HEALTHCARE
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CHINA HEALTHCARE ENTERPRISE GROUP LIMITED
華夏健康產業集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1143)

INTERIM RESULTS 2017 ANNOUNCEMENT

The board of directors (the "Directors") (the "Board") of China Healthcare Enterprise Group Limited 華夏健康產業集團有限公司 (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2017 (the "Period").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

	Note	Six months ended 30 June 2017 HK$'000 (unaudited)	2016 HK$'000 (unaudited)
Revenue	3	**335,046**	409,766
Cost of sales		**(257,676)**	(325,838)
Gross profit		**77,370**	83,928
Other income		**6,385**	17,109
Selling and distribution expenses		**(22,628)**	(24,326)
Administrative expenses		**(61,725)**	(56,929)
Other operating expenses		**(73,794)**	(33,459)
Loss from operations		**(74,392)**	(13,677)
Finance costs	4	**(10,799)**	(1,818)
Loss before tax		**(85,191)**	(15,495)
Income tax expense	5	**(4,253)**	(4,835)
Loss for the period	6	**(89,444)**	(20,330)
Attributable to:			
Owners of the Company		**(88,228)**	(18,531)
Non-controlling interests		**(1,216)**	(1,799)
		(89,444)	(20,330)
Loss per share			
Basic (cents per share)	8	**(1.780)**	(0.374)
Diluted (cents per share)		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss for the period	**(89,444)**	(20,330)
Other comprehensive income for the period, net of tax		
Item that will be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**147**	(331)
Exchange difference reclassified to profit or loss on disposal of foreign operations	**(73)**	–
Fair value change of available-for-sale financial assets	**(36,411)**	34,145
Reclassification adjustment for loss recognised in respect of available-for-sale financial assets		
— Loss on disposal	**16,341**	–
— Impairment loss	**28,127**	–
	8,131	33,814
Total comprehensive income for the period	**(81,313)**	13,484
Attributable to:		
Owners of the Company	**(80,097)**	15,283
Non-controlling interests	**(1,216)**	(1,799)
	(81,313)	13,484

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	**30 June 2017** *HK$'000* **(unaudited)**	31 December 2016 *HK$'000* (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**56,712**	60,900
Prepaid lease payments		**2,250**	2,432
Deferred tax assets		**5,466**	5,827
Total non-current assets		**64,428**	69,159
Current assets			
Inventories		**88,502**	100,865
Trade receivables	*9*	**119,612**	117,442
Receivables for factoring business		**–**	14,551
Prepayments, deposits and other receivables		**67,550**	154,883
Available-for-sale financial assets		**29,976**	130,224
Financial assets at fair value through profit or loss		**7,954**	–
Current tax assets		**2,494**	4,867
Bank and cash balances		**289,778**	208,293
Total current assets		**605,866**	731,125
TOTAL ASSETS		**670,294**	800,284
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**4,955**	4,955
Reserves		**389,795**	469,892
		394,750	474,847
Non-controlling interests		**(2,322)**	(11,210)
Total equity		**392,428**	463,637

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)
As at 30 June 2017

	Note	**30 June 2017** *HK$'000* **(unaudited)**	31 December 2016 *HK$'000* (audited)
LIABILITIES			
Non-current liabilities			
License rights payable		**1,313**	2,095
Deferred tax liabilities		**3,760**	3,763
Total non-current liabilities		**5,073**	5,858
Current liabilities			
Trade payables	*10*	**70,141**	81,452
Accruals and other payables		**161,745**	159,072
Amount due to a joint venture		**–**	67
Amount due to a non-controlling shareholder of a subsidiary		**411**	327
Borrowings		**28,069**	79,712
License rights payable		**5,683**	4,904
Product warranty provisions		**3,956**	3,800
Current tax liabilities		**2,788**	1,455
Total current liabilities		**272,793**	330,789
TOTAL EQUITY AND LIABILITIES		**670,294**	800,284

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These condensed financial statements should be read in conjunction with the 2016 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2016.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND REQUIREMENTS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2017. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant effect on the condensed financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group has three reportable segments as follows:

