs | | | | **(33,272)** |
| Net gain on disposals of subsidiaries | | | | **63,348** |
| Gain on bargain purchase of subsidiaries | | | | **46,476** |
| Share of results of associates | | | | **16** |
| Share of results of a joint venture | | | | **65** |
| Finance costs | | | | **(13,088)** |
| Loss before taxation | | | | **(166,310)** |
| Income tax | | | | **(94)** |
| Loss for the period | | | | **(166,404)** |

For the six months ended 30 June 2015 (Unaudited)

| | Health management business *HK$'000* (Restated) | Medical and well-being business *HK$'000* (Restated) | Asset management *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|
| Segment revenue | | | | |
| External sales | 23,923 | 33,999 | — | 57,922 |
| Segment revenue | 23,923 | 33,999 | — | 57,922 |
| Segment results | 1,408 | (17,950) | 32,224 | 15,682 |
| *Reconciliation:* | | | | |
| Other gains and losses | | | | 1,315 |
| Central administration costs | | | | (29,001) |
| Finance costs | | | | (8,624) |
| Loss before taxation | | | | (20,628) |
| Income tax | | | | (3,334) |
| Loss for the period | | | | (23,962) |

**Segment assets and liabilities**

The following is an analysis of the Group's assets and liabilities by reportable segment:

30 June 2016 (Unaudited)

| | **Health management business** *HK$'000* | **Medical and well-being business** *HK$'000* | **Asset management** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| Segment assets | **106,438** | **282,069** | **383,925** | **772,432** |
| Unallocated | | | | **167,976** |
| Consolidated assets | | | | **940,408** |
| Segment liabilities | **106,303** | **50,210** | **322** | **156,835** |
| Unallocated | | | | **502,061** |
| Consolidated liabilities | | | | **658,896** |

31 December 2015 (Audited)

| | Health management business *HK$'000* | Medical and well-being business *HK$'000* | Asset management *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| Segment assets | 112,456 | 534,931 | 379,449 | 1,026,836 |
| Unallocated | | | | 67,170 |
| Consolidated assets | | | | 1,094,006 |
| Segment liabilities | 109,508 | 127,976 | 55,886 | 293,370 |
| Unallocated | | | | 249,022 |
| Consolidated liabilities | | | | 542,392 |

**Geographical information**

The Group operates in Hong Kong and the PRC.

The Group's revenue from external customers by location of operations are detailed below:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| PRC | **56,317** | 43,879 |
| Hong Kong | **23,530** | 14,043 |
| | **79,847** | 57,922 |

## 4. INCOME TAX

| | **Six months ended 30 June** | |
|---|---|---|
| | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Hong Kong Profits Tax | **43** | — |
| PRC Enterprise income tax | **125** | 3,387 |
| Deferred taxation | **(74)** | (53) |
| Tax charge for the period | **94** | 3,334 |

Hong Kong Profits Tax is calculated at the tax rate of 16.5% of the estimated assessment profit arising in Hong Kong during the six months ended 30 June 2016. No Hong Kong Profits Tax has been provided as the Group did not have assessable profit arising in Hong Kong during the six months ended 30 June 2015. Taxes on profit assessable elsewhere have been calculated at the rates of the tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. The applicable PRC Enterprise income tax rate is 25% for both periods.

