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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the "**Board**") of directors (the "**Directors**") of Kaisa Health Group Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2019 together with the comparative figures for the corresponding year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** *HK$'000*	2018 *HK$'000*
Revenue	*3*	**251,618**	241,948
Cost of sales		**(128,728)**	(132,275)
Gross profit		**122,890**	109,673
Other income, gains and losses		**18,176**	10,930
Selling and distribution costs		**(50,369)**	(45,061)
Administrative expenses		**(74,992)**	(70,797)
Net gain from change in fair value of financial assets at fair value through profit or loss	*10*	**13,760**	–
Loss from change in fair value of convertible promissory note	*8*	**(1,181)**	2,011
Loss from change in fair value of convertible bonds receivable	*12*	**(116)**	449
Impairment of intangible assets		**(27,068)**	–
Impairment of goodwill		**(330,805)**	–
Other expenses		**(32,609)**	(26,460)
Finance costs		**(357)**	–
Loss before income tax	*4*	**(362,671)**	(19,255)
Income tax credit/(expense)	*5*	**7,625**	(2,784)
Loss for the year		**(355,046)**	(22,039)

	Notes	**2019**	2018
		HK$'000	*HK$'000*
Other comprehensive expense, including reclassification adjustments			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(12,231)**	(9,601)
Total comprehensive expense for the year		**(367,277)**	(31,640)
Loss for the year attributable to:			
– Owners of the Company		**(354,673)**	(22,039)
– Non-controlling interests		**(373)**	–
		(355,046)	(22,039)
Total comprehensive expense for the year attributable to:			
– Owners of the Company		**(366,909)**	(31,640)
– Non-controlling interests		**(368)**	–
		(367,277)	(31,640)
		HK cents	*HK cents*
Loss per share	*7*		
– Basic		**(7.03)**	(0.43)
– Diluted		**(7.03)**	(0.43)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**36,265**	35,166
Right-of-use assets		**7,389**	–
Intangible assets		**620**	27,760
Goodwill		**–**	330,805
Convertible promissory note	*8*	**28,086**	29,309
Deposits paid to a fellow subsidiary	*9*	**–**	140,000
Financial assets at fair value through profit or loss	*10*	**229,879**	–
		302,239	563,040
Current assets			
Inventories		**6,850**	6,877
Trade and other receivables	*11*	**74,145**	71,651
Financial assets at fair value through profit or loss	*10*	**28,143**	–
Convertible bonds receivable	*12*	**46,323**	47,649
Amount due from a director		**24,519**	27,788
Amount due from a fellow subsidiary		**–**	1,466
Amount due from a non-controlling shareholder of a subsidiary		**22**	–
Taxation recoverable		**2,440**	1,150
Short-term bank deposits		**–**	160,000
Bank balances and cash		**230,176**	194,765
		412,618	511,346
Current liabilities			
Trade and other payables	*13*	**64,686**	61,622
Lease liabilities		**2,484**	–
Amount due to a related party		**716**	730
		67,886	62,352
Net current assets		**344,732**	448,994
Total assets less current liabilities		**646,971**	1,012,034

	2019	2018
	HK$'000	*HK$'000*
Non-current liabilities		
Lease liabilities	**5,310**	–
Deferred tax liabilities	–	6,940
	5,310	6,940
Net assets	**641,661**	1,005,094
Equity		
Share capital	**6,303**	6,303
Reserves	**635,704**	998,791
Equity attributable to owners of the Company	**642,007**	1,005,094
Non-controlling interests	**(346)**	–
Total equity	**641,661**	1,005,094

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

1.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance.

1.2 Principal accounting policies

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

Except for the adoption of new or amended HKFRSs as described in note 2, the accounting policies and methods of computation used in the consolidated financial statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

2. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

New and amended HKFRSs that are effective for annual periods beginning or after 1 January 2019

In the current year, the Group has applied for the first time the following new and amended HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are relevant to the Group’s operations and effective for the Group’s consolidated financial statements for the annual 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, 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 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 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.

Issued but not yet effective HKFRSs

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 Effective date not yet determined

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

The directors 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 consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

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

For the years ended 31 December 2019 and 2018, 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 operation of health care business was introduced to the Group during the year ended 31 December 2018.