EMS	—	Electronic manufacturing services
Distribution of Communications Products	—	Marketing and distribution of communications products
Securities and Other Assets Investment	—	Securities and other assets investment

	EMS *HK$'000* **(unaudited)**	**Distribution of Communications Products** *HK$'000* **(unaudited)**	**Securities and Other Assets Investment** *HK$'000* **(unaudited)**	**Total** *HK$'000* **(unaudited)**
6 months ended 30 June 2017:				
Revenue from external customers	**299,734**	**34,773**	**539**	**335,046**
Intersegment revenue	**21,904**	**–**	**–**	**21,904**
Segment profit/(loss)	**2,360**	**(4,947)**	**(60,474)**	**(63,061)**
As at 30 June 2017:				
Segment assets	**446,705**	**40,835**	**157,555**	**645,095**
Segment liabilities	**232,571**	**46,592**	**8,069**	**287,232**

3. REVENUE AND SEGMENT INFORMATION (CONT'D)

	EMS *HK$'000* (unaudited)	Distribution of Communications Products *HK$'000* (unaudited)	Securities and Other Assets Investment *HK$'000* (unaudited)	Total *HK$'000* (unaudited)
6 months ended 30 June 2016:				
Revenue from external customers	368,473	41,293	–	409,766
Intersegment revenue	14,368	–	–	14,368
Segment profit/(loss)	21,452	(7,002)	(14,786)	(336)
	(audited)	(audited)	(audited)	(audited)
As at 31 December 2016:				
Segment assets	444,403	54,977	342,119	841,499
Segment liabilities	238,888	55,585	2,093	296,566

	Six months ended 30 June	
	2017 ***HK$'000*** **(unaudited)**	2016 *HK$'000* (unaudited)
Reconciliations of segment profit or loss		
Total loss of reportable segments	**(63,061)**	(336)
Intersegment elimination	**(146)**	779
Unallocated amounts:		
Consultancy fee	**(2,500)**	(10,417)
Directors' emoluments	**(1,700)**	(1,480)
Imputed interest on non-interest bearing loans from a substantial shareholder	**(10,288)**	–
Interest on loans from independent third parties	**(165)**	–
Legal and professional fees	**(788)**	(2,788)
Interest income on other loan	**619**	–
Other unallocated head office and corporate expenses	**(7,162)**	(1,253)
Consolidated loss before tax for the period	**(85,191)**	(15,495)

4. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Imputed interest on non-interest bearing loans from a substantial shareholder	**10,288**	–
Interest on loans from independent third parties	**165**	–
Other interest expenses	**346**	1,818
	10,799	1,818

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax		
— Hong Kong Profits Tax	**3,169**	3,780
— Overseas	**726**	1,334
	3,895	5,114
Deferred tax	**358**	(279)
	4,253	4,835

Hong Kong Profits Tax has been provided at a rate of 16.5% (2016: 16.5%) based on the estimated assessable profit for the period.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

6. LOSS FOR THE PERIOD

The Group's loss for the period is arrived at after charging/(crediting):

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Amortisation of intangible assets (included in selling and distribution expenses)	**–**	1,019
Consultancy fee	**4,674**	11,284
Cost of goods sold		
Cost of inventories sold	**261,494**	325,032
Allowance for inventories	**3,357**	4,328
Reversal of allowance for inventories *(note (i))*	**(7,401)**	(3,522)
	257,450	325,838
Depreciation	**7,918**	8,914
Gain on disposal of subsidiaries (included in other income)	**(4,388)**	–
Gain on disposal of available-for-sale financial assets (included in other income)	**–**	(4,741)
Gain on disposal of property, plant and equipment	**–**	(38)
Operating lease charges — Land and buildings	**6,945**	8,836
Other operating expenses:		
Impairment loss on receivables for factoring business	**15**	–
Impairment loss on available-for-sale financial assets	**28,127**	–
Loss on derivative financial assets	**–**	475
Loss on disposal of subsidiaries	**14,719**	–
Loss on disposal of available-for-sale financial assets	**16,341**	–
Fair value loss on an investment property	**–**	18,345
Research and development expenditures *(note (ii))*	**14,592**	14,637
Employee benefits expense including directors' emoluments		
Salaries, bonus and allowances	**95,809**	96,660
Retirement benefit scheme contributions	**6,749**	6,949
	102,558	103,609

Notes:

(i) The Group makes allowance for inventories under respective aging criteria in different operating segments. The reversal of allowance represents the amount of inventories subsequently used in production or sold.