## 5. LOSS FOR THE PERIOD

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

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Depreciation of property, plant and equipment | **3,136** | 2,183 |
| Amortisation of land use right | **39** | 45 |
| Amortisation of other intangible assets | **676** | 680 |
| Total depreciation and amortisation | **3,851** | 2,908 |
| Cost of inventories recognised as expenses | **11,679** | 6,664 |
| Gain arising from change in fair value of available-for-sale financial assets in relation to acquisition of subsidiaries (included in other gains and losses) | **11,214** | — |
| Net loss/(gain) arising from change in fair value of financial assets at fair value through profit or loss | **17,663** | (9,805) |
| Loss/(gain) on disposal of financial assets at fair value through profit or loss | **4,927** | (13,877) |
| Change in fair value of financial assets at fair value through profit or loss | **22,590** | (23,682) |
| Loss/(gain) arising from change in fair value of investment properties | **18,536** | (1,692) |
| Impairment loss on trade receivables | **—** | 17,528 |
| Impairment loss on available-for-sale financial assets | **194,144** | — |
| Net gain on disposals of subsidiaries | **(63,348)** | — |
| Gain on bargain purchase of subsidiaries | **(46,476)** | — |
| Share of results of associates | **(16)** | — |
| Share of results of a joint venture | **(65)** | (6,983) |
| Interest on: | | |
| — Loans from a former intermediate holding company and a former fellow subsidiary not wholly repayable within five years | **906** | 836 |
| — Bank loans | **746** | 962 |
| — Loans from financial institutions | **5,853** | 3,279 |
| — Promissory note | **15** | 62 |
| — Bonds payable | **5,022** | 665 |
| — Convertible notes | **63** | 125 |
| — Convertible bonds | **—** | 2,672 |
| — Others | **483** | 23 |
| Total finance costs | **13,088** | 8,624 |
| Employee benefit expenses, including directors' emoluments: | | |
| — Salaries and other benefits | **45,159** | 9,506 |
| — Equity-settled share-based payments | **—** | 15,148 |
| Net exchange loss/(gain) | **11,590** | (918) |

## 6. DIVIDENDS

The Board did not recommend the payment of any dividends for the six months ended 30 June 2016 and 2015.

## 7. LOSS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

**Loss**

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Loss for the purpose of basic and diluted loss per share | **(157,593)** | (14,872) |

**Number of shares**

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | ***'000*** | *'000* |
| | **(Unaudited)** | (Unaudited) |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share *(Note)* | **2,938,558** | 1,357,734 |

*Note:*

The effect of the outstanding convertible notes, outstanding share options and outstanding unlisted warrants was not included in the calculation of diluted loss per share for the six months ended 30 June 2016 and 2015 due to the an anti-dilutive effect of these instruments on the basic loss per share of the Company during the periods.

## 8. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, LAND USE RIGHT AND OTHER INTANGIBLE ASSETS

The total cost of additions to the property, plant and equipment of the Group was HK$46.3 million mainly through the acquisition of Rui Kang for the six months ended 30 June 2016 (six months ended 30 June 2015: HK$3.4 million).

Investment properties with fair value of HK$37.1 million was disposed of for the six months ended 30 June 2016. Investment properties with fair value of HK$145 million was acquired for the six months ended 30 June 2015.

The land use right of HK$8.7 million was acquired through the acquisition of Rui Kang and HK$3.6 million was disposed of for the six months ended 30 June 2016. There was no addition to the land use right of the Group for the six months ended 30 June 2015.

The other intangible assets of HK$52.6 million was acquired through the acquisition of Rui Kang for the six months ended 30 June 2016. There was no addition to the other intangible assets of the Group for the six months ended 30 June 2015.

## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | **As at 30 June 2016** *HK$'000* **(Unaudited)** | As at 31 December 2015 *HK$'000* (Audited) |
|---|---|---|
| Available-for-sale financial assets comprise: | | |
| Listed investments — Equity securities listed in Hong Kong *(Notes (a) and (b))* | **163,694** | 153,146 |
| Unlisted investments, at cost | **92,423** | 250,036 |
| | **256,117** | 403,182 |
| Analysed for reporting purposes as: | | |
| Current assets | **—** | 67,858 |
| Non-current assets | **256,117** | 335,324 |
| | **256,117** | 403,182 |

*Notes:*

(a) As at 31 December 2015, the balance represented the investment cost of IR Resources Limited ("**IR Resources**") and fair value of Rui Kang Pharmaceutical Group Investments Limited (the "**Rui Kang**"), both companies are listed on the Growth Enterprise Market of the Stock Exchange, and certain securities listed on the Main Board of the Stock Exchange.

(b) As at 30 June 2016, the balance represented the fair values of IR Resources, New Ray Medicine International Holding Limited and certain securities listed on the Main Board of the Stock Exchange. After completion of the voluntary conditional securities exchange offer (the "Share Offer") to acquire all of the issued shares of Rui Kang in May 2016, Rui Kang became a subsidiary of the Company and the shares of Rui Kang held by the Group prior to the Share Offer is no longer accounted for as available-for-sale financial assets of the Company.