3.1 Segment revenue and results

For the year ended 31 December 2019

	Dental prosthetics business *HK$'000*	Health care business *HK$'000*	Total *HK$'000*
REVENUE			
Revenue from external customers	**251,243**	**375**	**251,618**
RESULTS			
Segment profit/(loss) before depreciation and amortisation	**28,945**	**(3,220)**	**25,725**
Depreciation of property, plant and equipment	**(10,516)**	**(699)**	**(11,215)**
Depreciation of right-of-use assets	**–**	**(2,095)**	**(2,095)**
Amortisation of intangible assets	**(950)**	**–**	**(950)**
Segment operating profit/(loss)	**17,479**	**(6,014)**	**11,465**
Impairment of intangible assets	**(27,068)**	**–**	**(27,068)**
Impairment of goodwill	**(330,805)**	**–**	**(330,805)**
Segment loss before income tax	**(340,394)**	**(6,014)**	**(346,408)**
Loss from change in fair value of financial assets at fair value through profit or loss – unlisted managed fund			**(2,441)**
Loss from change in fair value of convertible promissory note			**(1,181)**
Loss from change in fair value of convertible bonds receivable			**(116)**
Unallocated income			**8,255**
Unallocated expenses			**(20,780)**
Loss before income tax			**(362,671)**

For the year ended 31 December 2018

	Dental prosthetics business HK$'000	Health care business HK$'000	Total HK$'000
REVENUE			
External sales	241,948	–	241,948
RESULTS			
Segment profit/(loss) before depreciation and amortisation	29,588	(13,092)	16,496
Depreciation of property, plant and equipment	(6,915)	(189)	(7,104)
Amortisation of intangible assets	(693)	–	(693)
Segment operating profit/(loss)	21,980	(13,281)	8,699
Gain from change in fair value of convertible bonds receivable			449
Gain from change in fair value of convertible promissory note			2,011
Unallocated income			3,304
Unallocated expenses			(33,718)
Loss before income tax			(19,255)

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 certain administration costs, other income, gains and losses, and changes in fair values of convertible bonds receivable, convertible promissory note and unlisted managed fund. This is the information reported to the chief operating decision maker, being the directors of the Company for the purposes of resource allocation and performance assessment.

3.2 Segment assets and liabilities

As at 31 December 2019

	Dental prosthetics business	**Health care business**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Reportable segment assets	**238,858**	**347,297**	**586,155**
Convertible promissory note			**28,086**
Convertible bonds receivable			**46,323**
Financial assets at fair value through profit or loss – unlisted managed fund *(note 10(b))*			**28,143**
Taxation recoverable			**2,440**
Unallocated assets			**23,710**
Total assets			**714,857**
Reportable segment liabilities	**(55,934)**	**(12,098)**	**(68,032)**
Unallocated liabilities			**(5,164)**
Total liabilities			**(73,196)**

As at 31 December 2018

	Dental prosthetics business	Health care business	Total
	HK$'000	*HK$'000*	*HK$'000*
Reportable segment assets	628,832	157,487	786,319
Taxation recoverable			1,150
Unallocated assets			286,917
Total assets			1,074,386
Reportable segment liabilities	(52,395)	(2,083)	(54,478)
Deferred tax liabilities			(6,940)
Unallocated liabilities			(7,874)
Total liabilities			(69,292)

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**	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**87,222**	124,052	**204**	–
PRC (excluding Hong Kong)	**163,067**	116,292	**43,596**	62,471
Others	**1,329**	1,604	**474**	455
	251,618	241,948	**44,274**	62,926

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

3.4 Information about major customers

The Group's customer base includes two customers, Customer A and Customer B (2018: two customers, Customer C and Customer D) in the dental prosthetics business segment with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to Customer A and Customer B amounted to approximately HK$25,000,000 and HK$24,657,000 (2018: sales to Customer C and Customer D amounted to approximately HK$48,583,000 and HK$34,079,000) respectively.

