Kaisa Health Group Holdings Limited
佳兆業健康集團控股有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 876)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Unaudited Six months ended 30 June	
		2019	2018
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**118,818**	127,126
Cost of sales		**(60,125)**	(66,048)
Gross profit		**58,693**	61,078
Other income, gains and losses		**12,182**	4,998
Selling and distribution costs		**(22,598)**	(21,386)
Administrative expenses		**(34,247)**	(27,887)
Gain/(Loss) from change in fair value of convertible bonds receivable	*12*	**2,245**	(1,382)
Gain/(Loss) from change in fair value of convertible promissory note	*9*	**1,940**	(702)
Gain from change in fair value of financial assets at fair value through profit or loss	*11*	**1,225**	—
Finance costs		**(143)**	—
Other expenses		**(14,292)**	(10,453)
Profit before income tax	*4*	**5,005**	4,266
Income tax credit/(expense)	*5*	**306**	(3,161)
Profit for the period		**5,311**	1,105

	Notes	Unaudited Six months ended 30 June 2019 HK$'000	2018 HK$'000
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(3,485)**	(4,934)
Total comprehensive income/(expense) for the period		**1,826**	(3,829)
Profit/(Loss) for the period attributable to:			
– Owners of the Company		**5,379**	1,105
– Non-controlling interests		**(68)**	—
		5,311	1,105
Total comprehensive income/(expense) for the period attributable to:			
– Owners of the Company		**1,893**	(3,829)
– Non-controlling interests		**(67)**	—
		1,826	(3,829)
		HK cents	HK cents
Earnings per share	*7*		
– Basic		**0.11**	0.02
– Diluted		**0.11**	0.02

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	**Unaudited 30 June 2019 *HK$'000***	Audited 31 December 2018 *HK$'000*
Non-current assets			
Property, plant and equipment		**34,651**	35,166
Right-of-use assets		**8,976**	—
Intangible assets		**27,414**	27,760
Goodwill		**330,805**	330,805
Deposits paid to a fellow subsidiary	*8*	—	140,000
Convertible promissory note	*9*	**31,285**	29,309
Financial assets at fair value through profit or loss	*11*	**218,877**	—
		652,008	563,040
Current assets			
Inventories		**6,472**	6,877
Trade and other receivables	*10*	**87,199**	71,651
Financial assets at fair value through profit or loss	*11*	**30,571**	—
Convertible bonds receivable	*12*	**49,506**	47,649
Amount due from a director		**24,841**	27,788
Amount due from a fellow subsidiary		—	1,466
Taxation recoverable		**1,296**	1,150
Short-term bank deposits		**60,000**	160,000
Bank balances and cash		**163,689**	194,765
		423,574	511,346
Current liabilities			
Trade and other payables	*13*	**48,723**	61,622
Lease liabilities		**2,599**	—
Amount due to ultimate holding company		**273**	—
Amount due to a related party		**728**	730
		52,323	62,352
Net current assets		**371,251**	448,994
Total assets less current liabilities		**1,023,259**	1,012,034
Non-current liabilities			
Lease liabilities		**6,604**	—
Deferred taxation		**6,854**	6,940
		13,458	6,940
Net assets		**1,009,801**	1,005,094

	Notes	**Unaudited** **30 June 2019** ***HK$'000***	Audited 31 December 2018 *HK$'000*
Equity			
Share capital		**6,303**	6,303
Reserves		**1,003,565**	998,791
Equity attributable to owners of the Company		**1,009,868**	1,005,094
Non-controlling interests		**(67)**	—
Total equity		**1,009,801**	1,005,094

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

1.1 Basis of preparation

This condensed consolidated interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018.

1.2 Principal accounting policies

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

Except for the application of new and amended Hong Kong Financial Reporting Standards (“HKFRSs”) as described in note 2, the accounting policies and methods of computation used in the condensed consolidated interim financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2018.

1.3 New and amended HKFRSs in issue but are not yet effective

The following new and amended HKFRSs have been issued but are not yet effective for the financial period beginning on 1 January 2019 that are relevant to and have not been adopted early by the Group:

		Effective for the accounting period beginning on or after
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. The new and amended HKFRSs are not expected to have a material impact on the Group's condensed consolidated interim financial statements.

2. CHANGES IN ACCOUNTING POLICIES

The following new standards, amendments and interpretation that may be relevant to the Group's operations have been adopted by the Group for the first time for the financial period beginning on 1 January 2019.

