HEALTHCARE
华|夏|健|康

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 2018 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 2018 (the "Period").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

	Note	Six months ended 30 June 2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Revenue	3	**327,393**	335,046
Cost of sales		**(261,404)**	(257,676)
Gross profit		**65,989**	77,370
Other income		**8,363**	6,385
Selling and distribution expenses		**(18,233)**	(22,628)
Administrative expenses		**(91,555)**	(61,725)
Other operating expenses		**(13,998)**	(73,794)
Loss from operations		**(49,434)**	(74,392)
Finance costs	4	**(2,352)**	(10,799)
Loss before tax		**(51,786)**	(85,191)
Income tax expense	5	**(796)**	(4,253)
Loss for the period	6	**(52,582)**	(89,444)
Attributable to:			
Owners of the Company		**(52,282)**	(88,228)
Non-controlling interests		**(300)**	(1,216)
		(52,582)	(89,444)
Loss per share			
Basic (cents per share)	8	**(0.879)**	(1.780)
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 2018

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss for the period	**(52,582)**	(89,444)
Other comprehensive income for the period, net of tax		
Item that will not be reclassified to profit or loss:		
Fair value change of equity investments at fair value through other comprehensive income	**(13,040)**	–
Items that will be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**153**	147
Exchange difference reclassified to profit or loss on disposal of foreign operations	**–**	(73)
Fair value change of available-for-sale financial assets	**–**	(36,411)
Reclassification adjustment for loss recognised in respect of available-for-sale financial assets		
— Loss on disposal	**–**	16,341
— Impairment loss	**–**	28,127
	(12,887)	8,131
Total comprehensive income for the period	**(65,469)**	(81,313)
Attributable to:		
Owners of the Company	**(65,133)**	(80,097)
Non-controlling interests	**(336)**	(1,216)
	(65,469)	(81,313)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Note	**30 June 2018** *HK$'000* **(unaudited)**	31 December 2017 *HK$'000* (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**57,121**	57,876
Investment properties		**30,000**	30,000
Prepaid lease payments		**1,648**	2,034
Goodwill		**18,814**	18,814
Rental deposits		**10,991**	2,235
Loans to employees and other parties		**43,985**	–
Equity investments at fair value through other comprehensive income		**32,995**	–
Deferred tax assets		**1,938**	2,032
Total non-current assets		**197,492**	112,991
Current assets			
Inventories		**109,879**	85,164
Trade receivables	*9*	**134,217**	116,806
Prepayments, deposits, other receivables and other assets		**108,028**	55,730
Loans to employees and other parties		**28,655**	94,993
Loan to a non-controlling shareholder of a subsidiary		**1,132**	120
Amounts due from a related company		**1,240**	1,257
Available-for-sale financial assets		**–**	11,958
Equity investments at fair value through other comprehensive income		**6,867**	–
Current tax assets		**380**	340
Pledged bank deposits		**1,250**	1,850
Bank and cash balances		**366,321**	479,379
Total current assets		**757,969**	847,597
TOTAL ASSETS		**955,461**	960,588

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)
As at 30 June 2018

	Note	**30 June 2018** *HK$'000* **(unaudited)**	31 December 2017 *HK$'000* (audited)
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**5,945**	5,945
Reserves		**581,746**	648,600
		587,691	654,545
Non-controlling interests		**(879)**	(543)
Total equity		**586,812**	654,002
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**4,198**	4,198
Total non-current liabilities		**4,198**	4,198
Current liabilities			
Trade payables	*10*	**104,509**	74,829
Accruals and other payables		**201,809**	169,169
Amount due to a related company		**189**	–
Amount due to a non-controlling shareholder of a subsidiary		**660**	535
Borrowings		**42,816**	43,139
License rights payable		**6,055**	6,184
Product warranty provisions		**3,150**	3,336
Current tax liabilities		**5,263**	5,196
Total current liabilities		**364,451**	302,388
Total liabilities		**368,649**	306,586
TOTAL EQUITY AND LIABILITIES		**955,461**	960,588

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 ("Stock Exchange").

These condensed financial statements should be read in conjunction with the 2017 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 2017 except for the adoption of new standards or interpretations effective as of 1 January 2018.

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

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 2018. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS "); and Interpretations.

The Group has initially adopted HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's condensed financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. As permitted by the transitional provisions of HKFRS 9, the Group has elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening accumulated losses of the current period.

