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China Medical & HealthCare Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 383)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

UNAUDITED RESULTS OF THE GROUP

The board of directors (the “Board”) of China Medical & HealthCare Group Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2017 together with the comparative figures for the corresponding period in 2016 as follows:–

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

| | <i>NOTES</i> | Six months ended | |
|---|--------------|-------------------------|-------------------------|
| | | 31.12.2017 | 31.12.2016 |
| | | <i>HK\$’000</i> | <i>HK\$’000</i> |
| | | (unaudited) | (unaudited) |
| Revenue | 3 | 555,593 | 710,121 |
| Gross proceeds from sales of investments held for trading | | 1,070,211 | 459,571 |
| Total | | <u>1,625,804</u> | <u>1,169,692</u> |
| Revenue | 3 | 555,593 | 710,121 |
| Cost of goods and services | | (457,484) | (561,289) |
| Gross profit | | 98,109 | 148,832 |
| Other gains and losses, and other income | 5 | 21,678 | 182,480 |
| Selling and distribution costs | | (7,098) | (8,732) |
| Administrative expenses | | (131,867) | (122,361) |
| Finance costs | 6 | (48,182) | (51,029) |

| | | Six months ended | |
|---|--------------|------------------------------|---------------------|
| | | 31.12.2017 | 31.12.2016 |
| | <i>NOTES</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (unaudited) | (unaudited) |
| (Loss) profit before taxation | | (67,360) | 149,190 |
| Taxation expense | 7 | <u>(1,762)</u> | <u>(17,412)</u> |
| (Loss) profit for the period | 8 | <u>(69,122)</u> | <u>131,778</u> |
| (Loss) profit for the period attributable to: | | | |
| – Owners of the Company | | (62,544) | 123,830 |
| – Non-controlling interests | | <u>(6,578)</u> | <u>7,948</u> |
| | | <u>(69,122)</u> | <u>131,778</u> |
| (Loss) earnings per share | 10 | | |
| – Basic | | <u>HK(0.43) cents</u> | <u>HK0.86 cents</u> |
| – Diluted | | <u>HK(0.43) cents</u> | <u>HK0.86 cents</u> |

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

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

| | Six months ended | |
|--|-------------------------|-----------------|
| | 31.12.2017 | 31.12.2016 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| (Loss) profit for the period | <u>(69,122)</u> | <u>131,778</u> |
| Other comprehensive income (expense) | | |
| Items that will be reclassified subsequently to profit or loss: | | |
| Net change on available-for-sale investments: | | |
| (Loss) gain on fair value changes | (208) | 780 |
| Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of available-for-sale investments | <u>—</u> | <u>(1,082)</u> |
| | <u>(208)</u> | <u>(302)</u> |
| Exchange differences arising on translation: | | |
| Exchange gain (loss) arising from translation of foreign operation | <u>49,466</u> | <u>(25,278)</u> |
| Other comprehensive income (expense) for the period | <u>49,258</u> | <u>(25,580)</u> |
| Total comprehensive (expense) income for the period | <u>(19,864)</u> | <u>106,198</u> |
| Total comprehensive (expense) income attributable to: | | |
| Owners of the Company | (17,913) | 98,229 |
| Non-controlling interests | <u>(1,951)</u> | <u>7,969</u> |
| | <u>(19,864)</u> | <u>106,198</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

| | <i>NOTES</i> | 31.12.2017 <i>HK\$'000</i> (unaudited) | 30.6.2017 <i>HK\$'000</i> (audited) |
|---|--------------|--|---|
| Non-current assets | | | |
| Investment properties | | 765,709 | 741,930 |
| Property, plant and equipment | | 1,406,203 | 1,377,148 |
| Prepaid lease payments | | 106,526 | 103,375 |
| Interests in associates | | – | – |
| Available-for-sale investments | | 678 | 678 |
| Goodwill | | 33,955 | 32,500 |
| Deposits for acquisition of property, plant and equipment | | 7,995 | 8,768 |
| | | 2,321,066 | 2,264,399 |
| Current assets | | | |
| Inventories | | 18,647 | 19,980 |
| Properties under development for sale | | 6,383 | 6,110 |
| Properties held for sale | | 324,164 | 329,805 |
| Prepaid lease payments | | 2,958 | 2,832 |
| Available-for-sale investments | | 23,571 | 803 |
| Investments held for trading | | 305,309 | 1,155,403 |
| Debtors, deposits and prepayments | 11 | 184,605 | 135,818 |
| Loans receivable | | – | 40,000 |
| Promissory notes receivable | 12 | 703,390 | – |
| Derivative financial instruments | | 16 | 96 |
| Pledged bank deposits | | 63,591 | 220,407 |
| Restricted bank deposits | | 6 | 21,267 |
| Bank balances and cash | | 482,681 | 529,326 |
| | | 2,115,321 | 2,461,847 |

| | <i>NOTE</i> | 31.12.2017 <i>HK\$'000</i> (unaudited) | 30.6.2017 <i>HK\$'000</i> (audited) |
|--|-------------|--|---|
| Current liabilities | | | |
| Creditors and accrued charges | <i>13</i> | 566,818 | 517,839 |
| Deposits received on sales of properties | | 9,047 | 24,023 |
| Customers' deposits and receipts in advance | | 89,398 | 81,834 |
| Amount due to an associate | | 6,497 | 6,289 |
| Borrowings – due within one year | | 1,006,708 | 1,371,270 |
| Obligations under finance leases – due within one year | | 9,981 | 9,878 |
| Derivative financial instruments | | 8,179 | 5,469 |
| Taxation payable | | 153,766 | 148,676 |
| | | <u>1,850,394</u> | <u>2,165,278</u> |
| Net current assets | | <u>264,927</u> | <u>296,569</u> |
| Total assets less current liabilities | | <u>2,585,993</u> | <u>2,560,968</u> |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 42,534 | 45,176 |
| Borrowings – due after one year | | 504,066 | 455,159 |
| Obligations under finance leases – due after one year | | 14,977 | 18,605 |
| | | <u>561,577</u> | <u>518,940</u> |
| | | <u>2,024,416</u> | <u>2,042,028</u> |
| Capital and reserves | | | |
| Share capital | | 7,240 | 7,240 |
| Reserves | | 1,932,259 | 1,950,172 |
| Equity attributable to owners of the Company | | 1,939,499 | 1,957,412 |
| Non-controlling interests | | 84,917 | 84,616 |
| Total equity | | <u>2,024,416</u> | <u>2,042,028</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

1. BASIS OF PREPARATION

The condensed consolidated 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”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2017.

