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 2019 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 2019 (the "Period").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	Note	Six months ended 30 June 2019 HK$'000 (unaudited)	2018 HK$'000 (unaudited)
Revenue	3	**348,976**	327,393
Cost of sales		**(282,154)**	(261,404)
Gross profit		**66,822**	65,989
Other income	4	**9,175**	8,363
Selling and distribution expenses		**(17,003)**	(18,233)
Administrative expenses		**(78,131)**	(91,555)
Other operating expenses		**(28,015)**	(13,998)
Loss from operations		**(47,152)**	(49,434)
Finance costs	5	**(4,158)**	(2,352)
Loss before tax		**(51,310)**	(51,786)
Income tax expense	6	**(3,229)**	(796)
Loss for the period	7	**(54,539)**	(52,582)
Attributable to:			
Owners of the Company		**(56,169)**	(52,282)
Non-controlling interests		**1,630**	(300)
		(54,539)	(52,582)
Loss per share			
Basic (cents per share)	9	**(0.945)**	(0.879)
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 2019

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss for the period	**(54,539)**	(52,582)
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 ("FVTOCI")	**9,478**	(13,040)
Item that will be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**515**	153
	9,993	(12,887)
Total comprehensive income for the period	**(44,546)**	(65,469)
Attributable to:		
Owners of the Company	**(46,399)**	(65,133)
Non-controlling interests	**1,853**	(336)
	(44,546)	(65,469)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	**30 June 2019 HK$'000 (unaudited)**	31 December 2018 HK$'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**43,274**	51,904
Right-of-use assets		**62,069**	–
Investment properties		**30,000**	30,000
Prepaid lease payments		**–**	1,288
Goodwill		**18,814**	18,814
Rental deposits		**10,991**	10,894
Loans to employees and other parties		**47,200**	44,797
Equity investments at FVTOCI		**–**	21,859
Deferred tax assets		**1,938**	1,938
Total non-current assets		**214,286**	181,494
Current assets			
Inventories		**96,034**	113,962
Trade receivables	*10*	**162,705**	155,761
Prepayments, deposits, other receivables and other assets		**20,457**	85,039
Loans to employees and other parties		**16,672**	30,631
Loan to a non-controlling shareholder of a subsidiary		**7,149**	1,731
Amounts due from a related company		**1,272**	1,274
Equity investments at FVTOCI		**3,670**	5,328
Current tax assets		**1,009**	183
Pledged bank deposits		**1,250**	1,250
Bank and cash balances		**382,230**	354,209
Total current assets		**692,448**	749,368
TOTAL ASSETS		**906,734**	930,862

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)
As at 30 June 2019

	Note	**30 June 2019** *HK$'000* **(unaudited)**	31 December 2018 *HK$'000* (audited)
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**5,945**	5,945
Reserves		**520,460**	566,859
		526,405	572,804
Non-controlling interests		**11,881**	10,028
Total equity		**538,286**	582,832
LIABILITIES			
Non-current liabilities			
Lease liabilities		**31,628**	–
Total non-current liabilities		**31,628**	–
Current liabilities			
Trade payables	*11*	**64,617**	76,474
Accruals and other payables		**186,901**	215,463
Lease liabilities		**29,392**	–
Borrowings		**40,233**	40,267
License rights payable		**3,953**	4,108
Product warranty provisions		**2,104**	2,498
Current tax liabilities		**9,620**	9,220
Total current liabilities		**336,820**	348,030
Total liabilities		**368,448**	348,030
TOTAL EQUITY AND LIABILITIES		**906,734**	930,862

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 2018 annual financial statements. The accounting policies (including the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty) 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 2018 except as stated below.

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 2019. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS") and Interpretations. The Group has not early adopted any other standard, Interpretation or amendment that has been issued but is not yet effective.

The Group has initially adopted HKFRS 16 Leases from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's condensed financial statements.