(ii) During the six months period ended 30 June 2017, research and development expenditure includes approximately HK$13,516,000 (30 June 2016: HK$13,572,000) relating to employee benefits expense which is included in the respective total amount as disclosed separately above.

7. DIVIDENDS

No dividends have been paid or proposed during the six months ended 30 June 2017, nor has any dividend been proposed since the end of the reporting period (six months ended 30 June 2016: Nil).

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the following:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss		
Loss attributable to owners of the Company, used in the basic loss per share calculation	**(88,228)**	(18,531)

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**4,955,311,400**	4,955,311,400

No diluted loss per share is presented as the Company did not have any dilutive potential ordinary shares for the six months periods ended 30 June 2017 and 2016.

9. TRADE RECEIVABLES

The aging analysis of trade receivables as at the end of the reporting period, based on invoice date, and net of allowance, is as follows:

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0–90 days	**109,677**	109,777
91–180 days	**8,301**	4,426
181–365 days	**1,179**	682
Over 365 days	**455**	2,557
	119,612	117,442

10. TRADE PAYABLES

The aging analysis of trade payables as at the end of the reporting period, based on invoice date, is as follows:

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0–90 days	**66,921**	78,605
91–180 days	**1,130**	1,360
181–365 days	**1,265**	711
Over 365 days	**825**	776
	70,141	81,452

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

During the period under review, the Group focused on building a solid foundation for both the EMS and Distribution of Communications Products segments. The Group also explores suitable opportunities in the medical and healthcare industry in order to pave the way for medium-to-long term growth. Another reporting segment, the Securities and Other Assets Investment, was set up last year to facilitate the Group to carry out effective financial management function.

For the six months ended 30 June 2017, the Group recorded a total revenue of approximately HK$335.0 million (2016: HK$409.8 million). Gross profit amounted to HK$77.4 million (2016: HK$83.9 million), while loss attributable to owners of the Company was HK$88.2 million (2016: HK$18.5 million).

The Group was in a sound financial position with a healthy cash flow during the Period, with bank and cash balances of HK$289.8 million (2016: HK$208.3 million).

Review of Operations

The EMS and Distribution of Communications Products

With the external economic environment remaining weak and clients undergoing consolidation leading to declining sales orders, revenue from the EMS and Distribution of Communications Products was HK$299.7 million (2016: HK$368.5 million) and HK$34.8 million (2016: HK$41.3 million) respectively.

Securities and Other Assets Investment

The purpose of setting up the Securities and Other Assets Investment segment is to meet the Group's growth ambition of tapping the healthcare and medical industry through more effectively utilising financial resources. The revenue from this segment amounting to approximately HK$0.5 million was modest as it is still only at the development stage. During the Period, the Group sold certain subsidiaries at a consideration of HK$25.0 million.

The Group continues to strive to invest in the future and will make strategic investments and collaborate with companies and authorities in the People's Republic of China ("PRC") in order to explore and identify suitable targets in the medical and healthcare industry so as to broaden its revenue streams.

Geographical Analysis

Revenue contributions from the major European countries (the United Kingdom, Switzerland, Poland, Russia and France) totalled HK$117.4 million (2016: HK$168.6 million), and accounted for 35.0% of the Group's total revenue for the six months ended 30 June 2017 (2016: 41.1%). The United States ("US") market contributed HK$73.5 million (2016: HK$92.0 million) in revenue, and accounted for 21.9% of total revenue (2016: 22.4%). The PRC (mainly Hong Kong) and other countries accounted for HK$44.0 million and HK$100.1 million respectively (2016: HK$43.2 million and HK$106.0 million respectively).

FINANCIAL HIGHLIGHTS

Revenue

For the period ended 30 June 2017, the Group recorded total revenue of HK$335.0 million (2016: HK$409.8 million).