The Group has applied, for the first time, certain new or revised Hong Kong Financial Reporting Standards (“HKFRS”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements. The application of the new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in the condensed consolidated financial statements.

3. REVENUE

| | Six months ended | |
|---|-------------------------|-------------|
| | 31.12.2017 | 31.12.2016 |
| | HK\$’000 | HK\$’000 |
| | (unaudited) | (unaudited) |
| Dividend income from listed investments | 4,819 | 6,727 |
| Interest income from loans receivable | 2,308 | 8,150 |
| Rental income from property investment segment | 3,692 | 3,096 |
| Rental income from eldercare segment | 922 | – |
| Revenue from provision of elderly care related service | 6,439 | 3,520 |
| Hospital fees and charges | 479,698 | 401,357 |
| Revenue from sale of properties related to property development segment | 11,180 | 48,314 |
| Revenue from sale of properties related to eldercare segment | 46,535 | 238,957 |
| | 555,593 | 710,121 |

4. SEGMENT INFORMATION

Information regularly reviewed by the chief operating decision maker (“CODM”), represented by the executive directors of the Company, for the purpose of allocating resources to segments and assessing their performance focuses on types of goods or services delivered or provided. No operating segments identified by the CODM have been aggregated in arriving at the reporting segments of the Group.

The Group is organised into six operating and reportable segments as follows:

Securities trading and investments – trading of securities in Hong Kong and overseas markets.

Financial services – provision of financial services.

Property investment – leasing of residential and office properties.

Property development – developing and selling of properties and land in the People’s Republic of China (excluding Hong Kong) (“PRC”).

Healthcare – operations of hospitals in the PRC.

Eldercare – property development of independent living units and project management of health campus in the PRC with focus on elderly care and retirement community, which consist of an elderly nursing home, service apartments, independent living units and a commercial area comprising a shopping mall, retail shops and club hall facilities.

Segment revenues and results

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

For the six months ended 31 December 2017

| | Securities trading and investments <i>HK\$'000</i> (unaudited) | Financial services <i>HK\$'000</i> (unaudited) | Property investment <i>HK\$'000</i> (unaudited) | Property development <i>HK\$'000</i> (unaudited) | Healthcare <i>HK\$'000</i> (unaudited) | Eldercare <i>HK\$'000</i> (unaudited) | Consolidated <i>HK\$'000</i> (unaudited) |
|--|--|---|--|---|--|---|--|
| Gross proceeds from sales of investments held for trading <i>(note)</i> | <u>1,070,211</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,070,211</u> |
| Revenue | <u>4,819</u> | <u>2,308</u> | <u>3,692</u> | <u>11,180</u> | <u>479,698</u> | <u>53,896</u> | <u>555,593</u> |
| Segment (loss) profit | <u>(4,832)</u> | <u>2,247</u> | <u>2,746</u> | <u>787</u> | <u>2,954</u> | <u>(18,122)</u> | <u>(14,220)</u> |
| Other income | | | | | | | 2,163 |
| Net foreign exchange loss | | | | | | | (403) |
| Central corporate expenses | | | | | | | (37,315) |
| Finance costs | | | | | | | <u>(17,585)</u> |
| Loss before taxation | | | | | | | <u>(67,360)</u> |

Note: The amount included the consideration of the Disposal (as defined in note 12).

For the six months ended 31 December 2016

| | Securities trading and investments <i>HK\$'000</i> (unaudited) | Financial services <i>HK\$'000</i> (unaudited) | Property investment <i>HK\$'000</i> (unaudited) | Property development <i>HK\$'000</i> (unaudited) | Healthcare <i>HK\$'000</i> (unaudited) | Eldercare <i>HK\$'000</i> (unaudited) | Consolidated <i>HK\$'000</i> (unaudited) |
|--|--|---|--|---|--|---|--|
| Gross proceeds from sales of investments held for trading | <u>459,571</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>459,571</u> |
| Revenue | <u>6,727</u> | <u>8,150</u> | <u>3,096</u> | <u>48,314</u> | <u>401,357</u> | <u>242,477</u> | <u>710,121</u> |
| Segment profit | <u>147,917</u> | <u>27,256</u> | <u>1,944</u> | <u>6,606</u> | <u>2,817</u> | <u>32,471</u> | 219,011 |
| Other income | | | | | | | 1,546 |
| Net foreign exchange loss | | | | | | | (8,789) |
| Gain on disposal of a subsidiary | | | | | | | 437 |
| Central corporate expenses | | | | | | | (36,600) |
| Finance costs | | | | | | | <u>(26,415)</u> |
| Profit before taxation | | | | | | | <u>149,190</u> |

All of the segment revenue reported above is from external customers.

Segment (loss) profit represents the loss incurred or profit earned by each segment without allocation of certain other income, certain foreign exchange loss, central corporate expenses and certain finance costs (2016: without allocation of certain other income, certain foreign exchange loss, gain on disposal of a subsidiary, central corporate expenses and certain finance costs).