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 Leases, HK(IFRIC) 4 Determining whether an Arrangement contains a Lease, HK(SIC)-15 Operating Leases-Incentives and HK(SIC)-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied HKFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in accumulated losses at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated — i.e. it is presented, as previously reported, under HKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under HK(IFRIC) 4 Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC) 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

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

HKFRS 16 Leases (cont'd)

(a) Definition of a lease (cont'd)

At inception or on reassessment of a contract that contains a lease component, 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 it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(b) As a lessee

The Group leases many properties.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under HKFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. IT equipment). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The recognised right-of-use assets relate to the following types of assets:

	Balance as at	
	30 June 2019	1 January 2019
	HK$'000	*HK$'000*
Properties	**60,479**	75,813
Prepaid lease payments	**1,590**	1,912
Total right-of-use assets	**62,069**	77,725

Significant accounting policies

The Group recognises a right-of-use assets and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

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

HKFRS 16 Leases (cont'd)

(b) As a lessee (cont'd)

Transition

Previously, the Group classified property leases as operating leases under HKAS 17. These include offices and factory premises. The leases typically run for a period of 3 to 10 years of non-cancellable period.

At transition, for leases classified as operating leases under HKAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying HKFRS 16 to leases previously classified as operating leases under HKAS 17.

— Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

— Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

— Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(c) Impacts of financial statements

Impact on transition

On transition to HKFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in accumulated losses. The change in accounting policy affected the following items on the condensed consolidated statement of financial position (increase/(decrease)) as at 1 January 2019 is summarised below.

	Under HKAS 17 31 December 2018	**Under HKFRS 16 1 January 2019**
	HK$'000	*HK$'000*
Assets		
Right-of-use assets	–	77,725
Prepaid lease payment (Non-current)	1,288	–
Prepaid lease payment (Current)	624	–
Liabilities		
Lease liabilities	–	(75,813)
Equity		
Accumulated losses	–	–
Non-controlling interests	–	–

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

HKFRS 16 Leases (cont'd)

(c) Impacts of financial statements (cont'd)

Impact on transition (cont'd)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 6.11%.

	1 January 2019 *HK$'000*
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	90,411
Less: Recognition exemption for leases with less than 12 months of lease term at transition	(7,811)
	82,600
Discounted using the incremental borrowing rate at 1 January 2019	(6,787)
Lease liabilities recognised as at 1 January 2019	75,813
Of which are:	
Current lease liabilities	29,879
Non-current lease liabilities	45,934
	75,813

Impacts for the period

As a result of initially applying HKFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised HK$62,069,000 of right-of-use assets and HK$61,020,000 of lease liabilities as at 30 June 2019.

Also in relation to those leases under HKFRS 16, the Group has recognised depreciation and finance costs, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised HK$15,656,000 of depreciation charges and HK$2,045,000 of finance costs from these leases.

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 2019:				
Revenue from external customers	269,068	17,876	62,032	348,976
Intersegment revenue	6,851	–	–	6,851
Segment profit/(loss)	5,030	(1,874)	(26,086)	(22,930)
As at 30 June 2019:				
Segment assets	390,298	29,211	441,141	860,650
Segment liabilities	240,797	32,408	88,077	361,282
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 31 December 2018:				
Segment assets	375,674	27,703	465,166	868,543
Segment liabilities	229,985	28,612	84,002	342,599

3. REVENUE AND SEGMENT INFORMATION (CONT'D)

	Six months ended 30 June 2019 *HK$'000* (unaudited)	2018 *HK$'000* (unaudited)
Reconciliations of segment profit or loss		
Total loss of reportable segments	**(22,930)**	(37,897)
Intersegment elimination	**352**	207
Unallocated amounts:		
Consultancy fee	**(6,000)**	(6,000)
Directors' emoluments	**(1,480)**	(1,480)
Interest income on loans to employees and other parties	**3,528**	3,843
Interest on loans from independent third parties	**(1,207)**	(1,207)
Impairment loss on loans to other parties	**(17,433)**	(2,803)
Legal and professional fees	**(3,851)**	(902)
Other unallocated head office and corporate expenses	**(2,289)**	(5,547)
Consolidated loss before tax for the period	**(51,310)**	(51,786)

Geographical information

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers.