4. LOSS BEFORE INCOME TAX

	2019	2018
	HK$'000	*HK$'000*
Loss before income tax has been arrived at after (crediting)/charging:		
Directors' remuneration		
– fees	**1,368**	1,088
– other emoluments	**8,806**	8,485
– equity-settled share-based payment expenses	**1,565**	4,221
– contributions to defined contribution retirement schemes	**39**	29
	11,778	13,823
Other staff costs		
– staff salaries and allowances	**127,791**	121,261
– equity-settled share-based payment expenses	**2,258**	5,846
– contributions to defined contribution retirement schemes	**5,448**	5,788
	135,497	132,895
Total staff costs	**147,275**	146,718
Auditor's remuneration		
– Current year	**1,100**	1,245
Amortisation of intangible assets (included in cost of sales)	**950**	693
Cost of inventories recognised as expense	**128,728**	131,582
Depreciation:		
– Property, plant and equipment	**11,216**	7,104
– Right-of-use assets	**2,585**	–
Impairment/(Reversal of impairment) of trade receivables (included in other income, gains and losses)	**156**	(301)
Impairment loss on intangible assets	**27,068**	–
Impairment loss on goodwill	**330,805**	–
Lease charges:		
– Land and buildings held under operating leases	**–**	7,350
– Short-term leases with lease term less than 12 months	**7,483**	–
Net exchange loss/(gain) (included in other income, gains and losses)	**1,465**	(3,341)
Research and development expenses (included in other expenses)	**32,609**	26,460
Finance charges on lease liabilities	**357**	–

5. INCOME TAX (CREDIT)/EXPENSE

	2019	2018
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**616**	2,918
PRC Enterprise Income Tax	**–**	–
	616	2,918
(Over)/Under-provision in prior years:		
Hong Kong Profits Tax	**(20)**	(30)
PRC Enterprise Income Tax	**(1,281)**	70
	(1,301)	40
Deferred tax credit	**(6,940)**	(174)
	(7,625)	2,784

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK$2 million of profit of qualifying entities are taxed at 8.25%, and the profits above HK$2 million are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

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 the year.

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 year ("Super Deduction"). A subsidiary is eligible to such Super Deduction in ascertaining its tax assessable profit for the years ended 31 December 2019 and 2018.

6. DIVIDENDS

No dividends were paid, declared or proposed for the years ended 31 December 2019 and 2018, nor has any dividend been proposed since the end of the reporting periods.

7. LOSS PER SHARE

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

	2019	2018
	HK$'000	*HK$'000*
Loss for the year attributable to owners of the Company	**(354,673)**	(22,039)

Number of shares

	2019	2018
Weighted average number of ordinary shares in issue during the year	**5,042,139,374**	5,083,611,319

The diluted loss per share for the years ended 31 December 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. Therefore, the diluted loss per share is the same as basic loss per share for the years ended 31 December 2019 and 2018.

8. 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 31 December 2019 and 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	(42)
Change in fair value recognised in profit or loss	(1,181)
At 31 December 2019	**28,086**

9. 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 were disclosed in the Company's circular dated 28 November 2018, and the respective 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 represented 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 10.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	HK$'000	*HK$'000*
Non-current:		
Unlisted equity investment *(note a)*	**229,879**	–
Current:		
Unlisted managed fund *(note b)*	**28,143**	–

Notes:

(a) Upon the completion of the acquisition of Sale Share and Sale Loan of the Target Group on 23 May 2019 as disclosed in note 9, the Group has contributed RMB191,412,000 (equivalents to HK$219,908,000) 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 9).

As at 31 December 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	(6,230)
Change in fair value recognised in profit or loss	16,201
At 31 December 2019	**229,879**

* *For identification purpose only*

(b) The Group did not have significant influence nor participate in the policy-making process and the operating and financial decisions of the unlisted managed fund.

Details of movement of unlisted managed fund is set out below:

	HK$'000
At 1 January 2019	–
At date of acquisition	29,967
Exchange realignment	(258)
Gain on disposal recognised in profit or loss	875
Change in fair value recognised in profit or loss	(2,441)
At 31 December 2019	**28,143**

11. TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**65,083**	64,133
Less: ECL allowance	**(730)**	(574)
	64,353	63,559
Other receivables, prepayments and deposits	**9,792**	8,092
	74,145	71,651

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

	2019	2018
	HK$'000	*HK$'000*
0 – 90 days	**54,834**	58,171
91 – 180 days	**5,529**	3,099
181 – 365 days	**2,766**	1,966
Over 1 year	**1,224**	323
	64,353	63,559

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.