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

At 31 December 2017

| | Securities trading and investments <i>HK\$'000</i> (unaudited) | Financial services <i>HK\$'000</i> (unaudited) | Property investment <i>HK\$'000</i> (unaudited) | Property development <i>HK\$'000</i> (unaudited) | Healthcare <i>HK\$'000</i> (unaudited) | Eldercare <i>HK\$'000</i> (unaudited) | Consolidated <i>HK\$'000</i> (unaudited) |
|--------------------------|--|---|--|---|--|---|--|
| Segment assets | 1,087,969 | - | 234,055 | 66,353 | 1,472,020 | 1,003,130 | 3,863,527 |
| Corporate assets | | | | | | | <u>572,860</u> |
| Consolidated assets | | | | | | | <u><u>4,436,387</u></u> |
| Segment liabilities | 509,795 | - | 1,726 | 157,310 | 787,948 | 522,672 | 1,979,451 |
| Corporate liabilities | | | | | | | <u>432,520</u> |
| Consolidated liabilities | | | | | | | <u><u>2,411,971</u></u> |

At 30 June 2017

| | Securities trading and investments <i>HK\$'000</i> (audited) | Financial services <i>HK\$'000</i> (audited) | Property investment <i>HK\$'000</i> (audited) | Property development <i>HK\$'000</i> (audited) | Healthcare <i>HK\$'000</i> (audited) | Eldercare <i>HK\$'000</i> (audited) | Consolidated <i>HK\$'000</i> (audited) |
|--------------------------|--|---|--|---|--|---|--|
| Segment assets | 1,175,630 | 41,018 | 233,057 | 86,032 | 1,424,779 | 987,024 | 3,947,540 |
| Corporate assets | | | | | | | <u>778,706</u> |
| Consolidated assets | | | | | | | <u><u>4,726,246</u></u> |
| Segment liabilities | 609,318 | - | 2,022 | 155,450 | 800,905 | 539,333 | 2,107,028 |
| Corporate liabilities | | | | | | | <u>577,190</u> |
| Consolidated liabilities | | | | | | | <u><u>2,684,218</u></u> |

5. OTHER GAINS AND LOSSES, AND OTHER INCOME

| | Six months ended | |
|--|--|--|
| | 31.12.2017 <i>HK\$'000</i> (unaudited) | 31.12.2016 <i>HK\$'000</i> (unaudited) |
| (Loss) gain in fair value change of investments held for trading | (16,232) | 142,154 |
| Gain in fair value change of derivative financial instruments | 43 | 10,235 |
| Imputed interest income from promissory notes receivable | 24,051 | – |
| Impairment loss recognised on an available-for-sale investment | (506) | – |
| Gain on disposal of available-for-sale investments | – | 1,082 |
| Gain on disposal of a subsidiary | – | 437 |
| Net foreign exchange loss | (1,845) | (12,087) |
| Reversal of impairment loss recognised on loan receivable | – | 19,247 |
| Reversal of impairment loss recognised on other debtor | – | 2,438 |
| Interest income from: | | |
| – Available-for-sale debt instruments | 349 | – |
| – Bank deposits | 2,409 | 3,384 |
| Others | 13,409 | 15,590 |
| | <u>21,678</u> | <u>182,480</u> |

6. FINANCE COSTS

The finance costs represent interest as follows:

| | Six months ended | |
|--|--|--|
| | 31.12.2017 <i>HK\$'000</i> (unaudited) | 31.12.2016 <i>HK\$'000</i> (unaudited) |
| Interest on: | | |
| Bank and other borrowings (including discounted bills) | 46,782 | 49,700 |
| Obligations under finance leases | 1,400 | 1,329 |
| | <u>48,182</u> | <u>51,029</u> |

7. TAXATION EXPENSE

| | Six months ended | |
|---|------------------|-----------------|
| | 31.12.2017 | 31.12.2016 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (unaudited) | (unaudited) |
| Current tax charge – Enterprise Income Tax (“EIT”) in the PRC | 140 | 16,172 |
| Land appreciation tax (“LAT”) in the PRC | 4,594 | 10,646 |
| Deferred taxation credit | (2,972) | (9,406) |
| | <u>1,762</u> | <u>17,412</u> |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No tax is payable as the assessable profits arising in Hong Kong for both periods were wholly absorbed by tax losses brought forward.

EIT in the PRC is calculated at 25% of estimated assessable profit for both periods.

Under the Provisional Regulations on LAT implemented upon the issuance of the Provisional Regulations of the PRC on 27 January 1995, all gains arising from transfer of real estate property in the PRC effective from 1 January 1994 are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including borrowings costs and all property development expenditures.

8. (LOSS) PROFIT FOR THE PERIOD

| | Six months ended | |
|--|------------------|-----------------|
| | 31.12.2017 | 31.12.2016 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (unaudited) | (unaudited) |
| (Loss) profit for the period has been arrived at after charging: | | |
| Depreciation of property, plant and equipment | 52,931 | 44,458 |
| Release of prepaid lease payments | 1,451 | 1,409 |
| Amortisation of intangible assets | | |
| (included in cost of goods and services) | – | 386 |
| Cost of inventories recognised as an expense | | |
| (included in cost of goods and services) | 213,061 | 183,149 |
| Cost of properties held for sale recognised as an expense | | |
| (included in cost of goods and services) | 26,434 | 220,918 |

9. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 31 December 2017 and 2016.