In the following table, revenue is disaggregated by primary geographical market and timing of revenue recognition.

For the six months ended 30 June (unaudited)	EMS 2019 *HK$'000*	EMS 2018 *HK$'000*	Distribution of Communications Products 2019 *HK$'000*	Distribution of Communications Products 2018 *HK$'000*	Securities and Other Assets Investment 2019 *HK$'000*	Securities and Other Assets Investment 2018 *HK$'000*	Total 2019 *HK$'000*	Total 2018 *HK$'000*
Primary geographical markets								
— The People's Republic of China (the "PRC") (including Hong Kong)	**40,179**	44,160	**–**	–	**62,032**	29,579	**102,211**	73,739
— The United States of America (the "U.S.A.")	**29,193**	71,937	**16,418**	20,004	**–**	–	**45,611**	91,941
— Switzerland	**107,232**	68,394	**–**	–	**–**	–	**107,232**	68,394
— France	**18,926**	15,291	**–**	–	**–**	–	**18,926**	15,291
— Thailand	**10,051**	8,333	**–**	–	**–**	–	**10,051**	8,333
— United Kingdom	**12,232**	12,060	**–**	–	**–**	–	**12,232**	12,060
— Others	**58,106**	66,751	**1,458**	3,378	**–**	–	**59,564**	70,129
Segment revenue	**275,919**	286,926	**17,876**	23,382	**62,032**	29,579	**355,827**	339,887
Intersegment revenue — The U.S.A.	**(6,851)**	(12,494)	**–**	–	**–**	–	**(6,851)**	(12,494)
Revenue from external customers	**269,068**	274,432	**17,876**	23,382	**62,032**	29,579	**348,976**	327,393
Timing of revenue recognition								
Products transferred at a point in time	**269,068**	274,432	**17,876**	23,382	**62,032**	29,579	**348,976**	327,393
Products and services transferred over time	**–**	–	**–**	–	**–**	–	**–**	-
Total	**269,068**	274,432	**17,876**	23,382	**62,032**	29,579	**348,976**	327,393

4. OTHER INCOME

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Bank interest income	**118**	62
Bank fixed deposits interest income	**–**	268
Exchange gain	**1,920**	3,138
Gain on disposal of property, plant and equipment	**–**	73
Interest income on loans to employees and other parties	**3,528**	3,843
Others	**3,609**	979
	9,175	8,363

5. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest on loans from independent third parties	**1,207**	1,206
Interest on loans from a related party	**904**	964
Interest on lease liabilities	**2,045**	–
Other interest expenses	**2**	182
	4,158	2,352

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax — Hong Kong Profits Tax		
Provision for the period	**900**	220
Current tax — Overseas		
Provision for the period	**2,308**	482
Under-provision in prior period	**21**	–
	2,329	482
Deferred tax	**–**	94
	3,229	796

Hong Kong Profits Tax has been provided at a rate of 16.5% (2018: 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.

7. LOSS FOR THE PERIOD

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Business entertainment	**1,974**	4,010
Consultancy fee	**6,000**	8,650
Cost of goods sold		
Cost of inventories sold	**267,888**	256,964
Allowance for inventories	**7,314**	5,365
Reversal of allowance for inventories *(note (i))*	**(4,549)**	(6,104)
	270,653	256,225
Depreciation:		
— Property, plant and equipment	**10,864**	7,621
— Right-of-use assets	**15,656**	–
Gain on disposal of property, plant and equipment (included in other income)	**–**	(73)
Operating lease charges — Land and buildings	**4,984**	11,686
Other operating expenses:		
Impairment loss on trade receivables	**–**	564
Impairment loss on other receivables	**1,800**	–
Impairment loss on loans to other parties	**17,433**	2,803
Research and development expenditures *(note (ii))*	**8,602**	10,631
Employee benefits expense including directors' emoluments		
Salaries, bonus and allowances	**98,785**	123,048
Retirement benefit scheme contributions	**5,845**	6,590
	104,630	129,638

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 2019, research and development expenditure includes approximately HK$8,596,000 (30 June 2018: HK$10,518,000) relating to employee benefits expense, which is included in the respective total amount as disclosed separately above.