Cost of sales

Cost of sales decreased by 20.9% from HK$325.8 million in 2016 to HK$257.7 million in 2017 corresponded to the level of revenue of the Period.

Gross Profit

Gross profit decreased by 8.0% from HK$84.0 million in 2016 to HK$77.3 million in 2017, while the gross profit margin slightly increased from 20.5% in 2016 to 23.1% in 2017 resulting mainly from the improvement of rate of goods returned and increasing income from EMS project development.

Other income

Other income decreased by HK$10.7 million to HK$6.4 million for the current period (2016: HK$17.1 million). The major component of the other income is represented by gain on disposal of subsidiaries of HK$4.4 million.

Selling and distribution expenses

Selling and distribution expenses of HK$22.6 million (2016: HK$24.3 million) accounted for approximately 6.8% in 2017 and 5.9% in 2016 of the Group's revenue respectively. The decrease is mainly caused by the reduction in staff cost of HK$3.3 million offset by the increase in promotion expenses of HK$1.3 million.

Administration expenses

Administration expenses of HK$61.7 million (2016: HK$56.9 million) accounted for approximately 18.4% in 2017 and 13.9% in 2016 of the Group's revenue respectively. Increase is mainly contributed by the surge in staff costs of approximately HK$11.6 million offset by the decrease in consultancy fee of HK$6.6 million.

Other operating expenses

Other operating expenses increased by HK$40.3 million from HK$33.5 million in 2016 to HK$73.8 million in 2017. The increase was mainly resulted from the emerged loss on disposal of subsidiaries of HK$14.7 million and impairment loss on available-for-sale financial assets of HK$28.1 million.

Finance costs

The Group's finance costs is HK$10.8 million in 2017 and HK$1.8 million in 2016, represented approximately 3.2% and 0.4% of the revenue in 2017 and 2016 respectively. The increase in finance costs is mainly attributable to the imputed interest incurred for the amortisation of non-interest bearing loans from a substantial shareholder, amounting to HK$10.3 million.

Income tax expense

The Group's income tax expense represents amounts of income tax paid by the Group, at the applicable tax rates in accordance with the relevant laws and regulations in Hong Kong, the PRC, US and Japan. The Group had no tax payable in other jurisdictions during the periods ended 30 June 2017 and 2016.

The Group's effective income tax rates for the periods ended 30 June 2017 and 2016, was approximately -5.0% and -31.2%, respectively.

Loss for the period attributable to owners of the Company

The loss attributable to owners of the Company was HK$88.2 million for the period ended 30 June 2017 (2016: HK$18.5 million). The Group's net loss margin attributable to owners of the Company for the period ended 30 June 2017 was -26.3% (2016: -4.5%).

Loss for the period attributable to non-controlling interests

The loss attributable to non-controlling interests amounted to HK$1.2 million for the period ended 30 June 2017 (2016: HK$1.8 million). The loss was primarily resulted from its operations.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations and capital expenditure by internally generated cashflows and borrowings.

The Group's current ratio remains in a healthy position at 2.22 times (2016: 2.21 times). As at 30 June 2017, the bank and cash balances amounted to HK$289.8 million, representing an increase of HK$81.5 million from 2016. During the six months ended 30 June 2017, HK$56.6 million was used in the operating activities, HK$201.2 million was generated from investing activities and HK$61.9 million was used in financing activities. Net cash inflow from investing activities was mainly arising from the refund of deposit for the proposed acquisition of a target group of HK$140.0 million, net proceeds from the disposal of available-for-sale financial assets of HK$63.8 million and financial assets at fair value through profit or loss of HK$51.1 million, offset by the purchase of financial assets at fair value through profit or loss of HK$58.8 million. Net cash outflow from financing activities was mainly due to the full repayment of non-interest bearing loans from a substantial shareholder amounting to HK$70.0 million and interest bearing loans from an independent third party of HK$20.0 million, whilst it was offset by the borrowing raised from another independent third party of HK$20.0 million and also the net borrowings raised from a related company of HK$8.1 million during the Period.