10. (LOSS) EARNINGS PER SHARE

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

(Loss) earnings

| | Six months ended | |
|--|-----------------------|-----------------------|
| | 31.12.2017 | 31.12.2016 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| (Loss) earnings for the purpose of basic and diluted (loss) earnings per share attributable to owners of the Company | <u>(62,544)</u> | <u>123,830</u> |
| | Number | Number |
| | of shares | of shares |
| Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share | <u>14,480,072,773</u> | <u>14,480,072,773</u> |

The computations of diluted (loss) earnings per share for the six months ended 31 December 2017 and 2016 do not assume the exercise of share options granted by the subsidiaries since such assumed exercise would be anti-dilutive.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

| | 31.12.2017 | 30.6.2017 |
|---|----------------|----------------|
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (audited) |
| Debtors from securities trading | 32,664 | 2,400 |
| Trade receivables arising from hospital operation and elderly care related services | 115,787 | 92,381 |
| Deposits with and receivables from the financial institutions | 22,341 | 16,249 |
| Prepayments | 3,558 | 4,613 |
| Prepaid business taxes and other PRC taxes | 1,107 | 7,384 |
| Other debtors and deposits | <u>9,148</u> | <u>12,791</u> |
| | <u>184,605</u> | <u>135,818</u> |

The settlement terms of debtors from securities trading are 2 – 3 days after trade date and they are aged within 2 – 3 days as at 31 December 2017 and 30 June 2017.

The settlement terms of debtors from elderly care related services are 30 – 60 days after invoice date.

The customers of hospital operation are either settled by cash, credit card or medical insurance. For credit card payment, the banks will pay the Group usually 7 days after the trade date. The medical insurance companies will usually pay the Group 90 days after the invoice date.

The following is an aged analysis of trade receivables from hospital operation and elderly care related services presented based on the invoice date as at 31 December 2017 and 30 June 2017:

| | 31.12.2017 | 30.6.2017 |
|--------------------|----------------------------|--------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (unaudited) | (audited) |
| 0 – 30 days | 70,607 | 56,821 |
| 31 – 60 days | 37,004 | 30,685 |
| 61 – 90 days | 3,087 | 3,216 |
| 91 – 365 days | 4,467 | 1,619 |
| More than 365 days | 622 | 40 |
| | <hr/> 115,787 <hr/> | <hr/> 92,381 <hr/> |

12. PROMISSORY NOTES RECEIVABLE

During the six months ended 31 December 2017, the Group entered into an agreement (the “Agreement”) with an independent third party purchaser (the “Purchaser”) to dispose of certain investments held for trading with an aggregate consideration of HK\$806,213,000 (the “Disposal”) satisfied by cash of HK\$100,000,000 and the promissory notes receivable with aggregate principal sum of HK\$706,213,000 being issued by the Purchaser (the “Promissory Notes”). The transaction has been completed on 19 July 2017.

Pursuant to the Promissory Notes, the Purchaser shall pay the principal sum of HK\$706,213,000 on or before 19 January 2018 (the “Maturity Date”). The Purchaser has the right to extend the Maturity Date of the Promissory Notes for a period of 6 months from the Maturity Date by giving 3 business days prior written notice to the Group provided that HK\$100,000,000 has been paid to the Group (inclusive of net proceeds from disposal of any of the Charged Shares (as defined below) under the written instructions of the Purchaser) subsequent to the date hereof but before the Maturity Date (“Option”). As a continuity security for the Purchaser’s obligation under the Promissory Notes, the Purchaser has mortgaged, charged and assigned by way of first fixed charge on those equity securities disposed of under the Agreement (the “Charged Shares”). Pursuant to the Agreement and the deeds of share charge entered between the Group and the Purchaser on the same date, the Purchaser irrevocably and unconditionally agrees, among others, that: (1) the Charged Shares shall remain deposited with the securities brokerage accounts under the name of the subsidiaries of the Company and so long as the Promissory Notes remain outstanding, the Group shall have the absolute right to continue to pledge the Charged Shares for the purpose of securing the Group’s margin facilities with the relevant financial institution, (2) the Group shall have the right to deal with the Charged Shares upon the written instructions of the Purchaser and the proceeds of any such disposal of the Charged Shares shall be paid to the Group and used to reduce an equivalent dollar amount outstanding under the Promissory Notes; and (3) any dividend declared and/or paid in respect of the Charged Shares before the full repayment of the Promissory Notes shall accrue and belong to the Group absolutely and shall in no event be returned to or be payable to the Purchaser or any other party whatsoever.

The Promissory Notes contain debt component and embedded derivative. At the initial recognition, the fair value of debt component of HK\$679,339,000 which was determined based on the present value of the estimated future cash flows discounted by the prevailing market rate of interest of similar instrument. The fair value of the Option is HK\$2,382,000 which is the embedded derivative component was calculated using option pricing model. Subsequent to the initial recognition of the Promissory Notes and the Option, the Group recognised imputed interest income from the Promissory Notes of HK\$24,051,000 and change in fair value of the Option of HK\$1,955,000 during the six months ended 31 December 2017.

As at 31 December 2017, the Promissory Notes were neither past due nor impaired for which the Group considered that the amount was recoverable as the market value of the Charged Shares is higher than the carrying amount of the Promissory Notes of HK\$703,390,000.

Subsequent to 31 December 2017, the Purchaser instructed the Group to dispose of part of the Charged Shares with net proceeds of HK\$101,655,000 and paid the same amount to the Group. The Purchaser exercised the Option to extend the Maturity Date of the Promissory Notes to 19 July 2018.

13. CREDITORS AND ACCRUED CHARGES

| | 31.12.2017 <i>HK\$'000</i> (unaudited) | 30.6.2017 <i>HK\$'000</i> (audited) |
|---|--|---|
| Trade payables to construction contractors, of hospital operation and elderly care related services operation | 332,651 | 307,486 |
| Creditors from securities trading | 1,526 | 3,043 |
| Accrued compensation for late delivery of properties held for sale | 5,532 | 5,969 |
| Accrued construction cost for properties under development for sale | 111,980 | 122,918 |
| Construction cost payable for hospital buildings classified as property, plant and equipment | 13,259 | 13,085 |
| Other creditors and accrued charges | 101,870 | 65,338 |
| | 566,818 | 517,839 |

The settlement terms of creditors from securities trading are 2 – 3 days after trade date.