8. DIVIDENDS

No dividends have been paid or proposed during the six months ended 30 June 2019, nor has any dividend been proposed since the end of the reporting period (six months ended 30 June 2018: Nil).

9. LOSS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss		
Loss attributable to owners of the Company, used in the basic loss per share calculation	**(56,169)**	(52,282)

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**5,945,311,400**	5,945,311,400

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 2019 and 2018.

10. 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 2019	31 December 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0–90 days	**119,577**	135,996
91–180 days	**41,265**	17,454
181–365 days	**49**	1,305
Over 365 days	**1,814**	1,006
	162,705	155,761

11. 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 2019	31 December 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0–90 days	**62,264**	70,149
91–180 days	**382**	2,619
181–365 days	**921**	2,133
Over 365 days	**1,050**	1,573
	64,617	76,474

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group has, during the review period, continued to further the development and advancement of its core business operations, comprising the EMS, Distribution of Communication Products, and Securities and Other Assets Investment — principally involved in seizing opportunities from the burgeoning healthcare and medical industry in the PRC.

For the six months ended 30 June 2019, the Group generated total revenue of approximately HK$349.0 million (2018: HK$327.4 million). Gross profit amounted to HK$66.8 million (2018: HK$66.0 million), with loss attributable to owners of the Company amounting to HK$56.2 million (2018: loss of HK$52.3 million).

As at 30 June 2019, the Group remains in a solid financial position with bank and cash balances totalling HK$382.2 million (31 December 2018: HK$354.2 million).

Review of Operations

The EMS and Distribution of Communication Products

The EMS and Distribution of Communication Products businesses contributed HK$269.1 million (2018: HK$274.4 million) and HK$17.9 million (2018: HK$23.4 million) in revenue respectively during the Period. The dip in revenue from the Distribution of Communication Products business reflects a general decline that the industry as a whole has been experiencing over the past few years. As for the EMS operation, while a modest decline in revenue was recorded, owing in part to the generally cautious sentiment adopted by the Group's customers as the Sino-US trade dispute along with other macroeconomic concerns have continued to impact on the global economy, it nonetheless was able to achieve an increase in net profit. The positive metric was attributable to the launch of new products, including IoT, Wi-Fi and Bluetooth enabled smart-home appliances that were warmly received by the market. As such products possess higher margins, they consequently contributed to the encouraging performance of the operation. Also contributing to an increase in the bottom line was effective client management, whereby the Group was able to introduce price adjustments to EMS-related products that were absorbed by its customers.

Securities and Other Assets Investment

The Securities and Other Assets Investment business has been making steady progress, specifically in the PRC healthcare and medical sector which the Group is committed to tapping in view of its tremendous opportunities. Indicative of this commitment, segment revenue of HK$62.0 million (2018: HK$29.6 million) was recorded for the Period, principally derived from the sale of medical equipments in the PRC.

Geographical Analysis

Revenue from major European countries (the United Kingdom, Switzerland, Poland and France) totalled HK$150.0 million (2018: HK$110.6 million), and accounted for 43.0% of the Group's total revenue for the Period (2018: 33.8%). The U.S.A. market contributed HK$38.8 million (2018: HK$79.4 million) in revenue and accounted for 11.1% of the Group's total revenue (2018: 24.3%). The PRC (including Hong Kong) and other countries generated HK$102.2 million (2018: HK$73.8 million) and HK$58.0 million (2018: HK$63.6 million) revenue respectively during the Period, representing 29.3% (2018: 22.5%) and 16.6% (2018: 19.4%) of the Group's total revenue.

FINANCIAL HIGHLIGHTS

Revenue

For the period ended 30 June 2019, the Group recorded total revenue of HK$349.0 million (2018: HK$327.4 million).