The adoption of HKFRS 9 resulted in the following changes to the Group's accounting policies.

(a) *Classification*

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income ("FVTOCI"); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For investments in equity instruments that are not held for trading, the Group has made an irrevocable election at the time of initial recognition to account for these equity investments at FVTOCI.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

HKFRS 9 Financial Instruments (Cont'd)

(b) Measurement

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

At initial recognition, the Group measures financial assets at its fair value plus, in the case of a financial assets not at fair value through profit or loss, transaction cost that are directly attributable to the acquisition of financial assets.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are not presented as separate line item in the condensed statement of profit or loss as the amounts are not material.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(c) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For loans to employees and other parties, the Group applies the general approach of HKFRS 9, which requires an amount equal to 12-month expected credit losses to be recognised as the loss allowance if the credit risk has not increased significantly since initial recognition, and expected lifetime losses to be recognised if the credit risk has increased significantly since initial recognition.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

HKFRS 9 Financial Instruments (Cont'd)

Set out below is the impact of the adoption of HKFRS 9 on the Group.

The following table summaries the impact on the Group's opening accumulated losses as at 1 January 2018:

	Note	*HK$'000* (unaudited)
Reclassify equity investment from available-for-sale to FVTOCI		28,145
Increase in impairment losses on:		
— trade receivables	*(ii)*	(774)
— loans to other parties	*(ii)*	(947)
Adjustment to accumulated losses from adoption of HKFRS 9 on 1 January 2018		26,424
Attributable to the owners of the Company		26,424

The following table and the accompanying notes below explain the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018.

Financial assets	*Note*	**Classification under HKAS 39**	**Classification under HKFRS 9**	**Carrying amount under HKAS 39** *HK$'000* (audited)	**Carrying amount under HKFRS 9** *HK$'000* (unaudited)
Equity investments	*(i)*	Available-for–sale	FVTOCI	11,958	11,958
Loans to employees and other parties	*(ii)*	Loans and receivables	Amortised cost	94,993	94,046
Trade receivables	*(ii)*	Loans and receivables	Amortised cost	116,806	116,032
Deposits and other receivables	*(iii)*	Loans and receivables	Amortised cost	7,143	7,143
Loans to a non-controlling shareholder of a subsidiary	*(iii)*	Loans and receivables	Amortised cost	120	120
Amount due from a related company	*(iii)*	Loans and receivables	Amortised cost	1,257	1,257
Pledged bank deposits	*(iii)*	Loans and receivables	Amortised cost	1,850	1,850
Bank and cash balances	*(iii)*	Loans and receivables	Amortised cost	479,379	479,379

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

HKFRS 9 Financial Instruments (Cont'd)

The impact of these changes on the Group's equity is as follows:

	Note	**Effect on FVOCI reserve** *HK$'000*	**Effect on (accumulated losses)/ retained profits** *HK$'000*
Opening balance — HKAS 39 (audited)		–	(31,999)
Reclassify non-trading equity investments from available-for-sale to FVTOCI	*(i)*	(28,145)	28,145
Impairment loss on trade receivables	*(ii)*	–	(774)
Impairment loss on loans to other parties	*(ii)*	–	(947)
Total impact		(28,145)	26,424
Opening balance — HKFRS 9 (unaudited)		(28,145)	(5,575)

For assets in scope of the HKFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of HKFRS 9 impairment model requirements at 1 January 2018 results in an additional impairment allowance as follows:

	Note	*HK$'000*
Impairment allowance for trade receivables at 31 December 2017 under HKAS 39 (audited)		2,827
Additional impairment allowance recognised at 1 January 2018 on:		
— Trade receivables as at 31 December 2017	*(ii)*	774
— Loans to other parties as at 31 December 2017	*(ii)*	947
Impairment allowance at 1 January 2018 under HKFRS 9 (unaudited)		4,548

Impairment losses related to trade receivables and loans to other parties are not presented separately in the condensed statement of profit or loss as the amounts are not material.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

HKFRS 9 Financial Instruments (Cont'd)

Notes:

(i) These equity investments represent investments that the Group intends to hold for strategic purposes. As permitted by HKFRS 9, the Group has designated these investments at the date of initial application as measured at FVTOCI. As a result, assets with a fair value of HK$11,958,000 were reclassified from available-for-sale financial assets to financial assets at FVTOCI and fair value loss of HK$28,145,000 was reclassified from accumulated losses to the FVTOCI reserve on 1 January 2018. Unlike HKAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

(ii) Trade receivables and loans to employees and other parties that were classified as loans and receivables under HKAS 39 are now classified at amortised cost. An increase of HK$1,721,000 in the allowance for impairment over these receivables was recognised in opening accumulated losses at 1 January 2018 on transition to HKFRS 9.