Trade payables of hospital operation and elderly care related service operation principally comprise amounts outstanding for trade purchases. Trade payables to construction contractors comprise construction costs for property development and other projects. The normal credit period taken for these trade payables is 30 – 90 days.

The following is an aged analysis of trade payables to construction contractors, of hospital operations and elderly care related services operation presented based on the invoice date as at 31 December 2017 and 30 June 2017:

| | 31.12.2017 <i>HK\$'000</i> (unaudited) | 30.6.2017 <i>HK\$'000</i> (audited) |
|--|--|---|
| 0 – 30 days | 260,902 | 260,955 |
| 31 – 60 days | 20,772 | 5,232 |
| 61 – 90 days | 13,626 | 5,890 |
| 91 – 365 days | 14,348 | 29,736 |
| Over 1 year but not exceeding 2 years | 20,495 | 3,479 |
| Over 2 years but not exceeding 5 years | 2,508 | 2,194 |
| | 332,651 | 307,486 |

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the six months ended 31 December 2017, the Group recorded an increased total revenue of HK\$1,625,804,000 (2016: HK\$1,169,692,000) but a loss attributable to shareholders of the Company of HK\$62,544,000 (2016: profit of HK\$123,830,000). This was mainly due to (i) the loss in fair value change of investments held for trading of HK\$16,232,000 (2016: gain of HK\$142,154,000); (ii) the decreased gain in fair value change of derivative financial instruments of HK\$43,000 (2016: HK\$10,235,000); (iii) the absence of reversal of impairment loss recognized on loan and interest receivables (2016: HK\$21,685,000) under the money lending business; (iv) the reduction in sales of properties to HK\$11,180,000 (2016: HK\$48,314,000) under the Property Development operations; and (v) the reduction in the sales of independent living units (“ILU”) to HK\$46,535,000 (2016: HK\$238,957,000) under the Eldercare Division which was partially off-set by (vi) imputed interest income from promissory notes receivable of HK\$24,051,000 (2016: nil).

Loss per share (basic and diluted) for the six months ended 31 December 2017 was HK0.43 cents (2016: earnings per share of HK0.86 cents).

The Group’s net asset value per share as at 31 December 2017 amounted to HK\$0.13 (2016: HK\$0.14).

INTERIM DIVIDEND

The Board do not recommend the payment of an interim dividend (2016: nil) for the six months ended 31 December 2017.

REVIEW OF OPERATIONS

The Group’s principal businesses are investment in and management and operation of healthcare and hospital businesses, eldercare businesses, trading of medical equipment and related supplies, property investment and development, securities trading and investments, provision of financial services and strategic investment.

Healthcare Division:

During the period under review, the Group's Healthcare Division, operated through its wholly-owned subsidiary, Tongren Healthcare Industry Group Co., Ltd. (同仁醫療產業集團有限公司) ("Tongren Healthcare") in the People's Republic of China ("PRC"), recorded an increased revenue of HK\$479,698,000 (2016: HK\$401,357,000) and a profit of HK\$2,954,000 (2016: HK\$2,817,000). The Healthcare Division generated an EBITDA, being earnings before interest, tax, depreciation and amortization, of HK\$66,707,000 (2016: HK\$72,998,000) for the six months ended 31 December 2017.

For the six months ended 31 December 2017, the Group's hospital in Nanjing achieved a total of 385,543 out-patients visits (2016: 327,056), 13,264 in-patient admissions (2016: 11,780) and 24,549 body-checks (2016: 22,509) while the Group's hospital in Kunming achieved a total of 87,858 out-patients visits (2016: 87,019), 5,980 in-patient admissions (2016: 5,604) and 39,794 body-checks (2016: 36,517).

Eldercare Division:

For the period under review, the Group's Eldercare Operations operated through its 70% owned subsidiary, Aveo China (Holdings) Limited ("Aveo China"), recorded a decreased revenue of HK\$53,896,000 (2016: HK\$242,477,000) and a loss of HK\$18,122,000 (2016: profit of HK\$32,471,000).

As at 31 December 2017, the retirement village project, Tide Health Campus (天地健康城) (situated in Zhu Jia Jiao, Shanghai, PRC), of the Eldercare Division had sold 782 ILUs out of the available 868 ILUs, among which 18 ILUs (2016: 114 ILUs) were recorded as sales in the period under review. In addition, the Eldercare Division had leased out 26 serviced apartments ("SA") (2016: 20 SAs) out of the available 120 SAs during the period under review.

As at 31 December 2017, the Eldercare Division's investment properties portfolio comprising the SAs and the retail shopping precinct with total carrying value amounted to HK\$532,652,000 (2016: HK\$492,378,000).

Property Development:

For the six months ended 31 December 2017, the Group's Property Development operations recorded a decreased turnover of HK\$11,180,000 (2016: HK\$48,314,000) and a profit of HK\$787,000 (2016: HK\$6,606,000). As at 31 December 2017, 85 units of car park of Kangya Garden (康雅苑) Phase II & III out of a total inventory of 663 units were sold and among which 81 units (2016: nil) were also recorded as sales.

As at 31 December 2017, the Group's properties under development for sale of HK\$6,383,000 (2016: HK\$317,582,000) consisted of a parcel of commercial land in Lianyungang, PRC.

Securities Trading and Investments:

Given the Group's new direction on healthcare and eldercare businesses, the Group had reviewed and adjusted its investments portfolio during the period under review.