Cost of sales

Cost of sales increased by 8.0% from HK$261.4 million in 2018 to HK$282.2 million in 2019 mainly corresponded to the level of revenue of the Period.

Gross Profit

Gross profit slightly increased by 1.2% from HK$66.0 million in 2018 to HK$66.8 million in 2019, while the gross profit margin gently decreased from 20.2% in 2018 to 19.1% in 2019 maintaining at a stable level between these two periods.

Other income

Other income increased by HK$0.8 million to HK$9.2 million for the current period (2018: HK$8.4 million). The major components of the other income are exchange gain, interest income on loans to employees and other parties and compensation from the vendor in relation to defective products, amounting to HK$1.9 million, HK$3.5 million and HK$1.2 million, respectively.

Selling and distribution expenses

Selling and distribution expenses of HK$17.0 million (2018: HK$18.2 million) accounted for approximately 4.9% in 2019 and 5.6% in 2018 of the Group's revenue respectively.

Administrative expenses

Administrative expense of HK$78.1 million (2018: HK$91.6 million) accounted for approximately 22.4% in 2019 and 28.0% in 2018 of the Group's revenue respectively. The decrease in administrative expenses was mainly due to the reduction in staff costs and directors' remuneration of HK$14.0 million, decrease in consultancy fee of HK$2.6 million, decrease in entertainment of HK$2.0 million and decrease in legal and professional fees of HK$2.0 million, being offset by the net increase in the depreciation of right-of-use assets and operating lease charges of HK$6.7 million.

Other operating expenses

Other operating expenses increased by HK$14.0 million from HK$14.0 million in 2018 to HK$28.0 million in 2019. The increase in other operating expenses was mainly arising from the recognition of provision for expected credit loss on loans to other parties by HK$17.4 million, being offset by the decrease in research and development expenditures and provision for bad debts of HK$2.0 million and HK$1.6 million respectively.

Finance costs

The Group's finance costs is HK$4.2 million in 2019 and HK$2.4 million in 2018, represented 1.2% and 0.7% of the revenue in 2019 and 2018 respectively. The increase in finance costs during the period was mainly due to the initial application of HKFRS 16, leading to the charge of interest on lease liabilities, amounting to HK$2.0 million.

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 U.S.A.

The Group's effective income tax rates for the periods ended 30 June 2019 and 2018, was approximately -6.3% and -1.5% respectively.

Loss for the period attributable to owners of the Company

The loss attributed to owners of the Company was HK$56.2 million for the period ended 30 June 2019 (2018: HK$52.3 million). The Group's net loss margin attributable to owners of the Company for the period ended 30 June 2019 was -16.1% (2018: -16.0%)

Profit/(loss) for the period attributable to non-controlling interests

The profit attributable to non-controlling interests amounted to HK$1.6 million for the period ended 30 June 2019 (2018: loss attributable to non-controlling interests HK$0.3 million).

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 2.06 times (2018: 2.15 times). As at 30 June 2019, the cash and cash equivalents amounted to HK$375.3 million, representing an increase of approximately HK$35.2 million from 31 December 2018. During the six months ended 30 June 2019, HK$13.8 million was generated from the operating activities, whilst HK$38.1 million was generated from investing activities and HK$16.8 million was used in financing activities.

As at 30 June 2019, the carrying amounts of the loans from related companies and loan from an independent third party are HK$20.2 million and HK$20.0 million, respectively.

CAPITAL STRUCTURE

As at 30 June 2019, 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 majority of the Group's sales and purchases are denominated in US dollars, RMB and Euro. Due to the fact that the Hong Kong dollar is pegged to the US dollars, the Group's exposure to this foreign exchange risk is low. 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 2019, 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 arrangement for hedging purpose 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 2019 amounted to approximately HK$2.2 million and the capital commitments as at 30 June 2019 amounted to approximately HK$0.3 million. Both the capital expenditure and capital commitments were mainly related to the acquisition of plant and machinery and leasehold improvements to cope with the requirement of the EMS operation.