HKFRS 16	Leases
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments

Other than the impact of the adoption of HKFRS 16 as noted below, the adoption of the new and amended HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKFRS 16 “Leases” (“HKFRS 16”)

HKFRS 16 replaces HKAS 17 “Leases” along with three Interpretations (HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease”, HK(SIC)-Int 15 “Operating Leases-Incentives” and HK(SIC)-Int 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”). HKFRS 16 has been applied using the modified retrospective approach. Prior periods have not been restated and continues to be reported under HKAS 17.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from HKAS 17 and HK(IFRIC)-Int 4 and has not applied HKFRS 16 to arrangements that were previously not identified as lease under HKAS 17 and HK(IFRIC)-Int 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use assets for operating leases in existence at the date of initial application of HKFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of HKFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to HKFRS 16, the incremental borrowing rate applied to lease liabilities recognised under HKFRS 16 was 5%.

The Group has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating lease commitments at 31 December 2018 to the lease liabilities recognised at 1 January 2019:

	HK$'000
Total operating lease commitments disclosed at 31 December 2018	7,925
Recognition exemptions:	
Leases with remaining lease term of less than 12 months	(3,767)
Operating lease liabilities before discounting	4,158
Discounting using incremental borrowing rate as at 1 January 2019	(234)
Total lease liabilities recognised under HKFRS 16 at 1 January 2019	3,924
Classified as:	
Current lease liabilities	1,786
Non-current lease liabilities	2,138
	3,924

The following table summarises the impact of transition to HKFRS 16 on the Group's condensed consolidated statement of financial position at 1 January 2019:

	HK$'000
Increase in right-of-use assets (non-current assets)	3,924
Increase in lease liabilities (non-current liabilities)	2,138
Increase in lease liabilities (current liabilities)	1,786

The right-of-use assets and lease liabilities represent the Group's leases of a number of properties with an initial period of three years.

The Group as a lessee

Applicable from 1 January 2019

For any new contracts entered into on or after 1 January 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

— the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;

— the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

— the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

For contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Group is a lessee, the Group elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the condensed consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use assets for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less.

On the condensed consolidated statement of financial position, right-of-use assets are presented separately under non-current assets.

Applicable before 1 January 2019

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Operating leases

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received and receivable for goods sold by the Group to outside customers, less discounts and sales tax.

The Group's operating activities are attributable to two operating segments focusing on the operation of manufacturing of and trading in dental prosthetics and the health care business. The Group identifies operating segments and prepared segment information based on regular internal financial information reported to the chief operating decision maker ("CODM"). The CODM regularly review revenue analysis and profit for the period of the Group as a whole in order to make decisions about resource allocation. The details of operating and reportable segments of the Group are as follows:

- Dental prosthetics business - manufacturing of and trading in dental prosthetics

- Health care business - provision of public health and medical services

The operation of health care business was introduced to the Group during the six-month period ended 30 June 2018.

3.1 Segment revenue and results

For the six months ended 30 June 2019

	Dental prosthetics business *HK$'000*	Health care business *HK$'000*	Total *HK$'000*
REVENUE			
External sales	**118,818**	**—**	**118,818**
RESULTS			
Segment profit/(loss) before depreciation and amortisation	**23,966**	**(8,075)**	**15,891**
Depreciation			
— Property, plant and equipment	**(5,166)**	**(179)**	**(5,345)**
— Right-of-use assets	**(245)**	**(897)**	**(1,142)**
Amortisation of intangible assets	**(346)**	**—**	**(346)**
Segment operating profit/(loss)	**18,209**	**(9,151)**	**9,058**
Gain from change in fair value of convertible bonds receivable			**2,245**
Gain from change in fair value of convertible promissory note			**1,940**
Loss from change in fair value of financial assets at fair value through profit or loss — unlisted managed fund			**(94)**
Unallocated income			**1,125**
Unallocated expenses			**(9,269)**
Profit before income tax			**5,005**

For the six months ended 30 June 2018

	Dental prosthetics business *HK$'000*	Health care business *HK$'000*	Total *HK$'000*
REVENUE			
External sales	127,126	—	127,126
RESULTS			
Segment profit/(loss) before depreciation and amortisation	25,910	(4,723)	21,187
Depreciation of property, plant and equipment	(3,051)	(43)	(3,094)
Amortisation of intangible assets	(346)	—	(346)
Segment operating profit/(loss)	22,513	(4,766)	17,747
Loss from change in fair value of convertible bonds receivable			(1,382)
Loss from change in fair value of convertible promissory note			(702)
Unallocated income			2,035
Unallocated expenses			(13,432)
Profit before income tax			4,266

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit/loss represents the profit/loss earned/incurred by each segment without allocation of central administration costs, certain other income, gains and losses, and changes in fair value of convertible bonds receivable, convertible promissory note and financial assets at fair value through profit or loss. This is the information reported to the CODM for the purposes of resource allocation and performance assessment.