As at 30 June 2017, the carrying amounts of the interest-bearing loan from an independent third party and non-interest bearing loan from a related company amounted to HK$20.0 million and HK$8.1 million, respectively.

CAPITAL STRUCTURE

As at 30 June 2017, the total number of issued shares of the Company is 4,955,311,400 shares with a nominal value of HK$0.001 each.

EXCHANGE RISK EXPOSURE

The Group has transactional currency exposures. Such exposures arise from the business operations in the PRC and Hong Kong denominated in Renminbi ("RMB") and US dollars respectively. As at 30 June 2017, the Group had minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities were principally denominated in the respective functional currencies, i.e. RMB and US dollars, used by the respective group entities, or in US dollars for the respective group entities with HK dollars being the functional currency. As HK dollars is pegged to US dollars, the Group considers the risk of movements in exchange rates between HK dollars and US dollars to be insignificant for transactions denominated in US dollars. The RMB is not freely convertible into other foreign currencies and conversion of the RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. As at 30 June 2017, the Group does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Group had no investment in any financial derivatives, foreign exchange contracts, interest or currency swaps, hedging or other financial arrangements for hedging purposes to reduce any currency risk nor made any over-the-counter contingent forward transactions. The Group will closely monitor its foreign currency exposure and will consider using hedging instruments in respect of significant foreign currency exposure as and when appropriate.

CAPITAL EXPENDITURE AND COMMITMENTS

Capital expenditure for the period ended 30 June 2017 amounted to HK$3.2 million and the capital commitments as at 30 June 2017 amounted to approximately HK$1.3 million. Both the capital expenditure and capital commitments were mainly related to the acquisition of plant and machinery and leasehold improvements to cope with the requirement of the EMS operation.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group had an outstanding guarantee (the "Guarantee") to one of the suppliers of an overseas subsidiary ("Disposed Subsidiary"), which was disposed of under the disposal agreement (as supplemented on 7 August 2015) pursuant to which the Company agreed to sell the equity interest of a group of subsidiaries and associates to Dragon Fortune International Limited, for payment in relation to a sum of USD2.6 million (equivalent to approximately HK$20.3 million) representing a trade balance under dispute between the Disposed Subsidiary and the supplier. The Disposed Subsidiary had issued counter guarantee to the Company to indemnify the Company for any loss in relation to the Guarantee. Apart from the above, the Group and Company did not have any significant contingent liabilities.

PLEDGE OF ASSETS

As at 30 June 2017 (2016: Nil), certain shares of subsidiaries have been pledged to an independent third party to secure a loan facility available to the Group.

SIGNIFICANT INVESTMENTS

As at 30 June 2017, the Group was holding listed equity investments at a fair value of approximately HK$30.0 million, which were classified as available-for-sale financial assets of the Group. Due to the downward movements of the share prices, impairment losses in respect of such investments of approximately HK$28.1 million was recorded in profit or loss, which was reclassified from other comprehensive income during the six months ended 30 June 2017.

During the period under review, there was no other material acquisition, disposal or investment by the Group that should be notified to the shareholders of the Company.

HUMAN RESOURCES

As at 30 June 2017, the Group had approximately 1,700 employees in various operating units in Hong Kong, US, and the PRC. In order to attract and retain high quality talents to ensure smooth operation and cater for the Group's constant expansion, it offers competitive remuneration packages, with reference to market conditions and individual qualifications and experience.

There is no outstanding share option as at 30 June 2017 and 31 December 2016. In addition, no share option was granted, cancelled or lapsed during the six months ended 30 June 2017.

PROSPECTS

Looking ahead, the management is cautiously optimistic about the Group's development prospects. The Group intends to keep strengthening the pillars of its EMS and Distribution of Communications Products businesses while exploring new revenue streams in the medical and healthcare industry.

In the EMS and Distribution of Communications Products businesses, apart from addressing the needs of existing renowned consumer electronic brand clients, the Group will actively pursue opportunities to step up expansion by strengthening its marketing team and dedicating more efforts to reach more potential new customers. The Group will also direct its focus on products with rigid demand and with a higher profit margin and at the same time will exercise prudence in financial management to effectively control production costs. These moves will facilitate the EMS and Distribution of Communications Products businesses to increase market share and boost sales.