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 carry 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 Share") 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.

On 29 November 2019, the Group and Condor International entered into an amendment deed to amend and supplement the terms and conditions of the Convertible Bonds, pursuant to which the Maturity Date of the Convertible Bonds has been extended from 27 November 2019 to 27 November 2020. Details of the extension of the Convertible Bonds were set out in the Company's announcement dated 3 December 2019.

As at 31 December 2019 and 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	(1,210)
Change in fair value recognised in profit or loss	(116)
At 31 December 2019	**46,323**

13. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**5,689**	6,717
Other payables	**23,844**	17,092
Contract liabilities *(note)*	**31**	–
Accrued charges	**35,122**	37,813
	64,686	61,622

Note:

Contract liabilities arising from receiving deposits of medical services under the health care business segment. When the Group receives a deposit before the commencement of medical services, this will give rise to a contract liability at the inception of a contract until the revenue recognised on the service could cover the amount of the deposit. The contract liabilities represent receipts in advance for the medical services and are expected to be recognised as revenue within one year.

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

	2019	2018
	HK$'000	*HK$'000*
0 - 90 days	**5,241**	6,486
91 - 180 days	**448**	97
Over 180 days	**–**	134
	5,689	6,717

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

During the year, the Group's revenue reached approximately HK$251.6 million (2018: approximately HK$241.9 million), representing an increase of 4% when compared with last year. The loss attributable to the shareholders of the Company for the year ended 31 December 2019 was approximately HK$354.7 million, representing a basic loss per share of HK7.03 cents (2018: loss of approximately HK$22.0 million, representing a basic loss per share of HK0.43 cents).

FINAL DIVIDEND

The Board did not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: Nil).

BUSINESS REVIEW

Dental Prosthetics Business

The Group has engaged in the Dental Prosthetics Business, including the sales (both overseas and domestic) and production of dental prosthetics, including crowns and bridges, removable full and partial dentures, implants and full-cast restorations.

Revenue from the Dental Prosthetics Business was approximately HK$251.2 million as of 31 December 2019, and revenue was approximately HK$241.9 million for the corresponding period in 2018.

The Dental Prosthetics Business was acquired in May 2015. With regard to the sales distribution of the Dental Prosthetics Business, in 2019, domestic sales accounted for 65% of annual sales, overseas sales accounted for 35% of annual sales. Comparing to the domestic sales accounting for 48% of annual sales and overseas sales accounting for 52% of annual sales in 2018, the proportion of domestic sales in 2019 has significantly increased, indicating that the current Sino-US trade war has a great impact on the expansion of international market. Although Sino-US trade war has imposed pressure on the international market, the Group actively reinforced the development and deeply involved in the dental prosthetics sales market in China. Revenue contributed from the Dental Prosthetics Business continued to grow steadily. Overall speaking, the scale of operation of the Dental Prosthetics Business continued to increase. The Group enhanced sales and marketing efforts and offered more sales discounts, which also stimulated revenue growth. The Group will continue to cooperate with technical institutes for more stable supply of labour resources and implement automation in order to reduce the reliance to labour resources.

The Group's newly launched product, the Mega Clear Aligner, has achieved good performance in terms of revenue growth. The turnover for the Mega Clear Aligner has demonstrated an increasing trend since its launch in June 2017 and the Company will continue to put more effort on it so as to enhance its competitiveness. In contrast to traditional orthodontics, Mega Clear Aligner dental braces are invisible, pain-free, suitable for all ages, and can be worn and removed with ease for better patient oral hygiene. Mega Clear Aligner is based on the latest imported technologies, utilizing 3D-printing technology to diagnose, design and produce customized invisible dental braces for each patient. Meanwhile, the competitiveness of the Group is not only manifested in the advancement of innovative technologies, but also in its forward-looking market sensitivity as well as its analysis of and insights into customers who concerned about beauty. With various attempts made by the Group to collaborate with fashion media since 2015 and the strong alliance with the ELLE CHINA 30th Anniversary in 2018, the Group has created a new landscape for its aesthetic dental business, and has taken further steps to develop the medical aesthetics market in the PRC.