The Group's activities in securities trading and investments recorded a turnover of HK\$1,075,030,000 (2016: HK\$466,298,000) and a loss of HK\$4,832,000 (2016: profit of HK\$147,917,000) for the six months ended 31 December 2017. This was mainly due to (i) the loss in fair value of investments held for trading of HK\$16,232,000 (2016: gain of HK\$142,154,000); (ii) the reduction of gain in fair value of derivative financial instruments of HK\$43,000 (2016: HK\$10,235,000); (iii) the imputed interest income from promissory notes receivable of HK\$24,051,000 (2016: nil); (iv) the impairment loss recognized on available-for-sale investments of HK\$506,000 (2016: nil); (v) gain on disposal of available-for-sale investments of nil (2016: HK\$1,082,000); (vi) interest income from available-for-sale investments of HK\$349,000 (2016: nil); and (vii) the and dividend income from listed investments of HK\$4,819,000 (2016: HK\$6,727,000).

As at 31 December 2017, the Group maintained a portfolio of available-for-sale investments of HK\$24,249,000 (2016: HK\$1,549,000) and a portfolio of investments held for trading of HK\$305,309,000 (2016: HK\$1,082,775,000).

Investments Held for Trading:

As at 31 December 2017, the Group's investment held for trading consisted of securities listed in different geographic locations and their respective performance were as follows:

| Geographic Location | Carrying | Carrying | Realized | Fair value | Dividend | % of |
|---------------------|----------------|------------------|-----------------|--------------|--------------|----------------|
| | value | value | gain (loss) | gain (loss) | received | carrying value |
| | 2017 | 2016 | 2017 | 2017 | 2017 | to the Group's |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | net assets |
| | | | | | | 2017 |
| | | | | | | % |
| Hong Kong | 177,179 | 906,693 | (41,400) | 6,135 | 4,357 | 8.8 |
| Australia | 123,211 | 122,656 | 9,177 | (1,304) | 410 | 6.1 |
| Malaysia | – | 48,555 | – | – | – | – |
| Philippine | 773 | 1,278 | (1) | (272) | – | – |
| PRC | – | – | 4,296 | – | 52 | – |
| Japan | 4,146 | 3,593 | 10,096 | (2,959) | – | 0.2 |
| Total | <u>305,309</u> | <u>1,082,775</u> | <u>(17,832)</u> | <u>1,600</u> | <u>4,819</u> | |

As at 31 December 2017, the Group's investments held for trading consisted of investments in different category of companies and their respective performance were as follows:

| Principal Business | Carrying | Carrying | Realized | Fair value | Dividend | % of |
|--|----------------|------------------|-----------------|--------------|--------------|----------------|
| | value | value | gain (loss) | gain (loss) | received | carrying value |
| | 2017 | 2016 | 2017 | 2017 | 2017 | to the Group's |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | net assets |
| | | | | | | 2017 |
| | | | | | | % |
| Banking company | – | 5,292 | 1,237 | – | 273 | – |
| Consumer services company | – | 1,055 | 3 | – | 5 | – |
| Entertainment and media company | 3,340 | 59,319 | (2,440) | (958) | – | 0.2 |
| Financial services and investment company | 16,974 | 419,118 | 10,316 | (2,503) | 2,102 | 0.8 |
| Healthcare services company | 58,927 | 13,127 | – | 6,498 | – | 2.9 |
| Industrial materials company | 306 | 45,171 | (66) | 6 | 421 | – |
| Information technology company | 8,120 | – | – | 511 | – | 0.4 |
| Mining and resources company | 124,250 | 134,756 | 4,652 | 1,190 | 1,587 | 6.2 |
| Property company | 93,392 | 404,937 | (31,534) | (3,144) | 431 | 4.6 |
| Total | <u>305,309</u> | <u>1,082,775</u> | <u>(17,832)</u> | <u>1,600</u> | <u>4,819</u> | |

At 31 December 2017, there was no investment held for trading which is material to the Group (exceeded 5% the net assets of the Group).

Derivative Financial Instruments:

As at 31 December 2017, the Group's investments in derivative financial instruments consisted of options in different categories were as follows:

| | No. of contracts as at 31.12.2017 | Fair value 2017 HK\$'000 |
|--|--|---|
| Asset | | |
| Option contracts linked with equity securities listed in Hong Kong | 2 | <u>16</u> |
| | | <u>16</u> |
| Liabilities | | |
| Option contracts linked with equity securities listed in Hong Kong | 4 | (3,392) |
| Option contracts in promissory notes receivable | 2 | <u>(4,787)</u> |
| | | <u>(8,179)</u> |
| Net | | <u><u>(8,163)</u></u> |

As at 31 December 2017, the performance of the Group's investment in derivative financial instruments was as follows:

| | Fair value 2017 HK\$'000 | Realized gain (loss) 2017 HK\$'000 | Fair value gain (loss) 2017 HK\$'000 |
|---|---|---|---|
| Option contracts linked with equity securities, net | (3,376) | – | (3,376) |
| Option contracts in promissory notes receivable | <u>(4,787)</u> | <u>–</u> | <u>(4,787)</u> |
| | <u><u>(8,163)</u></u> | <u><u>–</u></u> | <u><u>(8,163)</u></u> |

The Group considers that the performance of the Group's investment portfolio in listed securities and derivative financial instruments is generally affected by economic, political and financial market environments, globally and regionally, and is susceptible to the volatility of the financial markets.

Money Lending:

For the six months ended 31 December 2017, the Group's money lending business recorded an interest income of HK\$2,308,000 (2016: HK\$8,150,000) and a reduced gain of HK\$2,247,000 (2016: HK\$27,256,000) mainly due to the absence of reversals of impairment loss recognized on loan and interest receivables (2016: HK\$21,685,000). As at 31 December 2017, the Group's loan portfolio amounted to nil following repayment of loan receivables during the period (2016: HK\$56,971,000).