3.2 Segment assets and liabilities

As at 30 June 2019

	Dental prosthetics business *HK$'000*	Health care business *HK$'000*	Total *HK$'000*
Reportable segment assets	**643,346**	**265,285**	**908,631**
Convertible bonds receivable			**49,506**
Convertible promissory note			**31,285**
Financial assets at fair value through profit or loss — unlisted managed fund *(note 11)*			**30,571**
Taxation recoverable			**1,296**
Unallocated assets			**54,293**
Total assets			**1,075,582**
Reportable segment liabilities	**(46,724)**	**(10,296)**	**(57,020)**
Deferred taxation			**(6,854)**
Unallocated liabilities			**(1,907)**
Total liabilities			**(65,781)**

As at 31 December 2018

	Dental prosthetics business *HK$'000*	Health care business *HK$'000*	Total *HK$'000*
Reportable segment assets	628,832	157,487	786,319
Convertible bonds receivable			47,649
Convertible promissory note			29,309
Taxation recoverable			1,150
Unallocated assets			209,959
Total assets			1,074,386
Reportable segment liabilities	(52,395)	(2,083)	(54,478)
Deferred taxation			(6,940)
Unallocated liabilities			(7,874)
Total liabilities			(69,292)

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than certain prepayments, short-term bank deposits, bank balances and cash held by the respective head offices, convertible bonds receivable, convertible promissory note, unlisted managed fund and taxation recoverable; and

- all liabilities are allocated to operating segments other than corporate liabilities which are not directly attributable to the business activities of any operating segment and deferred taxation.

3.3 Geographical information

The Group's operations are mainly situated in Hong Kong and the People's Republic of China (the "PRC") (excluding Hong Kong). The following table provides an analysis of the Group's revenue by the location of business operation and the Group's non-current assets by geographical location of assets.

	Revenue from external customers		**Non-current assets**	
	Six months ended 30 June		**30 June**	31 December
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**44,071**	71,615	**449**	—
PRC	**74,095**	54,508	**42,571**	34,711
Others	**652**	1,003	**607**	455
	118,818	127,126	**43,627**	35,166

Note: Non-current assets include property, plant and equipment, and right-of-use assets.

3.4 Information about major customers

The Group's customer base includes two (six months ended 30 June 2018: three) customers with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers amounted to approximately HK$19,190,000 and HK$15,129,000 (six months ended 30 June 2018: HK$24,777,000, HK$20,031,000 and HK$14,127,000) respectively.

4. PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Profit before income tax has been arrived at after (crediting)/charging:		
Amortisation of intangible assets (included in cost of sales)	**346**	346
Lease charges:		
– Land and buildings held under operating leases	**—**	1,787
– Short-term leases with lease term less than 12 months	**3,191**	—
Depreciation:		
– Property, plant and equipment	**5,345**	3,094
– Right-of-use assets	**1,142**	—
Fair value change of financial assets at fair value through profit or loss:		
– Unlisted managed fund	**94**	—
– Unlisted equity investment	**(1,319)**	—
Research and development expenses (included in other expenses)	**14,292**	10,453
Bad debt recovered	**—**	(337)
Interest income:		
– Bank deposits	**(112)**	(192)
– Time deposits	**(1,664)**	—
– Convertible promissory note	**(215)**	(120)
Income from short-term investments	**(94)**	(58)
Interest on lease liabilities	**143**	—
Net foreign exchange loss/(gain)	**2,521**	(1,090)

5. INCOME TAX (CREDIT)/EXPENSE

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**1,084**	2,702
PRC Enterprise Income Tax	**—**	545
	1,084	3,247
Over-provision in prior years:		
PRC Enterprise Income Tax	**(1,304)**	—
Deferred tax credit	**(86)**	(86)
	(306)	3,161

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2018: 16.5%) to the six months ended 30 June 2019, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rates regime.

The provision for PRC Enterprise Income Tax ("EIT") is based on the estimated taxable income for PRC taxation purpose at the rate of taxation applicable for both periods.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

A subsidiary of the Group was accredited as a "High and New Technology Enterprise" in the PRC with effect from 9 November 2018, and was registered with the local tax authority to be eligible to a concessionary tax rate of 15% for three years from 2018 to 2020.

According to a policy promulgated by the State Tax Bureau of the PRC, effective from 2008 onwards, enterprises engage in research and development activities are entitled to claim 150%, and further increased to 175% with effect from September 2018 of the research and development expenses incurred in a year as tax deductible expenses in determining taxable profits for that period ("Super Deduction"). A subsidiary is eligible to such Super Deduction in ascertaining its tax assessable profit for the six months ended 30 June 2019 and 2018.

6. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended 30 June 2019 and 2018, nor has any dividend been proposed since the end of the reporting periods.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Profit for the period attributable to owners of the Company	**5,379**	1,105
Number of shares		
Weighted average number of ordinary shares in issue during the period	**5,042,139,374**	5,101,609,374

The diluted earnings per share for the six months ended 30 June 2019 and 2018 does not assume the exercise of the Company's share options because the exercise price of those share options was higher than the average market price for shares.

8. DEPOSITS PAID TO A FELLOW SUBSIDIARY

On 3 August 2018, the Group entered into the Sale and Purchase Agreement ("SPA") with Rui Jing Investment Company Limited ("Vendor"), a wholly-owned subsidiary of Kaisa Group Holdings Ltd., which is the Group's ultimate holding company, pursuant to which the Vendor has conditionally agreed to sell, and the Group has conditionally agreed to acquire the entire issued share capital ("Sale Share") of Trade Guide Limited ("Target Company"), a wholly-owned subsidiary of the Vendor, and the Vendor has conditionally agreed to assign and the Group has conditionally agreed to take up the interest free shareholder's loan in an estimated amount of RMB191,412,000 ("Sale Loan") to be provided by the Vendor to the Target Company and its associates (collectively referred to as the "Target Group"), at an aggregate consideration of RMB193,000,000 (equivalent to approximately HK$221,732,000).

The Target Group is planned to engage in a project which is intended to be built as a Grade 3A Hospital with 2,000 beds and to cover organ transplantation, minimum invasive surgery, biological diagnosis and precision medical services ("Shulan Project"). Further details of the SPA are disclosed in the Company's circular dated 28 November 2018, and the announcements dated 4 May 2018, 24 May 2018, 3 August 2018, 31 August 2018, 28 September 2018, 31 October 2018 and 14 December 2018 respectively.

As at 31 December 2018, the balances represent deposits paid to the Vendor.

The directors of the Company announced that the acquisition of Sale Share and Sale Loan of the Target Group were completed on 23 May 2019, further details are disclosed in the Company's announcement dated 24 May 2019 and note 11.

9. CONVERTIBLE PROMISSORY NOTE

On 15 March 2018, the Group entered into a Note Purchase Agreement with an independent third party (the "Issuer"), pursuant to which the Group has subscribed for senior secured convertible promissory note (the "Note") in the principal amount of US$3,500,000 for the total consideration of US$3,500,000 (equivalent to approximately HK$27,489,000). All unpaid principal, together with any then unpaid and accrued interest and other amounts payable under the Note shall be due and payable on 15 March 2022. The Note may be converted into shares of the Issuer's common stock at a conversion price equivalent to an agreed valuation divided by the number of outstanding shares immediately prior to the initial public offering of the Issuer. The Note bears interest payable in cash at 1.5% per annum, payable semi-annually and deferred interest of 8% per annum, which shall be compounded and added to the principal, and payable upon the maturity date.

As at 30 June 2019 and 31 December 2018, the convertible promissory note has been fair valued with reference to the valuation conducted by an independent external valuer.

Details of movement is set out below:

	HK$'000
At 1 January 2018	—
At date of subscription	27,489
Exchange realignment	(191)
Change in fair value recognised in profit or loss	2,011
At 31 December 2018 and 1 January 2019	29,309
Exchange realignment	36
Change in fair value recognised in profit or loss	1,940
At 30 June 2019	**31,285**

10. TRADE AND OTHER RECEIVABLES

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
Trade receivables	**77,512**	64,133
Bills receivables	**114**	—
Less: allowance for expected credit losses	**(567)**	(574)
	77,059	63,559
Other receivables, prepayments and deposits	**10,140**	8,092
	87,199	71,651

Payment terms with customers are mainly on credit. Invoices are normally payable within 30 to 90 days after issuance, except for certain well-established customers, where the terms are extended to 120 days.

The following is an aged analysis of trade receivables and bills receivables, presented based on invoice date (also approximates to revenue recognition date), net of allowance for expected credit losses, at the end of the reporting period:

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
0 - 90 days	**69,905**	58,171
91 - 180 days	**4,692**	3,099
181 - 365 days	**1,645**	1,966
Over 1 year	**817**	323
	77,059	63,559

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019
	HK$'000
Current:	
Unlisted managed fund	**30,571**
Non-current:	
Unlisted equity investment *(note)*	**218,877**
	249,448

Note:

Upon completion of the acquisition of Sale Share and Sale Loan of the Target Group as disclosed in note 8, the Group has contributed RMB191,412,270 (equivalents to HK$219,907,941) to Hangzhou Jiayue Investment Partnership* (杭州佳躍投資合夥企業(有限合夥)) ("Hangzhou Jiayue") and holds 9.6% effective interest in Hangzhou Jiayue, a limited partnership established in the PRC.