## 10. TRADE RECEIVABLES

| | **As at 30 June 2016** *HK$'000* **(Unaudited)** | As at 31 December 2015 *HK$'000* (Audited) |
|---|---|---|
| Trade receivables | **16,715** | 41,183 |
| Less: impairment loss | **—** | (17,172) |
| Trade receivables (net) | **16,715** | 24,011 |

The following is an ageing analysis of trade receivables based on the invoice date as at the end of reporting period:

| | As at 30 June 2016 *HK$'000* (Unaudited) | As at 31 December 2015 *HK$'000* (Audited) |
|---|---|---|
| 0–180 days | **13,105** | 1,146 |
| 181–270 days | **763** | 1,047 |
| 271–365 days | **588** | 7,373 |
| Over 365 days | **2,259** | 14,445 |
| | **16,715** | 24,011 |

## 11. TRADE AND OTHER PAYABLES

| | As at 30 June 2016 *HK$'000* (Unaudited) | As at 31 December 2015 *HK$'000* (Audited) |
|---|---|---|
| Trade payables | **10,340** | 5,975 |
| Provision for clawback of fund performance fee | **8,915** | 8,915 |
| Provision for long service payment | **228** | 537 |
| Other payables and accruals | **44,518** | 47,030 |
| Withholding tax in relation to offshore transfer of available-for-sale financial assets | **—** | 66,987 |
| Amounts due to non-controlling shareholders of subsidiaries | **30,989** | 21,000 |
| | **94,990** | 150,444 |
| Less: Non-current portion | **(7,000)** | (7,000) |
| | **87,990** | 143,444 |

The following is an ageing analysis of trade payables based on the invoice date as at the end of reporting period:

| | As at 30 June 2016 *HK$'000* (Unaudited) | As at 31 December 2015 *HK$'000* (Audited) |
|---|---|---|
| Within 30 days | **4,295** | 1,508 |
| 31–60 days | **2,049** | 1,537 |
| 61–90 days | **1,090** | 1,822 |
| Over 90 days | **2,906** | 1,108 |
| | **10,340** | 5,975 |

## 12. SHARE CAPITAL

| | Number of shares '000 | Amount HK$'000 |
|---|---|---|
| Issued and fully paid: | | |
| At 1 January 2016 (audited) | 2,612,547 | 2,757,283 |
| Issue of shares pursuant to voluntary conditional securities offers *(note)* | 1,330,132 | 135,878 |
| **At 30 June 2016 (unaudited)** | **3,942,679** | **2,893,161** |

*Note: The Company allotted and issued 1,330,131,743 new shares in May 2016 pursuant to the Share Offer.*

## 13. NET GAIN ON DISPOSALS OF SUBSIDIARIES

**Disposal of business in diagnosis and treatment of tumours**

On 22 March 2016, the Group entered into an agreement to dispose of its remaining 45% equity interest in a subsidiary engaged in the diagnosis and treatment of tumours business in the PRC at an initial consideration of HK$34,000,000 (subject to adjustments).

| | HK$'000 |
|---|---|
| Property, plant and equipment | 5,779 |
| Land use right | 3,556 |
| Other intangible assets | 753 |
| Long-term prepayments and deposits | 88,457 |
| Other receivables | 131,739 |
| Cash and bank balances | 7,357 |
| Other payables | (28,473) |
| | 209,168 |
| Less: Non-controlling interest | (94,539) |
| Net asset disposal of: | 114,629 |
| **Gain on disposal of subsidiaries:** | |
| Consideration | 34,000 |
| Net assets disposed of | (114,629) |
| Release of cumulative exchange difference on translation of foreign operations | 72,191 |
| Reclassification of cumulative other reserve in relation to changes in ownership interests in prior years that did not result in loss of control | 72,718 |
| **Gain on disposal of subsidiaries engaged in diagnosis and treatment of tumours** | 64,280 |

**Disposal of other subsidiaries**

On 26 May 2016, the Group entered into an agreement to dispose of its 45% equity interest in an investment company having interest in a number of medical/healthcare related investments including (i) a minority interest in an elderly nursing home in the PRC; (ii) a medical project involving the upgrading of a hospital in the PRC; and (iii) a development project comprising tourist, health preservation and elderly care zone in the PRC at a consideration of HK$89,500,000. The said transaction resulted in a loss on disposal of HK$932,000 being recognised in the profit or loss for the six months ended 30 June 2016.