(iii) These financial assets were classified as loans and receivables under HKAS 39 are now classified at amortised cost. No further impairment allowance was recognised in opening accumulated losses at 1 January 2018 on transition to HKFRS 9.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18 Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11 Construction contracts, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The adoption of HKFRS 15 resulted in the following changes to the Group's accounting policies.

Accounting for revenue from sales of manufactured goods and medical equipments

The Group manufactures and sells a range of electronic products and medical equipments. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

No element of financing is deemed present as the sales are made with credit terms ranged from 30 to 105 days.

The Group is required to pay for marketing promotion fees for products sold in customers' chain stores. These fees are regarded as consideration payable to a customer and not distinct. These fees are therefore accounted for as a reduction of transaction price.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONT'D)

HKFRS 15 Revenue from Contracts with Customers (Cont'd)

Accounting for revenue from catering services

Revenue from catering service is recognized immediately after the services are rendered.

No material impact of the adoption of HKFRS 15 on the Group's opening accumulated losses.

No impact on the Group's financial position by the application of HKFRS 15 as compared to HKAS 18, HKAS 11 and related interpretations that was previously in effect before the adoption of HKFRS 15.

The amount by each financial statements line items affected in the current period and period to date by the application of HKFRS 15 as compared to HKAS 18, HKAS 11 and related interpretations that was previously in effect before the adoption of HKFRS 15 is as follows:

Six months ended 30 June 2018	*Note*	**As reported** *HK\$'000* (unaudited)	**Effect of the adoption of HKFRS 15** *HK\$'000* (unaudited)	**Amounts without adoption of HKFRS 15** *HK\$'000* (unaudited)
Condensed consolidated statement of profit or loss (extract)				
Revenue	*(a)*	327,393	3,055	330,448
Selling and distribution expenses	*(a)*	18,233	3,055	21,288

(a) Marketing promotion fee classified in revenue was previously presented in selling and distribution expenses.

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 2018:				
Revenue from external customers	**274,432**	**23,382**	**29,579**	**327,393**
Intersegment revenue	**12,494**	**–**	**–**	**12,494**
Segment profit/(loss)	**950**	**(1,683)**	**(37,164)**	**(37,897)**
As at 30 June 2018:				
Segment assets	**357,062**	**25,929**	**499,427**	**882,418**
Segment liabilities	**251,124**	**30,119**	**80,013**	**361,256**
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)
	(audited)	(audited)	(audited)	(audited)
As at 31 December 2017:				
Segment assets	469,422	30,501	365,581	865,504
Segment liabilities	240,970	32,630	31,697	305,297

3. REVENUE AND SEGMENT INFORMATION (CONT'D)

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Reconciliations of segment profit or loss		
Total loss of reportable segments	**(37,897)**	(63,061)
Intersegment elimination	**207**	(146)
Unallocated amounts:		
Consultancy fee	**(6,000)**	(2,500)
Directors' emoluments	**(1,480)**	(1,700)
Imputed interest on non-interest bearing loans from a substantial shareholder	**–**	(10,288)
Interest on loans from independent third parties	**(1,207)**	(165)
Legal and professional fees	**(902)**	(788)
Interest income on loans to employees and other parties	**3,843**	619
Impairment loss on loans to other parties	**(2,803)**	–
Other unallocated head office and corporate expenses	**(5,547)**	(7,162)
Consolidated loss before tax for the period	**(51,786)**	(85,191)

4. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	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	**1,206**	165
Interest on loans from a related party	**964**	–
Other interest expenses	**182**	346
	2,352	10,799

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax		
— Hong Kong Profits Tax	**220**	3,169
— Overseas	**482**	726
	702	3,895
Deferred tax	**94**	358
	796	4,253