In order to strengthen the dental device business, the Group actively sets up a layout plan for its dental device products. As the Group is still optimistic about the prospects of China's market for the three-dimensional intraoral scanners, it extended the convertible bonds with Condor International. In contrast to traditional modelling methods, the modelling time for three-dimensional intraoral scanners is relatively short, which enables patients to experience a more comfortable digitized modelling. In addition, oral scans also facilitate doctors in getting treatment plans, thus achieving a win-win situation for both patients and doctors. Moreover, Condor's three-dimensional intraoral scanners have fast scanning speed, world's smallest detector and greater market competitiveness.

Investment in research and know-hows is always a focus in our business. Research and development expense increased to HK$32.6 million during this year (2018: HK$26.5 million), reflecting the management's determination and vision to invest in the future technologies in the Dental Prosthetics Business. On the other hand, grants and awards of HK$8.1 million (2018: HK$2.2 million) were received from the Municipal Government for acknowledging the Group's continued effort in research and development of skills and know-hows in the dental prosthetics areas.

Although the Group has continuously devoted resources to develop the Dental Prosthetics Business, under the attacks of the Sino-US trade war and Coronavirus Disease, the development of the Dental Prosthetics Business was seriously distorted. The estimated growth rate of the Dental Prosthetics Business dropped significantly from approximately 35.5% in 2018 to 6.7% now. The main reason for the significant drop on growth rate is the forecast on overseas market is highly reduced. As shown in the portion of overseas sales, the portion of overseas sales has significantly reduced from 52% in 2018 to 35% in 2019. The domestic market has also seriously deteriorated under Coronavirus Disease which significantly reduce the demand of customers. The sale of three-dimensional intraoral scanners is still uncertain since the Group need to wait for approval from PRC National Products Administration. The directors have referenced to the result of independent qualified professional valuer on calculation of recoverable amount of the cash generation unit ("CGU") containing the goodwill and intangible assets. The recoverable amount of the CGU has been determined based on a value-in-use ("VIU") calculation.

The calculation uses cash flows projections based on financial budgets approved by the management for the year ending 31 December 2020 and the following four years based on average growth rate of 6.7% (2018: 35.5%) per annum. Cash flows beyond the five-year (2018: five-year) period are extrapolated using 3% (2018: 3%) growth rate. A pre-tax discount rate of 19% (2018: 19%) is used for this CGU and derived using risk-free rate, the market return and CGU specific risk factors. The average gross margin and net margin of the CGU during the forecast period are 48.9% and 4.6% respectively, as compared to 49.1% and 9.7% respectively for the year ended 31 December 2019 (2018: 45.6% and 8.4% respectively).The key assumptions included annual growth rates, estimated future selling prices and direct costs which are estimated based on past practices and expectations of future changes in the market.

The Board performed an impairment assessment based on a valuation conducted by the independent qualified professional valuer, and determined that the recoverable amount of the CGU was approximately HK$139 million (2018: HK$1,545 million) as at 31 December 2019.

The Board believe that, based on reasonable changes in the key assumptions, the carrying value of the Dental Prosthetics Business was over the recoverable amount. During the year ended 31 December 2019, the goodwill impairment was made in full of approximately HK$330.8 million (2018: HK$ Nil) and the intangible asset impairment was made in full of approximately HK$27.1 million (2018: HK$ Nil).

Health Care Business

The Group has participated in the health care industry – Shulan Project through the acquisition of Trade Guide Limited (a company engages in the provision of public health and medical services) in 2018, and a hospital has commenced construction in 2019. Shulan Project will enable the Group to penetrate to the front line of the health care sector, directly responding and identifying the needs of patients, and it will also facilitate investment decision on the health care industry and building 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 Health Care 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 order to actively expand the Group's business scope in health care sector and to enhance shareholder value, the Group set up a rehabilitation centre in Shenzhen in 2019, and such centre has become a medical insurance designated medical institution (醫保定點單位) in Shenzhen. The Group hopes to enter the rehabilitation industry through light assets and explores the business model of conducting medical service business in store-style and chained operations, thus laying a foundation for subsequent full-scale operation. The Group expects that the Project will achieve good performance in terms of revenue growth.