Hangzhou Jiayue directly holds 99.9% interest in Ningbo Meishan Bonded Zone Jieshuo Investment Partnership* (寧波梅山保稅港區傑鑠投資合夥企業(有限合夥)) ("Meishan Jieshuo"), which in turns holds 90% equity interest in Hangzhou Zhaojin Real Estate Co., Ltd.* (杭州兆金置業有限公司) ("Hangzhou Zhaojin"), which in turns owns Shulan Project (defined in note 8).

Currently, the Group accounted for the unlisted equity investment as financial assets at fair value through profit or loss, with the change in fair value recorded in profit or loss, if any.

As at 30 June 2019, the unlisted equity investment has been fair valued with reference to the valuation conducted by an independent external valuer.

Details of movement of unlisted equity investment is set out below:

	HK$'000
At 1 January 2019	—
At date of acquisition	219,908
Exchange realignment	(2,350)
Change in fair value recognised in profit or loss	1,319
At 30 June 2019	**218,877**

* *For identification purpose only*

12. CONVERTIBLE BONDS RECEIVABLE

On 19 October 2016, the Group's indirect wholly-owned subsidiary, United Noble Development Limited ("United Noble"), entered into a conditional agreement with Condor International NV ("Condor International"), a private company incorporated in Belgium, to subscribe 257,663 unlisted 5% coupon convertible bonds (the "Convertible Bonds") issued by Condor International, at an aggregate principal amount of EUR5,000,000 maturing on the third anniversary of the date of issue (the "Maturity Date"). The subscription of the Convertible Bonds was subsequently completed on 29 November 2016.

The Convertible Bonds entitle the holder to convert the whole or part of the principal amount at any time between 30th days after the date of issue of the Convertible Bonds and 7th business days immediately preceding the Maturity Date of the Convertible Bonds into 257,663 ordinary shares of the issuer at a conversion price of EUR19.41 per share together with all interest accrued thereon up to and including the date of redemption and may be adjusted upon occurrence of adjustment events, which includes consolidation, sub-division or re-classification of shares, capitalisation of profits or reserves, capital distributions, and offer of new shares of the issuer. The Convertible Bonds carries interest of 5% per annum and would be payable at the Maturity Date. The Convertible Bonds are denominated in Euro.

Condor International shall be entitled to serve a written notice on the holders of the Convertible Bonds requiring them to convert all (but not part only) of the Convertible Bonds ("Conversion Shares") if (i) an initial public offering of Condor International takes place, or (ii) the issue of shares by Condor International for cash consideration at a price per Share corresponding to a pre-money valuation of Condor International of not less than EUR75,000,000 and with gross proceeds to Condor International equals or exceeds EUR7,500,000 (the "Qualified Issue") and the investors under the Qualified Issue agree to grant an irrevocable and unconditional right to United Noble to purchase up to 50% of the Conversion Shares from United Noble at a cash consideration per Conversion Share equivalent to the subscription price under the Qualified Issue. Details of the Convertible Bonds were set out in the Company's announcements dated 19 October 2016 and 29 November 2016.

As at 30 June 2019 and 31 December 2018, the convertible bonds receivable has been fair valued with reference to the valuation conducted by an independent external valuer.

Details of movement is set out below:

	HK$'000
At 1 January 2018	49,441
Exchange realignment	(2,241)
Change in fair value recognised in profit or loss	449
At 31 December 2018 and 1 January 2019	47,649
Exchange realignment	(388)
Change in fair value recognised in profit or loss	2,245
At 30 June 2019	**49,506**

13. TRADE AND OTHER PAYABLES

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
Trade payables	**3,825**	6,717
Other payables	**23,534**	17,092
Accrued charges	**21,364**	37,813
	48,723	61,622

The following is an aged analysis of trade payables, presented based on the invoice date at the end of the reporting period.

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
0 - 90 days	**3,821**	6,486
91 - 180 days	**4**	97
Over 180 days	**—**	134
	3,825	6,717

The average credit period on purchases of goods is 90 days (2018: 90 days).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

For the six months ended 30 June 2019 (the "Period"), the Company and its subsidiaries (together the "Group") recorded revenue of approximately HK$118.8 million, representing a decrease of 6.5% from HK$127.1 million for the corresponding period in 2018, with an increased gross profit margin of 49.40% (for the six months ended 30 June 2018: 48.05%). The profit attributable to the owners of the Company was approximately HK$5.4 million compared to a profit attributable to the owners of the Company of HK$1.1 million for the corresponding period in 2018. Basic and diluted earnings per share for the Period were 0.11 HK cents per share and 0.11 HK cents per share, respectively; and the basic and diluted earnings per share for the corresponding period in 2018 were 0.02 HK cents per share and 0.02 HK cents per share respectively.