Property Investments:

The Group's investment properties portfolio, for leasing, located in Hong Kong and the PRC recorded a rental income of HK\$3,692,000 (2016: HK\$3,096,000) and a profit of HK\$2,746,000 (2016: HK\$1,944,000) for the period. As at 31 December 2017, the Group's investment properties portfolio amounted to HK\$233,057,000 (2016: HK\$226,178,000).

FINANCIAL RESOURCES, BORROWINGS, CAPITAL STRUCTURE, EXPOSURES TO FLUCTUATIONS IN EXCHANGE RATES AND OTHERS

As at 31 December 2017, the Group's non-current assets of HK\$2,321,066,000 (2016: HK\$2,200,365,000) consisted of investment properties of HK\$765,709,000 (2016: HK\$718,556,000), property, plant and equipment of HK\$1,406,203,000 (2016: HK\$1,314,993,000), prepaid lease payments of HK\$106,526,000 (2016: HK\$101,441,000), available-for-sale investments of HK\$678,000 (2016: HK\$746,000), intangible assets of nil (2016: HK\$12,481,000), goodwill of HK\$33,955,000 (2016: HK\$31,552,000) and deposits for acquisition of property, plant and equipment of HK\$7,995,000 (2016: HK\$20,596,000). These non-current assets are principally financed by the Group's shareholders' funds. As at 31 December 2017, the Group's net current assets decreased to HK\$264,927,000 (2016: HK\$377,470,000).

As at 31 December 2017, the total borrowings of the Group amounted to HK\$1,510,774,000 (2016: HK\$2,163,005,000) consisting of securities margin loans of HK\$269,539,000 (2016: HK\$502,328,000), secured term loan of HK\$75,462,000 (2016: HK\$75,462,000), unsecured term loans of HK\$486,742,000 (2016: HK\$230,000,000), secured bank borrowings of HK\$240,620,000 (2016: HK\$540,485,000), unsecured bank borrowings of HK\$210,544,000 (2016: HK\$493,610,000), unsecured other borrowings of HK\$177,818,000 (2016: HK\$173,940,000) and discounted bills of HK\$50,049,000 (2016: HK\$147,180,000). Among the total borrowings of the Group, an amount of HK\$1,006,708,000 (2016: HK\$1,861,955,000) was with maturity on demand or within one year and HK\$504,066,000 (2016: HK\$301,050,000) was with maturity of over one year but not exceeding two years.

As at 31 December 2017, the Group's gearing ratio, calculated on the basis of the Group's net borrowings (after pledged bank deposits, restricted bank deposits and bank balances and cash) over total equity, was 47.6% (2016: 42.9%). The Group's gearing ratio would be adjusted to 31.4% (2016: zero) with marketable securities inclusive of available-for-sale investments (current) and investments held for trading deducted from the net borrowings.

As at 31 December 2017, the Group had capital commitment contracted for but not provided relating to the acquisition of property, plant and equipment, and investment properties of HK\$68,383,000 (2016: HK\$65,431,000) and HK\$40,202,000 (2016: HK\$24,743,000) respectively.

As at 31 December 2017, Tongren Healthcare provided guarantees of RMB50,000,000 (approximately HK\$60,155,000) (2016: nil) to China Huali Holding Group Company Limited (中國華力控股集團有限公司) (“Huali”) for its application of a loan, while Huali and its subsidiary provided guarantees of RMB20,000,000 (approximately HK\$24,062,000) (2016: nil) to Tongren Healthcare and its subsidiaries for their application of loans.

At 31 December 2017, Aveo China had given no guarantee in respect of the settlement of mortgage bank loans provided by banks to the purchasers of Aveo China’s developed properties in Shanghai, the PRC (2016: HK\$31,115,000).

In December 2015, the Company and CM International Holding Pte Limited (“CM International”) entered into a subscription agreement in which CM International agreed to subscribe for 2,000,000,000 new shares of the Company at the subscription price of HK\$0.45 per share raising gross proceeds of HK\$900,000,000 (“Subscription”) for the Company. As at 31 December 2017, details of use of net proceeds from the Subscription were as follows:

| Intended use of proceeds | Actual use of proceeds |
|--|--|
| i. An amount of approximately HK\$600,000,000 will be used for working capital and for expansion of the Group’s hospital and healthcare, and eldercare businesses. | a) Approximately HK\$47,948,000 was used for construction cost of Block D of the Group’s hospital in Nanjing. b) Approximately HK\$80,569,000 was used for working capital of the healthcare business. c) Approximately HK\$100,287,000 (RMB90,000,000) was used to settle the acquisition costs of 18.36% equity interests of Yangpu Zhaohe Industrial Co., Ltd.* (洋浦兆合實業有限公司) (“Yangpu Zhaohe”). d) Approximately HK\$27,340,000 was used for purchasing and improvement of medical and healthcare equipment. |
| ii. The remaining balance of approximately HK\$299,250,000 will be used for reduction of the borrowings of the Group. | a) HK\$299,250,000 was used for reduction of the borrowings of the Group. |

Note:

* Yangpu Zhaohe owns 72.5% of the equity interest in Tongren Healthcare with the remaining 27.5% equity interest owned by the another wholly-owned subsidiary of the Group.

During the six months under review, the Company did not repurchase any shares (2016: nil) in the capital of the Company.

In November 2017, the Company's American Depositary Receipts ("ADR") Level 1 Program (the "Program") terminated following the resignation of the depositary bank under the Program in May 2017 (the "Termination"). The Company did not appoint a successor depositary bank. Though the Program provided an opportunity for shares of the Company to be traded in the over-the-counter market of the United States, having considered the relatively low participation in the Program and the fact that the outstanding ADRs as at 31 August 2017 represented less than 0.1% of the total issued share capital of the Company, the Board has decided to terminate the Program.