5. **INCOME TAX EXPENSE (CONT'D)**

Hong Kong Profits Tax has been provided at a rate of 16.5% (2017: 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	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Business entertainment	**4,010**	6,010
Consultancy fee	**8,650**	4,674
Cost of goods sold		
Cost of inventories sold	**256,964**	261,494
Allowance for inventories	**5,365**	3,357
Reversal of allowance for inventories *(note (i))*	**(6,104)**	(7,401)
	256,225	257,450
Depreciation	**7,621**	7,918
Gain on disposal of subsidiaries (included in other income)	**–**	(4,388)
Gain on disposal of property, plant and equipment (included in other income)	**(73)**	–
Operating lease charges — Land and buildings	**11,686**	6,945
Other operating expenses:		
Impairment loss on trade receivables	**564**	–
Impairment loss on loans to other parties	**2,803**	–
Impairment loss on receivables for factoring business	**–**	15
Impairment loss on available-for-sale financial assets	**–**	28,127
Loss on disposal of subsidiaries	**–**	14,719
Loss on disposal of available-for-sale-financial assets	**–**	16,341
Research and development expenditures *(note (ii))*	**10,631**	14,592
Employee benefits expense including directors' emoluments		
Salaries, bonus and allowances	**123,048**	95,809
Retirement benefit scheme contributions	**6,590**	6,749
	129,638	102,558

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 2018, research and development expenditure includes approximately HK$10,518,000 (30 June 2017: HK$13,516,000) 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 2018, nor has any dividend been proposed since the end of the reporting period (six months ended 30 June 2017: Nil).

8. LOSS PER SHARE

The calculation of the basic loss per share is as follows:

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss		
Loss attributable to owners of the Company, used in the basic loss per share calculation	**(52,282)**	(88,228)

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**5,945,311,400**	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 2018 and 2017.

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 2018	31 December 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0–90 days	**122,188**	104,863
91–180 days	**7,110**	10,469
181–365 days	**1,885**	816
Over 365 days	**3,034**	658
	134,217	116,806

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 2018	31 December 2017
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0–90 days	**101,125**	73,028
91–180 days	**1,029**	568
181–365 days	**1,237**	354
Over 365 days	**1,118**	879
	104,509	74,829

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

During the review period, the Group has sought to foster development of its key business operations, namely, the EMS, Distribution of Communications Products and the Securities and Other Assets Investment. At the same time, the Group has sought to make further inroads in the healthcare and medical industry in the People's Republic of China ("PRC").

For the six months ended 30 June 2018, the Group generated total revenue of approximately HK$327.4 million (2017: HK$335.0 million). Gross profit amounted to HK$66.0 million (2017: HK$77.4 million), while loss attributable to owners of the Company narrowed to HK$52.3 million (2017: loss of HK$88.2 million).

As at 30 June 2018, the Group remains in a solid financial position with bank and cash balances of HK$366.3 million (2017: HK$479.4 million).

Review of Operations

The EMS and Distribution of Communications Products

Revenue from the EMS and Distribution of Communications Products businesses amounted to HK$274.4 million (2017: HK$299.7 million) and HK$23.4 million (2017: HK$34.8 million) respectively. The modest decline in turnover of the EMS business can be attributed to a change in product mix as new products were introduced to supersede older items, the sales of which will be reflected in subsequent financial periods. It is worth noting that the cost of certain electronic components increased appreciably, thereby impacting on the margin of associated products. The Group consequently began seeking alternative suppliers to mitigate the impact of the cost increase. Also, appreciation of the Renminbi ("RMB") placed pressure on the profit margin of the businesses. However, as costs associated with the disposal of a subsidiary of the Group in the preceding financial year no longer affected the profit of the EMS segment, net losses further contracted.

Securities and Other Assets Investment

Revenue from the Securities and Other Assets Investment segment amounted to approximately HK$29.6 million, mainly arising from the sale of medical products in the PRC.

The Group continues to advance its presence in the burgeoning healthcare and medical industry in the PRC and continues to develop the Securities and Other Assets Investment segment so as to broaden its revenue streams.

Geographical Analysis

Revenue contributions from the major European countries (the United Kingdom, Switzerland, Poland, France and Russia) totally HK$110.6 million (2017: HK$117.4 million), and accounted for 33.8% of the Group's total turnover for the six months ended 30 June 2018 (2017: 35.0%). The United States of America ("US") market contribution HK$79.4 million (2017: HK$73.5 million) in revenue, and accounted for 24.3% of total turnover (2017: 21.9%). The PRC (mainly HK) and other countries accounted for HK$73.8 million and HK$63.6 million respectively (2017: HK$44.0 million and HK$100.1 million respectively).