Interim Dividend

The board of Directors (the "Board") did not recommend the payment of an interim dividend for the Period (six months ended 30 June 2018: Nil).

Business Review

Dental Prosthetics Business

The Group has engaged in the dental prosthetics business ("Dental Prosthetics Business"), including the sale (both overseas and domestic) and production of dental prosthetics, including crowns and bridges, removable full and partial dentures, implants and full-cast restorations. The high-tech digital dental aesthetic brand developed and promoted by the Group integrated the philosophy of minimally invasive aesthetic dental prosthetic restoration and cutting-edge 3D printing technology with international recognition, promoted invisible dental brace, cosmetic dentistry and teeth whitening and veneer, providing efficient one-stop dental prosthetic restoration solutions. Revenue from the Dental Prosthetics Business was approximately HK$118.8 million for the six months ended 30 June 2019, compared to a revenue of approximately HK$127.1 million for the corresponding period in 2018. The Group has always adhered to the dental aesthetics and prosthetics restoration philosophy of "using minimally invasive surgery with no harm to teeth" in its research and development, in order to relieve the pain patients suffer during the treatment and improve their appearance. A series of digital dental prosthetic products including Mega Veneer (美加貼面) XS and Mega 3D Simulation Zicronium (美加3D仿真鋯), Mega YiQi Clear Aligner (美加易齊透明矯正器) and removable prosthetic devices launched under the "Mega" brand in 2019 gained wide recognition among foreign technicians and dentists.

The Group will continue to cooperate with technical institutes to secure a more stable supply of labour resources and to implement automation in order to reduce its reliance on labour resources. Benefiting from the investment in research and development and technologies, other income such as government subsidies and training consultancy increased to HK$9.1 million (for the six months ended 30 June 2018: HK$1.4 million). For the six months ended 30 June 2019, research and development expense increased to HK$14.3 million (for the six months ended 30 June 2018: HK$ 10.5 million).

Health Care Business

The Group has participated in the health care industry through the acquisition of Trade Guide Limited (a company engaged in the provision of public health and medical services) at a total consideration of RMB193 million (equivalent to approximately HK$221.7 million) on 23 May 2019. All conditions precedent in connection with the acquisition have been satisfied. Hangzhou Jinyun Investment Management Co., Ltd. (杭州金韻投資管理有限公司, an associate of the above company) has a project in Hangzhou City, Zhejiang Province, the PRC that provides public health and medical services. Upon the completion of the acquisition, the Group will be able to penetrate to the front line of the health care sector, directly responding and identifying the needs of patients. It will also facilitate investment decisions in the health care industry and build market reputation for the Group. The acquisition is expected to bring synergy effects to the existing business of the Group, and it is believed that the Group's Dental Prosthetics Business can further expand its presence in the Yangtze River Delta region by sharing the resources and reputation of the hospital to be constructed by the Project.

In May 2019, the Group founded the Shenzhen Medical Health Technology Co., Ltd. (深圳醫佳健康醫療科技有限公司) with medical teams consisting of national-level experts and professors in the areas of orthopaedics, rehabilitation and pain management. In the sports rehabilitation segment (a sports-related extension of the health care industry chain), it cooperates with sport rehabilitation institutions that possess mature technology, providing customers with safe and professional rehabilitation plans. The team has already established in-depth cooperative relationships with nearly twenty hospitals, including the Second People's Hospital of Shenzhen, Shenzhen People's Hospital and the Peking University Shenzhen Hospital.

Prospect

The Group is principally engaged in the Dental Prosthetics Business and Health Care Business, and has a business strategy to further diversify its business so as to further enhance shareholder value. In order to build the brand "Mega", the Group has been oriented towards advanced technologies and integrated quality medical devices in China and overseas to become a high-end dental prosthetics instrument supplier. The Group has put efforts in exploring a medical appliance system with the oral business as its up-stream and down-stream industry chain and a medical service system integrating medical care and health care, developing a closed-loop ecosystem with the coordination of these three major systems.