## 14. GAIN ON BARGAIN PURCHASE OF SUBSIDIARIES

**Business Combination**

In May 2016, the Company completed the Share Offer on the basis of 7 new shares of the Company to 2 shares of Rui Kang, and as a result, the Group's equity interest in Rui Kang increased from 19.6% to 75.0% and Rui Kang became a 75%-owned subsidiary of the Group.

Carrying amounts and fair value of assets acquired and liabilities recognised of Rui Kang at the date of acquisition are as follows:

| | **Carrying amount** *HK$'000* | **Fair value adjustment** *HK$'000* | **Fair value** *HK$'000* |
|---|---|---|---|
| Property, plant and equipment | 45,359 | 423 | 45,782 |
| Land use right — after one year | 8,428 | | 8,428 |
| Intangible assets | 57,949 | (5,329) | 52,620 |
| Interests in associates | 42,892 | | 42,892 |
| Available-for-sale financial assets | 3,600 | | 3,600 |
| Inventories | 10,760 | 7,350 | 18,110 |
| Trade and bills receivables | 19,220 | | 19,220 |
| Loan receivable | 11,832 | | 11,832 |
| Land use right — within one year | 237 | | 237 |
| Deposits, prepayments and other receivables | 26,416 | | 26,416 |
| Financial assets | 116,253 | | 116,253 |
| Tax recoverable | 316 | | 316 |
| Bank balances and cash | 34,094 | | 34,094 |
| Trade payables | (4,752) | | (4,752) |
| Other payables and accruals | (41,325) | | (41,325) |
| Bank and other borrowings | (15,706) | | (15,706) |
| Tax payable | (71) | | (71) |
| Deferred tax liabilities | (1,928) | | (1,928) |
| Net assets acquired | 313,574 | 2,444 | 316,018 |
| Fair value of 19.6% ordinary shares held originally classified as available-for-sale financial assets | | | 40,605 |
| Issue of shares of the Company on acquisition | | | 135,279 |
| Total consideration | | | 175,884 |
| Less: Net assets acquired | | | (316,018) |
| Add: Net asset value on non-controlling interests of Rui Kang Group | | | 93,658 |
| Gain on bargain purchase | | | (46,476) |

The gain on bargain purchase represented the difference between the then fair value of the shares of the Company issued as consideration and the net asset value of Rui Kang acquired based on the terms of the Share Offer as mentioned above.

## 15. COMPARATIVE FINANCIAL INFORMATION

Certain comparative figures have been restated to confirm with current period's presentation.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

During the six months ended 30 June 2016, the Company had further streamlined its business portfolio through acquisitions/divestments with a view to achieving its business goal of establishing an integrated healthcare and well-being platform.

**Acquisition of Rui Kang Pharmaceutical Group Investments Limited ("Rui Kang")**

Rui Kang, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange, is principally engaged in (i) provision of medical laboratory testing services and health check services in Hong Kong (the "Medical Laboratory Testing Business") and (ii) manufacture, research and development, sale and distribution of pharmaceutical and health related products in the People's Republic of China (the "PRC") and Hong Kong (the "Pharmaceutical Manufacturing Business"). During the period under review, the Company made a voluntary conditional securities exchange offer to acquire all of the issued shares of Rui Kang (the "Share Offer") and as a result, Rui Kang became a 75%-owned subsidiary of the Company in May 2016. The Company intends to take a more active role in steering the future business direction, management and operation of Rui Kang for formulation of business strategies with synergy to the Group. For the six months ended 30 June 2016, revenue of HK$6.6 million of the Group was contributed by Rui Kang.