FINANCIAL HIGHLIGHTS

Revenue

For the period ended 30 June 2018, the Group recorded total revenue of HK$327.4 million (2017: HK$335.0 million).

Cost of sales

Cost of sales increased by 1.4% from HK$257.7 million in 2017 to HK$261.4 million in 2018.

Gross Profit

Gross profit decreased by 14.6% from HK$77.3 million in 2017 to HK$66.0 million in 2018, while the gross profit margin decreased from 23.1% in 2017 to 20.2% in 2018 resulting mainly from the increase in cost arising from the appreciation of RMB during the first half of 2018.

Other income

Other income increased by HK$2.0 million to HK$8.4 million for the current period (2017: HK$6.4 million). The major components of the other income are exchange gain of HK$3.1 million and interest income on loans to employees and other parties of HK$3.8 million.

Selling and distribution expenses

Selling and distribution expenses of HK$18.2 million (2017: HK$22.6 million) accounted for approximately 5.6% in 2018 and 6.8% in 2017 of the Group's revenue respectively.

Administrative expenses

Administration expense of HK$91.6 million (2017: HK$61.7 million) accounted for approximately 28.0% in 2018 and 18.4% in 2017 of the Group's revenue respectively. Increase is mainly contributed by the increase in staff bonus of HK$13.7 million, increase in legal and professional fees of HK$4.6 million, increase in rental expenses and consultancy fees of HK$4.4 million and HK$4.0 million respectively.

Other operating expenses

Other operating expenses decreased by HK$59.8 million from HK$73.8 million in 2017 to HK$14.0 million in 2018. The decrease was mainly attributable to absence of the loss on disposal of subsidiaries of HK$14.7 million as well as the absence of the impairment loss and loss on disposal in respect of the available-for-sale financial assets of HK$28.1 million and HK$16.3 million respectively.

Finance costs

The Group's finance costs is HK$2.4 million in 2018 and HK$10.8 million in 2017, represented 0.7% and 3.2% of the revenue in 2018 and 2017 respectively. The decrease in finance costs was due to the absence of the imputed interest arising from the amortisation of non-interest bearing loans from a substantial shareholder after the full repayment in 2017.

Income tax expenses

The Group's income tax expense represents amounts of income tax paid by the Group, at the applicable tax rate in accordance with the relevant laws and regulations in Hong Kong, the PRC and US (2017: Hong Kong, the PRC, US and Japan).

The Group's effective income tax rates for the periods ended 30 June 2018 and 2017, was approximately -1.5% and -5.0% respectively.

Loss for the period attributable to owners of the Company

The loss attributed to owners of the Company was HK$52.3 million for the period ended 30 June 2018 (2017: HK$88.2 million). The Group's net loss margin attributable to owners of the Company for the period ended 30 June 2018 was -16.0% (2017: -26.3%).

Loss for the period attributable to non-controlling interests

The loss attributable to non-controlling interests amounted to HK$0.3 million for the period ended 30 June 2018 (2017: HK$1.2 million). The loss was primarily caused by the operation.

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 2.08 times (2017: 2.80 times). As at 30 June 2018, the cash and cash equivalents amounted to HK$352.3 million, representing a decrease of HK$127.1 million from 2017. During the six months ended 30 June 2018, HK$87.0 million was used in the operating activities, whilst HK$40.1 million was used in the investing activities. Net cash outflow from the investing activities was arising mainly from the purchase of financial assets at fair value through other comprehensive income during the Period.

As at 30 June 2018, the carrying amounts of the interest-bearing loan from an independent third party and non-interest bearing loans from related companies amounted to HK$20.0 million and HK$22.8 million, respectively.

CAPITAL STRUCTURE

As at 30 June 2018, the total number of issued shares of the Company is 5,945,311,400 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 RMB and US dollars respectively. As at 30 June 2018, 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 2018, 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 2018 amounted to HK$7.6 million and the capital commitments as at 30 June 2018 amounted to approximately HK$2.1 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 2018, the Group had an outstanding guarantee ("the Guarantee") to one of the suppliers of an overseas subsidiary ("Disposed Subsidiary"), which was disposed on 7 October 2015, 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 supplier subsequently sold the trade balance to a third party.

During 2017, the Disposed Subsidiary had agreed with the third party for a final settlement by instalment of USD650,000 (equivalent to approximately HK$5.1 million). In this regard, as at 30 June 2018, the Group had an outstanding guarantee of the sum ranged from USD650,000 to USD2.6 million subject to the full payment of the final settlement effected by the Disposed Subsidiary.