PROSPECT

The Group is principally engaged in the Dental Prosthetics Business, and its business strategy was to further expand its business so as to further enhance shareholders' 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 Prosthetics Business

The Group considers that the increase in the consumption level in the PRC builds the base for the rapid growth in China's dental market. On this basis, through the education promoted by the overseas vendors and dentists, the populace's heightening awareness of oral hygiene provides the endogenous power for maintaining the speedy growth in the dental market. Currently, China's dental market has been rapidly developing, hence the trend of increasing dental consumption will not change, and is expected to gradually extend from the eastern coastal regions to cities in central and western part of the PRC and the overall dental market probably will continue its rapidly increasing trend for a long time in the future. It is projected that with the increase of 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 (such as the US), expanding its production capacity in the PRC and developing high-end new denture prosthetics products with beauty attributes.

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 to provide better returns of investment for the shareholders of the Company.

Health Care Business

The health care services industry in the PRC has been growing rapidly in recent years. According to National Health Commission of the PRC, the total number of visits to clinics increased by 130 million in 2018 and the total spending on health care services in the PRC grew more than 80% during the period between 2013 and 2018 from RMB3,166 billion to RMB5,800 billion. Also, the revenue and numbers of hospitals have witnessed steady growth in the last decade. The number of admitted cases of private hospitals recorded a CAGR of 4.8% during the period between 2013 and 2018. 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 decision on the health care industry and building market reputation 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 is in the interests of the Group and the Independent Shareholders as a whole.

The rehabilitation centre set up by the Group in Shenzhen is a location point of the Group to enter the rehabilitation industry. The Group expects that such project will achieve outstanding performance in terms of revenue growth. Subsequently, the Group will expand from one point to an area by setting up rehabilitation centres and rehabilitation hospitals in various areas of Shenzhen, so as to satisfy the populace's increasing demand for rehabilitation. After that, the Group will apply the successful business model of such project to other major cities, aiming to achieve a uniform layout throughout the country, and to create maximum value for our Shareholders.

OPERATING RESULTS AND FINANCIAL REVIEW

Revenue

The sales for the year has been increased slightly, which is mainly due to the slowdown of operation of the Dental Prosthetics Business of the Group. The Sino-US trade war exerted pressure on the sales in the overseas market, but the sales in China still managed to grow steadily. Other revenue has been increased, which is due to more subsidies were received from the government regarding research and development and the decrease in revenue from dentist training and consultancy services.

Gross Profit and Gross Profit Margin

Gross profit for the year amounted to HK$122.9 million (2018: HK$109.7 million). Gross profit margin for the year increased to 48.8% (2018: 45.3%). This is mainly attributable to the increase in market share in the new product - Mega Clean Aligner which has a higher profit margin.

Selling and Distribution Costs

Increase in selling and distribution costs mainly represented the management's effort to increase the level of marketing activities.

Administrative Expenses

The increase in administrative expenses was mainly due to the expansion of Dental Prosthetics Business, the increase in investment in the acquisition of health care businesses and the increase in the introduction of dental prosthetics and medical related professionals during the year.

Other Expenses

Increase in other expenses represented the increase in research and development ("R&D") expenses. The Group increased its investments in research and development to enhance the competitiveness, production capacity, popularity of its products in the future while reducing labour costs. At the same time the Group would also apply for a deduction or exemption of PRC Enterprise Income Tax and grants and subsidies from the government in accordance with the requirements of the state. The related R&D projects includes 3D engraving machines, 3D printers, 3D scanners and the development of an invisible orthodontic software. The scale of the applications for government subsidies for R&D projects and the utilisation of labour and raw materials were all larger and higher than that of 2018.

Impairment of Goodwill

Goodwill of HK$330.8 million was generated from the acquisition of the Dental Prosthetics Business in 2015. Due to the devaluation of the Dental Prosthetics Business, full impairment of goodwill of HK$330.8 million was made.