**Acquisition of obstetric and gynaecological business**

During the period under review, the Group had acquired a company engaged in the provision of obstetric and gynaecological services (the "O&G Business") and, following completion of the acquisition, the Company appointed Dr. Chan Leung Kwok, a renowned specialist in obstetrics and gynaecology and the vendor of the O&G Business, as the chief executive officer of the Company. The acquisition has enabled the Group to gain a solid foothold in the medical industry in Hong Kong and, through years of business development, the O&G Business has established a clientele of high net worth patients. The Group intends to further extend the O&G Business into in-vitro fertilization and rejuvenation business by leveraging on Dr. Chan's expertise and network in the areas as well as the patient base of the O&G Business. During the six months ended 30 June 2016, only minimal revenue of the Group was contributed from the O&G Business as the acquisition was just completed in late June 2016.

**Investment in New Ray Medicine International Holding Limited ("New Ray Medicine")**

On 23 June 2016, the Group acquired 34.4 million shares of New Ray Medicine (representing 9.9% of the issued share capital of New Ray Medicine as at 30 June 2016), a company whose shares are listed on the Main Board of the Stock Exchange, and has become its single largest shareholder. New Ray Medicine is principally engaged in the distribution of pharmaceutical products and medical devices in the PRC and has maintained a leading position in Zhejiang Province, the PRC. Its distribution network covers the major cities/regions in the PRC including Shanghai, Chongqing, Anhui Province, Sichuan Province and Guangdong Province. The Group expects its investment in New Ray Medicine to benefit from the growth in demand for medical treatment/medicine resulted from ageing population, urbanization, increase in household income, increase in chronic diseases and wider coverage of medical insurance in the PRC and allow Rui Kang to leverage on the distribution network of New Ray Medicine to expand the clientele and market coverage of Rui Kang's pharmaceutical and health related products.

**Participation in the rights issue of IR Resources Limited ("IR Resources")**

Following the resumption of trading in the shares of IR Resources in February 2016, the Group participated in full of the rights issue of IR Resources which enabled IR Resources to raise fund for development of its forestry and agricultural business as well as resources and logistics business. IR Resources is in the course of forming joint ventures with a group of experienced business partners to accelerate the development pace of its forestry and agricultural business in Cambodia and has recently entered into a framework agreement with a solar power operator to extend its business to green resources. It is anticipated that the continuous business development of IR Resources will generate return to its shareholders including the Group.

**Disposal of the tumours medical business**

The Group, due to the difficult and unfavourable regulatory environment and the continuous deterioration of the performance of its tumour diagnosis and treatment business in the PRC as stated in the past announcements, interim and annual reports of the Company, disposed of its remaining interest in the business in March 2016.

**Investment in the ophthalmic business**

Subsequent to the period under review, the Group entered into an agreement for a strategic investment in a minority equity interest of one of the leading companies engaged in the provision of ophthalmic medical services and operation of medical clinics in Hong Kong (the "Ophthalmic Business") and such investment had been completed as at the date of this results announcement.

## REVIEW OF THE INTERIM RESULTS

**Overview**

For the six months ended 30 June 2016, the Group's principal businesses include (i) the health management business mainly comprising the operation of a chain of sports and healthcare clubhouses under the brand name of "Megafit" in the PRC (the "Health Management Business"); (ii) the medical and well-being business comprising the operations of a chain of optical products and eye-care services retail shops under the brand name of "Hong Kong Optical" (the "Eye-care Business"), the Medical Laboratory Testing Business, the Pharmaceutical Manufacturing Business, and the O&G Business; and (iii) the asset management business.

**Revenue**

For the six months ended 30 June 2016, the Group's revenue amounted to HK$79.8 million, representing a significant increase of 37.8% from the same period in the previous year. The increase in revenue was attributable to (i) recognition of the full-period revenue of the Health Management Business for the six months ended 30 June 2016 (while only partial revenue of the business was recognised by the Group for the six months ended 30 June 2015); (ii) the increase in the revenue of the Eye-care Business by 25.5%; (iii) the consolidation of Rui Kang's revenue into the Group's financial statements following completion of the Share Offer in May 2016. However, the increase in revenue of the Group was partially offset by the disposal of the Group's interest in the tumours medical business which used to account for a significant weight in the Group's revenue composition.