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 the Company did not have any significant contingent liabilities.

PLEDGE OF ASSETS

As at 30 June 2018, bank deposits of approximately HK$1.3 million were pledged to a bank for securing banking facilities such as corporate credit card and general bank account services and also 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 2018, the Group was holding listed equity investments at a fair value of approximately HK$39.9 million, which were classified as financial assets at fair value through other comprehensive income. Due to the downward movements of the share prices, fair value change in respect of such investments of approximately HK$13.0 million was recorded in other comprehensive income.

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 2018, the Group had approximately 1,600 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 2018 and 31 December 2017. In addition, no share option was granted, cancelled or lapsed during the six months ended 30 June 2018.

PROSPECTS

Though the global economy had been performing encouragingly towards the latter half of 2017 and during early 2018, rising trade tensions between the US and the PRC, and to a lesser extent between the US and European Union, look set to derail growth, which the International Monetary Fund had projected to reach 3.9% in 2018, up from 3.8% in 2017.

Despite uncertainties on the horizon, the EMS business has thus far been unaffected by the trade disputes, and it has already received reasonable level of orders from customers for the upcoming half year. The Group will nonetheless monitor market developments closely, including the fluctuation of the RMB and rise in component costs. In respect of the latter, the Group has taken necessary action, which, besides seeking alternative suppliers as aforementioned, the Group will transfer the cost increase to clients going forward. Furthermore, the Group will continue to develop new products, particularly Wi-Fi and Bluetooth enabled smart-home appliances to facilitate long-term development of the EMS business.

With reference to the Securities and Other Assets Investment operation, the Group remains committed to tapping the PRC healthcare market, which has been the fastest growing market among all large emerging economies, increasing by over four-fold in the ten-year span of 2006 to 2016, or from RMB1,096.6 billion to RMB4,634.5 billion respectively. Despite such phenomenal growth, healthcare spending per capita is only at approximately 6% of Gross Domestic Product. The healthcare market therefore possesses tremendous room for further growth, and the Group will make the necessary investments and establish relevant ties to expedite its development in this burgeoning segment.

While downside risk has increased significantly, the Group trusts that efforts undertaken to bolster its key business operations, including those for raising its competitiveness in the future, will stand the Group in good stead regardless of what economic scenario eventually materialises. That being said, the Group will manage operations with utmost prudence, fully mindful of the interests of shareholders.

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 2018.

Events after the reporting period

(1) The Group entered into the sale and purchase agreement and the supplemental agreement with 蘭州科天投資控股股份有限公司 (Lanzhou Scisky Investment CMI Holding Company Limited) on 11 October 2017 and 9 February 2018 respectively, each in relation to a proposed acquisition of 84.1% of the entire issued share capital of 蘭州科天健康科技股份有限公司 (Lanzhou Scisky Healthcare Science and Technology Company Limited) (the "Proposed Acquisition"). On 6 July 2018, being the long stop date extended by the parties, certain conditions of the Proposed Acquisition have not been fulfilled, the sales and purchase agreement and the supplemental agreement have lapsed.

    The Board considered that the lapse of the sale and purchase agreement and the supplemental agreement would not have any material adverse impact on the existing business operation and financial position of the Group.

    Details of the above transaction were published in the Company's announcements dated 11 October 2017, 9 February 2018, 29 March 2018, 31 May 2018 and 6 July 2018 and the circular of the Company dated 15 February 2018.

(2) On 1 August 2018, Telefield Limited, a wholly owned subsidiary of the Company ("Vendor") entered into a sales and purchase agreement, pursuant to which the Vendor conditionally agreed to sell and Dragon Fortune International Limited conditionally agreed to purchase the entire issued share capital of Circuit Development Limited (an indirectly wholly-owned subsidiary of the Company) and the shareholder's loan at the consideration of HK$32,000,000. The disposal was completed on 8 August 2018. Details of the above can be found in the announcement of the Company dated 1 August 2018.

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 2018 and up to the date of this interim result 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 2018, 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 ("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 2018. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018 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, 28 August 2018

As at the date of this announcement, the Board comprises Mr. Gong Shaoxiang (Chairman), Mr. Lee Chi Hwa Joshua, Mr. Duan Chuanhong and Mr. Shi Xinbiao 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.