CONTINGENT LIABILITIES

(i) As at 30 June 2019 and 31 December 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 2018, 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 regards, as at 30 June 2019 and 31 December 2018, the Group had an outstanding guarantee of the sum limited to USD650,000 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.

(ii) During 2018, a lawsuit was lodged against a subsidiary of the Company, Guangzhou Telefield Limited. The plaintiff seeks compensation of approximately RMB1 million. Having sought legal advices, the directors are of the view that the above compensation shall be disclosed as contingent liabilities.

Apart from the above, the Group and the Company did not have any significant contingent liabilities.

PLEDGE OF ASSETS

As at 30 June 2019, 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 2019, the Group was holding listed equity investments at a fair value of approximately HK$3.7 million, which were classified as financial assets at fair value through other comprehensive income. Due to the movements of the share prices, net fair value change in respect of such investments of approximately HK$9.5 million was recorded in other comprehensive income. Apart from the change in fair value, the balance of the equity investments decreased significantly due to disposal of certain equity investments during the period ended 30 June 2019.

During the period under review, save as disclosed above, 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 2019, the Group had approximately 1,500 employees in various operating units in Hong Kong, U.S.A, 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 2019 and 31 December 2018. In addition, no share option was granted, cancelled or lapsed during the six months ended 30 June 2019.

PROSPECTS

In respect of the EMS and Distribution of Communication Products businesses, the Group will seek to bolster ties with its business partners in order to seize new opportunities, as well as to work together in overcoming whatever challenges that may arise. In the case of the EMS business in particular, the Group will direct still greater effort towards the research and development of IoT, Wi-Fi and Bluetooth enabled products.

With regard to the Securities and Other Assets Investment operation, the Group will continue to look for business opportunities that can further enhance the Group's growth and facilitate value creation for its investors.

Though the global business climate is becoming increasingly unpredictable, with downside risk a growing concern, the Group remains cautiously optimistic about its fortunes in the longer term due to the strategies in place for bolstering its existing operations, while at the same time expanding its business influence. Such an outlook is reflected in the proposed change of Company name to "Link-Asia International Co. Ltd." and its Chinese equivalent "環亞國際實業有限公司". The Group trusts that the changes will raise awareness of its business nature and direction, both of which will be driving its development well into the future.

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 2019.

Events after the reporting period

The Group entered into a memorandum of understanding (the "MOU") with LF Joy Realty, Inc. ("LF Joy") on 23 July 2019, in relation to obtain the exclusive agency sale right to sell residential units in Philippine, subject to, among others, the terms of the formal cooperation agreement to be signed within one month from the date of the MOU. The Company has paid LF Joy a refundable deposit of HK$1,500,000.

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 2019 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 2019, 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. Lin Darren, who acts as the Chairman and an executive Director of the Company, 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

During the period from 1 January 2019 to 11 August 2019, the audit committee of the Board ("Audit Committee") had three members comprising Mr. Wong Chun Hung (Chairman), Mr. Bao Jinqiao and Mr. Leung Pok Man, all being independent non-executive Directors. Since Mr. Wong Chun Hung resigned on 12 August 2019 and up to the date of this announcement, the Audit Committee has two members and hence the Company has been unable to meet the requirements under Rules 3.10 and 3.21 of the Listing Rules regarding to (i) include at least three independent non-executive directors and (ii) must comprise a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2). The Company will use its best endeavours to identify suitable candidate to fill the vacancies as soon as practicable, with the relevant appointment to be made within three months from 12 August 2019 pursuant to Rules 3.11 and 3.23 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 2019. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2019 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
Lin Darren
Chairman and Executive Director

Hong Kong, 30 August 2019

As at the date of this announcement, the Board comprises Mr. Lin Darren (Chairman), Mr. Lee Chi Hwa Joshua, Mr. Duan Chuanhong and Mr. Li Wuhao as executive Directors; Mr. Bao Jinqiao and Mr. Leung Pok Man as independent non-executive Directors.