**Gross profit**

Gross profit and gross profit margin of the Group declined to HK$21.2 million (six months ended 30 June 2015: HK$25.0 million) and 26.6% (six months ended 30 June 2015: 43.2%) during the period under review, respectively. The decrease in gross profit and gross profit margin was attributable to (i) the increase in the weighting of the lower-margin Healthcare Management Business in the Group's revenue composition (accounting for 69.6% of the Group's revenue for the six months ended 30 June 2016 as compared to the 41.3% for the same period in the previous year); and (ii) the disposal of the tumours medical business which used to command a much higher gross profit margin.

**Loss for the period**

Due to the recent unstable global equity market and volatile financial/property market in Hong Kong as a result of, among others, the referendum of the United Kingdom favouring withdrawal from the European Union in June 2016, the Group recorded substantial unrealised loss and impairment loss of HK$194.1 million for its listed securities held (which mainly resulted from investments in New Ray Medicine and IR Resources) and the unrealised loss of HK$18.5 million arising from the decrease in fair value of investment properties in accordance with the Hong Kong Accounting Standards in addition to the net decrease in the fair value of the listed securities held by Rui Kang of HK$15.1 million. The above-mentioned losses were partly offset by the gain on disposal of the tumours medical business of HK$64.3 million and the bargain purchase of Rui Kang of HK$46.5 million by the Group and, as such, the Group recorded a consolidated net loss of HK$166.4 million for the six months ended 30 June 2016 (six months ended 30 June 2015: HK$24.0 million). Nevertheless, the above impairment loss and unrealised loss are non-cash in nature and did not result in outflow of cash and other resources of the Group; accordingly, the Company does not expect such losses to have any material adverse impact on the Group's operations. More importantly, the Group's investments in New Ray Medicine and IR Resources are strategic to the Group's business development.

**REVIEW ON BUSINESS SEGMENTS**

**Health Management Business Segment**

As mentioned above, due to the recognition of the full-period revenue of the Health Management Business for the six months ended 30 June 2016, the revenue and the segment profit of the Health Management Business increased to HK$55.6 million (six months ended 30 June 2015: HK$23.9 million) and HK$2.5 million (six months ended 30 June 2015: HK$1.4 million), respectively for the six months ended 30 June 2016. During the period under review, the Group had closed down certain non-performing sports and healthcare clubhouses and, as a result, the number of membership decreased to about 24,000 as at 30 June 2016 (31 December 2015: about 31,000). Given the continuing fierce competition in the sports and fitness market in the PRC, the Group will continue to monitor and review its strategy as to the Health Management Business as and when appropriate.

**Medical and Well-being Business Segment**

*The Eye-care Business*

The Eye-care Business, similar to other retail businesses in Hong Kong, has been suffering from the continuous increase in the rent of the commercial properties and the decrease in the number of tourists from the PRC. As a result, although the Eye-care Business recorded an increase of 25.5% in revenue during the six months ended 30 June 2016 due to the opening of two additional shops and gross profit margin was able to remain at a similar level to the same period in the previous year, fixed costs (such as rental expenses) have continued to adversely affect the profitability of the Eye-care Business and the Eye-care Business still incurred a net loss for the period. The Group will continue to devise plans to enhance the financial performance of this business including potential business collaboration of the Eye-care Business with the Ophthalmic Business.

*The Medical Laboratory Testing Business and the Pharmaceutical Manufacturing Business*

Since the Share Offer was just completed in May 2016, the Medical Laboratory Testing Business and the Pharmaceutical Manufacturing Business contributed only HK$6.6 million to the Group's revenue. It is anticipated that the revenue and profit contribution of these businesses to the Group will increase when their financial full-period results are reflected in the Group's consolidated financial statements. In addition, as disclosed in the interim report of Rui Kang for the six months ended 30 June 2016, Rui Kang will continue to strengthen the Pharmaceutical Manufacturing Business through (i) enhancement of online sales; (ii) introduction of new health related products; and (iii) expansion of distribution network.

*The O&G Business*

As mentioned above, since the acquisition of the O&G Business was completed only in late June 2016, financial contribution from this business line to the Group was minimal for the period under review.

**Asset Management Segment**

*Investment in financial financial/fixed/distressed assets*

The Group's investment portfolio comprises investment in financial/fixed/distressed assets in Hong Kong. As at 30 June 2016, the Group held 9.9% equity interest in New Ray Medicine and 29.3% equity interest in IR Resources as part of its strategic plan to achieve its business goal.