Dental Prosthetic Business

The oral medical market has an enormous room for development and with its relatively high prices, its proportion in the total medical expenditure is relatively higher and hence the stomatological industry is always listed separately in respect of the statistics on medical expenditure. According to the statistics released by the Comprehensive Oral Industry Association (綜合口腔行業協會) of China, in 2018, the oral industry market is estimated to have a room for development with a scale reaching over RMB100 billion. At present, the dental industry market in China is already at a stage of rapid development, and it is projected that, along with the increasing consumption power in the PRC, regardless of whether it is in terms of the dentist proportion, consultation rate and the permeability rate of high-end dental business or the current market scale, the oral market in China has the development potential to increase over tenfold. The Group has formulated a number of growth strategies in the Dental Prosthetics Business, including enlarging its sales network in the PRC and foreign markets like the US, expanding its production capacity in the PRC and developing high-end new denture prosthetics products with beauty attributes. In 2019, the Group launched an upgraded version of Mega Veneer XS, which is now available worldwide, for hiding spots and stains of severely discoloured teeth such as tetracycline pigmentation teeth, mottled enamel and dental pulp. It is of higher quality as it also covers hard-to-reach areas. The Group also promoted the Mega YiQi Minimally Invasive Customized Clear Aligner (美加易齊微矯定制式透明矯治器) launched under its brand into the invisible dental brace market, aiming to mutually promote rapid revenue growth through increasing its scale worldwide and appealing to young users. Apart from the organic growth and sales network integration and consolidation for the Dental Prosthetics Business, the Group will also actively seek investment and collaboration opportunities in high-tech dental related areas so as to enhance cross selling opportunities and the returns of investment for the shareholders of the Company.

Health Care Business

The Hangzhou Shulan Project acquired by the Group is intended to be built as a Grade 3A Hospital with 2,000 beds and to cover organ transplantation, minimal invasive surgery, biological diagnosis and precision medical services. The acquisition will allow the Group to enhance its health care portfolio and will facilitate the Group's investment decisions in the health care industry and build market reputation for the Group in the PRC. Through investing in the Project which focuses on developing the hospital, the Group will be able to penetrate to the front line of the health care sector, facing and identifying the needs of the patients directly, and enables the Group to discover and evaluate the potential business opportunity in the health care industry in Hangzhou City. The Group could enjoy the satisfactory synergistic benefits from the investment in the Project as contemplated under the Acquisition upon the successful development of the Project, which is favourable to the existing businesses of the Group and in the interest of the Group and the Independent Shareholders as a whole.

The rehabilitation industry of the aging population has gained attention and the rehabilitation industry has emerged due to the growing sports population. In the coming five years, the scale of the rehabilitation market is forecast to reach over RMB100 billion, showing a considerable potential in respect of its market scale. The Group has formed an orthopaedic and rehabilitation professional rehabilitation team which the market lacks the most. The Group has established an exclusive collaboration model for three areas, namely orthopaedics, rehabilitation and pain management, thereby providing safe and professional solutions to customers through involving medical teams in active rehabilitation, removing the usual disconnection between orthopaedics and rehabilitation and changing the current situation of the late involvement of rehabilitation medical teams. The Group has designated stores in Shenzhen as a pilot model with an expectation that it will cover 50% of the provincial capital cities in the future.

Operating Results and Financial Review

Revenue

The revenue for the Period amounted to HK$118.8 million (six months ended 30 June 2018: HK$127.1 million). The decrease in the revenue is mainly due to the outsourcing of manufacturing of low value-added products to South-east Asia, the adjustments to the pricing strategies and product mix of the Group, the reduction of such products and the upgrading of the brand's expansion of high value-added veneer and orthodontic products during the trade war period.

Gross Profit and Gross Profit Margin

Gross profit for the Period amounted to HK$58.7 million (six months ended 30 June 2018: HK$61.1 million). Gross profit margin for the Period was 49.40% (six months ended 30 June 2018: 48.05%). The increase in the gross profit margin contributed from operations was mainly attributable to the increase in the brand value and the sales growth of high value-added veneer, orthodontic products and dental implant equipment.

Goodwill

Goodwill of HK$330.8 million was generated from the acquisition of the Dental Prosthetics Business in 2015.

Convertible Bonds Receivable

The convertible bonds receivable represented the Group's EUR5 million investment in Condor International, which is specialized in the sales, distribution and development of the three-dimensional intraoral scanners.

Convertible Promissory Note

The convertible promissory note represents the senior secured convertible promissory note subscribed by the Group at a total consideration of US$3,500,000.

Financial Assets at Fair Value Through Profit or Loss

Investments in unlisted equity investment and unlisted managed fund were treated as financial assets at fair value through profit or loss as at 30 June 2019. The Group has contributed approximately RMB191.4 million (equivalents to approximately HK$219.9 million) in the investment in unlisted equity investment and approximately US$3.9 million (equivalents to approximately HK$30.6 million) in the investment in unlisted managed fund as at 30 June 2019.

Bank Balance and Cash

The Group has a solid cash position for the Period under review, with bank balances and cash amounting to approximately HK$164.0 million as at 30 June 2019 (31 December 2018: HK$195.0 million).

Capital Expenditure and Capital Commitments

During the Period, the Group invested approximately HK$5.5 million (six months ended 30 June 2018: approximately HK$11.3 million), mainly on production equipment. As at 30 June 2019, the Group has a capital expenditure commitment of approximately HK$2,273 million for the acquisition of an associate.