During the six months under review, the Group's assets, liabilities and transactions were mainly denominated in Hong Kong Dollar, RMB, Australian Dollar, US Dollar, Malaysian Ringgit and Japanese Yen. Because of the short term nature, the Group did not actively hedge risks arising from its Australian Dollar, US Dollar, Malaysian Ringgit and Japanese Yen denominated assets and transactions. As the substantial portion of the Group's assets and operations are located in the PRC and its transactions, related working capital and borrowings are primarily denominated in Renminbi and Hong Kong Dollars, the Group will closely monitor its foreign exchange exposure in this regard and will actively consider hedging the currency exposure should the need arise.

CHARGE ON GROUP ASSETS

As at 31 December 2017, the Group's investments held for trading of HK\$305,309,000 (2016: HK\$1,077,508,000), building (included in property, plant and equipment) of HK\$158,208,000 (2016: HK\$130,641,000), investment properties of HK\$501,061,000 (2016: HK\$492,378,000), properties under development for sale of nil (2016: HK\$113,101,000), properties held for sale of HK\$37,898,000 (2016: nil) and pledged bank deposits of HK\$63,591,000 (2016: HK\$463,457,000) were pledged to banks and securities houses to secure credit facilities granted to the Group.

The Group's obligations under finance leases are secured by the Group's charge over the leased assets. At 31 December 2017, the carrying amount of the Group's medical equipment included an amount of HK\$48,124,000 (2016: HK\$60,438,000) in respect of assets held under finance leases.

MATERIAL ACQUISITIONS AND DISPOSAL

Save as disclosed herein, for the six months ended 31 December 2017, the Group did not make any material acquisitions and disposal of subsidiaries, significant investments nor capital commitment.

EMPLOYEES

The Group had 2,212 employees as at 31 December 2017 (2016: 2,087). The Group ensures that its employees are remunerated in line with market conditions and individual performance and the remuneration policies are reviewed on a regular basis.

PROSPECTS

Given the favourable demographic (such as aging population) and macro factors (such as growing middle class, high saving rate), and supportive central government policies with relatively low penetration of private healthcare and eldercare institutions, the Group believes the outlook of private healthcare and eldercare sectors in the PRC is bright.

Healthcare Division:

For the Healthcare Division, it had collaborated with Dr. Han De Ming (韓德民院士) to establish a research and development centre in eye, neck and throat speciality and for training of junior specialist as national level specialist doctor (國家級專家) in the Group's hospital in Nanjing. To further expand its spine unit as a centre of excellence in Yunnan province, the Group had also collaborated with Dr. Su Guo Huai (蘇國輝院士) to set up the first spine treatment & research centre in Yunnan which the Group believes will further strengthen the Group's position as key leader in spine treatment and attracted foreign patients around the region to seek treatment at the Group's hospital.

Eldercare Division:

With the full operation of the Shanghai Metro Line No. 17 from Hongqiao Railway Station to Zhu Jia Jiao, Shanghai, starting December 2017, the Group anticipates that more residents will move into Tide Health Campus given its extensive on-site facilities and convenient location.

Shanghai Deyi Hospital (上海德頤醫院) ("SHDYH"), the elderly nursing hospital in the village, which is fully operated since June 2017, has been included in the national health insurance (國家醫保) coverage's list of hospitals published in September 2017. The Group expects that the SHDYH will continue gaining its publicity and market share in the retirement community and become a model of elderly nursing hospital for future new projects.

For the SAs, the construction of the first building was completed in November 2016 with 120 SAs available for lease, of which 26 were leased out as at 31 December 2017. The second building with 80 SAs will be equipped in 2018, while the third building with 70 SAs will be ready in 2019. It is anticipated that the SHDYH will attract more potential tenants for these SAs as many elderly people prefer to stay at places with medical care facilities nearby.

The Group will continue focusing its business by building, developing and managing more retirement villages with quality care services to elderly people in the PRC.

CHANGE OF SUBSTANTIAL SHAREHOLDER

On 18 September 2017, Cool Clouds Limited (“Cool Clouds”) became a substantial shareholder of the Company upon the completion of a sale and purchase agreement entered into between Cool Clouds and Vigor Online Offshore Limited on 17 April 2017 relating to the sale of 4,000,000,000 shares of the Company (representing approximately 27.62% of the issued share capital of the Company).

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the six months ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with the management of the Company (the “Management”) the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the interim report (including unaudited interim condensed consolidated financial statements for the six months ended 31 December 2017). In carrying out this review, the Audit Committee has relied on a review conducted by the Group’s external auditor, Deloitte Touche Tohmatsu, 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 as well as reports obtained from the Management. The Audit Committee has not undertaken detailed independent audit checks.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the applicable code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the six months ended 31 December 2017.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the directors of the Company (the “Directors”). Having made specific enquiry with all Directors, they have confirmed their compliance with the required standard as set out in the Model Code throughout the six months ended 31 December 2017.

By Order of the Board
China Medical & HealthCare Group Limited
Dr. Jonathan Weiyan Seah
Chairman

Hong Kong, 27 February 2018

As at the date of this announcement, the Board comprises: –

Executive Directors

Ms. Chong Sok Un (Deputy Chairman), Dato’ Wong Peng Chong and Mr. Kong Muk Yin

Non-Executive Directors

Dr. Jonathan Weiyan Seah (Chairman) and Mr. Liao Feng

Independent Non-Executive Directors

Mr. Lau Siu Ki, Mr. Zhang Jian and Dr. Xia Xiaoning