As at 30 June 2016, the total assets of the asset management segment of the Group amounted to HK$383.9 million (31 December 2015: HK$379.4 million). The slight increase in total assets of this business segment was attributable to the combined impact of (i) its investment in New Ray Medicine and the participation in the rights issue of IR Resources; (ii) the inclusion of the investment portfolio of Rui Kang; (iii) the exclusion of the Group's investment in Rui Kang from this business segment after completion of the Share Offer; (iv) the restructuring of its property portfolio; and (v) the decrease in the fair value of the Company's financial and capital assets held under this business segment (which resulted in a segment loss of HK$224.7 million (mainly from the impairment loss of its investment in IR Resources, New Ray Medicine and investment properties) and the net decrease in the fair value of Rui Kang's investment portfolio of HK$15.1 million following completion of the Share Offer till 30 June 2016) due to the adverse market sentiments as mentioned above (six months ended 30 June 2015: segment profit of HK$32.2 million). The Group will continue to monitor the performance of this business segment and review its investment portfolio as and when appropriate to serve the purposes of this business segment of paving the Group's path towards its business goal and diversifying the Group's risk and return.

*Loan financing*

In order to seize the opportunities of non-bank financing sector in Hong Kong and the PRC, the Group has obtained a money lending license granted by the licensing court in Hong Kong pursuant to the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) in 2015. Whilst the money lending business of the Rui Kang Group commenced in the fourth quarter of 2015, it is the intention of the Group to commence the loan financing business in the second half of 2016. The Group will also keep abreast of opportunities for financial services and products platforms which would enhance the capability and sustainability of the loan financing business line.

## EVENTS AFTER THE REPORTING PERIOD

On 15 July 2016, Rui Kang entered into an agreement to acquire a minority' equity interest in one of the leading companies engaged in provision of contracted medical schemes for integrated medical and healthcare check-up services at a consideration of HK$19.4 million. As at the date of this interim results announcement, the acquisition had not been completed. Please refer to the announcement of Rui Kang dated 15 July 2016 for details.

On 22 July 2016, Rui Kang entered into an agreement for the placing of 131,380,000 new shares of Rui Kang at the placing price of HK$0.169 per share. The share placing was completed on 15 August 2016. Please refer to the announcements of Rui Kang dated 22 July and 16 August 2016 for details.

As at the date of this results announcement, the option deed dated 14 July 2015 and relating to the Group's Chinese medicine therapy business entered into with Mr. Chan Ka Chung ("Mr. Chan"), an executive Director, had been lapsed and the agreement dated 9 September 2015 and relating to the granting of a standby equity credit facility by Mr. Chan to the Company had not been completed and it is intention of the parties not to further extend the long stop date (30 September 2016).

## PROSPECTS

As mentioned above, the Group, during the first half of 2016, has taken further actions towards its goal of becoming an integrated provider of healthcare and well-being services. Going forwards, the Group will continue to streamline its business portfolio through mergers, acquisitions and integration. In addition, the Group will continue to explore investment opportunities in financial/fixed/distressed assets with a view to paving its path to achieve its business goal, diversifying the risk and return of its business and enhancing return to shareholders.

## FUND RAISING ACTIVITIES

The Company has completed the following equity fund raising exercises since 2015 and up to 30 June 2016.

| Date of announcement | Event | Net proceeds raised *(approximately)* | Intended use of proceeds | Actual use of proceeds |
|---|---|---|---|---|
| **2014** | | | | |
| 9 October | Issue of convertible bonds | HK$43.3 million | General working capital, reduction of debts and future investment | Used as intended |
| **2015** | | | | |
| 29 March | Placing of new shares | HK$41.1 million | General working capital, reduction of debt and future investment | Used as intended |
| 1 June | Placing of new shares | HK117.5 million | General working capital, reduction of debts and future investment | Used as intended |
| 10 December | Placing of new shares | HK$47 million | General working capital, future investment and capital structure enhancement | Used as intended |

## FINANCIAL REVIEW

### Liquidity and financial resources

For the six months ended 30 June 2016, the net cash outflow from operating activities amounted to HK$98.3 million (six months ended 30 June 2015: net cash outflow of HK$108.1 million), the net cash outflow from investing activities amounted to HK$20.1 million (six months ended 30 June 2015: net cash outflow of HK$48.3 million) and the net cash inflow from financing activities amounted to HK$131.5 million (six months ended 30 June 2015: net cash inflow of HK$58.0 million). As a result, the Group recorded a net cash inflow of HK$13.1 million for the six months ended 30 June 2016 (six months ended 30 June 2015: net cash outflow of HK$98.4 million).