The healthcare industry is undergoing consolidation. However, the reforms and policies implemented by the PRC government including the Two-invoice system and Zero-markup policy should promote the positive development of the medical and healthcare industry in a long run. In addition, with the growing need of healthcare support in the PRC driven by an aging population, rising disposable incomes and expanding government insurance coverage, the management sees opportunities in the upstream and mid-stream segments of the sector. Thus the Group believes that there will be a period of remarkable development in the medical and healthcare industry.

In addition, the Company entered into an agreement with Anhui Huayuan Pharmaceutical Company Limited to acquire 51% of the entire issued share capital of Anhui Huayuan Guoyi Medical Investment Management Limited. The acquisition represents a good opportunity for the Group to expand into the medical and healthcare industry and to broaden its income base.

The Company will continue to explore and evaluate other investment and business opportunities that may arise in the market from time to time that it considers would enhance its value to shareholders and otherwise be in the best interest of itself and its subsidiaries.

OTHER INFORMATION

Interim Dividend

The Board does not recommend the payment of interim dividend for the Period.

Purchase, Sale or Redemption of Listed Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

Events after the reporting period

Subsequent to the end of the reporting period and up to the date of this interim results announcement, certain available-for-sale financial assets that had been impaired during the reporting period suffered a further decline in market value of approximately HK$14.1 million, as compared to the carrying amount as stated in the statement of financial position as at 30 June 2017.

On 18 July 2017, the Group acquired 51% equity interest in Anhui Huayuan Guoyi Medical Investment Management Limited ("Target Company") from Anhui Huayuan Pharmaceutical Company Limited ("Vendor") at the consideration of RMB1. The Vendor is a company indirectly wholly-owned by Mr. Yang Zhihui, the controlling shareholder of the Company. The Target Company mainly focuses on medical business in the Anhui Province, the PRC and is principally engaged in trading and selling of medical equipments (such as Gastroscope and Duodenoscope) to customers including local hospitals. The Group is still in the process of finalising the acquisition accounting of the Target Company in accordance with HKFRS 3 "Business Combinations", hence related financial information is not yet available for disclosure.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions throughout the six months ended 30 June 2017 and up to the date of this interim results announcement.

Corporate Governance

The Directors are of the opinion that the Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") under Appendix 14 of the Listing Rules on the Stock Exchange throughout the six months ended 30 June 2017, except for the deviation from code provision A.2.1 of the Code as described below.

Code Provision A.2.1

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not have any officer with the title of "chief executive officer" and this is deviated from the code provision A.2.1 of the Code.

Mr. Gong Shaoxiang, who acts as the Chairman and an executive Director of the Company since 4 November 2015, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. The roles of the respective executive Directors and senior management, who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to operate efficiently.

The Company understands the importance to comply with the code provision A.2.1 and will continue to consider the feasibility to comply with the said code provision. If compliance with the said provision is determined, appropriate persons will be nominated to assume the different roles of chairman and chief executive officer.

Audit Committee and Review of Interim Results

The audit committee of the Board (the "Audit Committee") currently has three members comprising Mr. Wong Chun Hung (Chairman), Mr. Bao Jinqiao and Mr. Leung Pok Man, all being independent non-executive Directors. The composition and members of the Audit Committee complies with the requirements under Rules 3.21 of the Listing Rules.

The Audit Committee has reviewed together with the management the accounting principles and policies adopted by the Group and the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2017. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2017 have also been reviewed by RSM Hong Kong, the external auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

By Order of the Board
CHINA HEALTHCARE ENTERPRISE GROUP LIMITED
Gong Shaoxiang
Chairman and Executive Director

Hong Kong, 24 August 2017

As at the date of this announcement, the Board comprises Mr. Gong Shaoxiang (Chairman), Mr. Lee Chi Hwa Joshua and Mr. Duan Chuanhong as executive Directors, Mr. Cao Yuyun as non-executive Director and Mr. Bao Jinqiao, Mr. Wong Chun Hung and Mr. Leung Pok Man as independent non-executive Directors.