Deferred Taxation

Deferred taxation represents the deferred tax liabilities of the intangible asset arising from the acquisition of the Dental Prosthetics Business in 2015.

Contingent Liabilities

The Group had no significant contingent liabilities as at 30 June 2019.

Charge on the Group's Assets

As at 30 June 2019, there was no pledge of assets of the Group for banking facilities.

Treasury Policy

The Group's sales were principally denominated in Renminbi, EURO dollars, US dollars and Hong Kong dollars while purchases were transacted mainly in US dollars, Renminbi and Hong Kong dollars.

The fluctuation of Hong Kong dollars and other currencies did not materially affect the costs and operations of the Group for the Period and the Directors do not foresee significant risk in exchange rate fluctuation currently. The Group has not entered into any financial instruments for hedging purposes. However, the Group will closely monitor its overall foreign exchange exposures and interest rate exposures, and consider hedging against the exposures should the need arise.

Liquidity, Capital Structure and Financial Resources

Equity attributable to owners of the Company as at 30 June 2019 amounted to approximately HK$1,009.9 million (31 December 2018: approximately HK$1,005.1 million).

As at 30 June 2019, the net current assets of the Group amounted to approximately HK$371.3 million (31 December 2018: HK$449.0 million). The current and quick ratio was 8.10 and 7.97 respectively (31 December 2018: 8.20 and 8.09 respectively).

At 30 June 2019, indebtedness of the Group including an amount due to Ms. Jiang Sisi ("Ms. Jiang", the spouse of Mr. Wu Tianyu) of HK$728,000 (31 December 2018: HK$730,000) which is unsecured, interest-free and repayable on demand.

As at 30 June 2019 and 31 December 2018, no gearing ratio of the Group could be calculated as there were no bank loans outstanding.

The number of issued ordinary shares (the "Shares") of the Company was 5,042,139,374 as at 30 June 2019 (31 December 2018: 5,042,139,374 Shares).

Taking the above figures into account and also the strong operational cash flows arising from the Dental Prosthetics Business, the management is confident that the Group is financially strong and has adequate resources to settle its outstanding debts, to finance its daily operational expenditures and also the cash requirements for the Group's future acquisition and expansion.

Employees and Remuneration Policy

The Group employed 1,481 employees in total as at 30 June 2019 (31 December 2018: 1,240) in Hong Kong and the PRC. The Group implemented its remuneration policy, bonus and share option schemes based on the performance of the Group and its employees. The Group provided benefits such as social insurance and pensions to ensure competitiveness. In addition, the Group had also adopted a share option scheme as a long term incentive to the Directors and eligible employees. The emolument policy for the Directors and senior management of the Group is set up by the Company's Remuneration Committee, having regard to the Group's performance, individual performance and comparable market conditions.

Other Information

Purchase, Sale or Redemption of the Company's Listed Securities

During the Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Compliance with the Code on Corporate Governance Practices

The Company has considered and applied the principles set out in the "Corporate Governance Code" (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). In the opinion of the Board, the Company complied with the code provisions set out in the CG Code during the six months ended 30 June 2019, save for the following deviations:

Pursuant to code provision A.6.7 of the CG Code, independent non-executive Directors and non-executive Directors should attend general meetings in order to develop a balanced view for shareholders. Due to various business commitments, not all the independent non-executive Directors of the Company attended the annual general meeting of the Company held on 31 May 2019. The Company will finalise and inform those concerned of the dates of general meetings as early as possible to make sure that all independent non-executive Directors and non-executive Directors can attend general meetings in future.

Audit Committee

The Audit Committee of the Board was established with written terms of reference in accordance with Appendix 14 to the Listing Rules. Currently, the Audit Committee comprises three independent non-executive Directors, namely Dr. Liu Yanwen (chairman), Mr. Fok Hei Yu and Dr. Lyu Aiping. Mr. Wang Wansong (who has resigned on 2 August 2019) was a member of the Audit Committee during the Period.

Review of Interim Results

The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2019 have been reviewed by the Audit Committee and the Company's auditor, Messrs. Grant Thornton Hong Kong Limited, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

PUBLICATION OF THE 2019 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The Company's Interim Report for the six months ended 30 June 2019 will be published on the websites of the Stock Exchange at www.hkex.com.hk and the Company at www.kaisahealth.com in due course.

By order of the Board
Kaisa Health Group Holdings Limited
Kwok Ying Shing
Chairman

Hong Kong, 23 August 2019

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Kwok Ying Shing (Chairman), Mr. Luo Jun (Co-Vice Chairman), Mr. Wu Tianyu (Co-Vice Chairman) and Mr. Xu Hao, and four independent non-executive Directors, namely Dr. Liu Yanwen, Mr. Fok Hei Yu, Dr. Lyu Aiping and Mr. Lau Shui Fung.