As at 30 June 2016, the Group had cash and bank balances of HK$104.3 million (31 December 2015: HK$91.7 million).

As at 30 June 2016, the Group's total borrowings amounted to HK$493.4 million (31 December 2015: HK$296.3 million) which included borrowings of HK$307.8 million (31 December 2015: HK$197.5 million), convertible securities of HK$2.0 million (31 December 2015: HK$2.0 million), promissory note payable of HK$60.3 million (31 December 2015: Nil) and bonds payable of HK$123.3 million (31 December 2015: HK$96.8 million). The increase in total borrowings was due to additional financing and business combination during the period. The borrowings are denominated in Hong Kong dollars and Japanese Yen and will either be repaid by generated funds or rolled over upon maturity.

As at 30 June 2016, the Group's net asset value (including non-controlling interest) was HK$281.5 million (31 December 2015: HK$551.6 million) with a liquidity ratio (calculated based on the Group's current assets to current liabilities) of 0.8 times as at 30 June 2016 (31 December 2015: 1.1 times). The Group's gearing ratio (calculated based on the Group's total borrowings to the equity attributable to the owners of the Company) was 233.6% (31 December 2015: 78.3%).

**Exposure to fluctuation in exchange rates**

The Group's cash flow from operations is mainly denominated in Renminbi and Hong Kong dollars. Its assets are mostly denominated in Renminbi and Hong Kong dollars, and liabilities are mainly denominated in Japanese Yen and Hong Kong dollars. Although the Group currently does not have a foreign currency hedging policy, it does and will continue to monitor the foreign exchange exposure closely and will consider hedging if there is significant foreign currency exposure. On the other hand, the Group will continue to monitor the situation and may consider to reduce its debt exposure to Japanese Yen through external fund raising means as and when appropriate.

**Charge on group assets**

As at 30 June 2016, investment properties with carrying value of HK$95.0 million (31 December 2015: HK$150.6 million) of the Group was pledged to a financial institution to secure borrowings of HK$52.9 million (31 December 2015: HK$55.2 million) of the Group.

## CONTINGENCIES

No provision in respect of contingencies would need to be made in the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2016.

## EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2016, the total number of employees of the Group was 1,015. The Group remunerates its employees based on their performance, working experience and the prevailing market price. Other employee benefits include retirement benefits, insurance and medical coverage, training programs and share option scheme.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any shares of the Company.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining a high standard of corporate governance. During the six months ended 30 June 2016, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to the Listing Rules except for code provision A.4.1 of the CG Code, which requires that, non-executive directors should be appointed for a specific term and subject to re-election. None of the existing non-executive Directors are appointed for a specific term. This constitutes a deviation from the CG Code. However, all the non-executive Directors are subject to retirement by rotation at the annual general meetings pursuant to the articles of association of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those of the CG Code.

## AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2016, as well as, discussed with the management the relevant auditing, internal control and financial reporting matters.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made enquiry to all the Directors and each of them has confirmed that he/she had complied with the required standards as set out in the Model Code for the six months ended 30 June 2016.

## INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2016 will be despatched to shareholders and published on the websites of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.chinawahyan.com) as soon as practicable.

By Order of the Board
**China Wah Yan Healthcare Limited**
**Chan Ka Chung**
*Chairman*

Hong Kong, 22 August 2016

*As at the date of this announcement, the Board comprises three executive directors, namely Mr. Chan Ka Chung, Mr. Cheung Wai Kwan and Mr. Wang Jianguo; and four independent non-executive directors, namely, Mr. Chan Yee Ping, Michael, Ms. Hu Xuezhen, Mr. Lam Chun Ho and Dr. Tong Cheuk Man.*