Impairment of Intangible Assets

Intangible assets of HK$32.1 million were acquired from the acquisition of the Dental Prosthetics Business in 2015. Intangible assets represent patents and trademarks of the acquired companies. Due to the devaluation of the Dental Prosthetics Business, full impairment of net book value of intangible assets of HK$27.1 million was made.

Convertible Bonds Receivable

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

Convertible Promissory Note

The convertible promissory note represented the senior secured convertible promissory note with an independent third party, in the principal amount of US$3.5 million for the total consideration of US$3.5 million (equivalent to approximately HK$27.5 million)

Cash Position and Cash Flow

The Group had a solid cash position for the year under review, with bank balances and cash amounting to approximately HK$230.2 million as at 31 December 2019 (31 December 2018: HK$194.8 million).

Capital Expenditure and Capital Commitments

During the year, the Group invested approximately HK$15 million (2018: approximately HK$27.2 million) mainly on the purchase of equipment. As at 31 December 2019, there was no capital expenditure commitments.

Contingent Liabilities

The Group had no significant contingent liabilities as at 31 December 2019 (31 December 2018: Nil).

Treasury Policy

The Group's sales were principally denominated in Renminbi, EUR 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 year 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 31 December 2019 amounted to approximately HK$642.0 million (31 December 2018: approximately HK$1,005.1 million).

As at 31 December 2019, the net current assets of the Group amounted to approximately HK$344.7 million (31 December 2018: HK$449.0 million). The current and quick ratio was 6.08 and 5.98 respectively (31 December 2018: 8.20 and 8.09 respectively).

At 31 December 2019, the amount of HK$716,000 (2018: HK$730,000) represented balance due to Ms. Jiang Sisi, the spouse of Mr. Wu Tianyu. The amount is unsecured, interest-free and repayable on demand.

As at 31 December 2019 and 2018, no gearing ratio was calculated as there was no bank borrowing or other long term debt borrowed by the Group.

Taking the above figures into account, the management is confident that the Group is financially strong and has adequate resources to settle its outstanding debts and finance its daily operational expenditures.

Charge on Assets

There was no charge on assets of the Group as at 31 December 2019 and 2018.

EMPLOYEES AND REMUNERATION POLICY

The Group employed approximately 1,260 employees in total as at 31 December 2019 in Hong Kong and the PRC (31 December 2018: approximately 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 remuneration committee (the "Remuneration Committee") of the Board, having regard to the Group's performance, individual performance and comparable market conditions.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing of Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of conduct regarding securities transactions by the Directors. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard as set out in the Model Code during the year ended 31 December 2019.

The Company has also established written guidelines on terms no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of inside information of the Company or its securities. No incidence of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during the year ended 31 December 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the year ended 31 December 2019, the Company has complied with the Corporate Governance Code (the "Code") as contained in Appendix 14 to the Listing Rules, except for the following deviations:

Code Provision A.6.7

There was a deviation from provision A.6.7 of the Code:

Pursuant to provision A.6.7 of the Code, independent non-executive Directors and non-executive Directors should attend general meetings in order to develop a balanced view of the shareholders. Due to the various business commitments, not all the independent non-executive Directors and the 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 the dates of the general meetings as earliest as possible to make sure that all the independent non-executive Directors and non-executive Directors can attend the general meetings in the future.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

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

The Audit Committee has reviewed and discussed with management and the external auditors on matters regarding internal control, systems of risk management, the accounting standards and practices adopted by the Group and the Group's annual results for the year ended 31 December 2019.

SCOPE OF WORK OF GRANT THORNTON HONG KONG LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by the Group's auditor, Messrs. Grant Thornton Hong Kong Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Grant Thornton Hong Kong Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Grant Thornton Hong Kong Limited on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the Company's website (http://www.kaisahealth.com) and Hong Kong Exchanges and Clearing Limited website (http://www.hkexnews.hk). The 2019 annual report will be dispatched to the shareholders of the Company and will be made available on the websites of the Company and Hong Kong Exchanges and Clearing Limited in due course in accordance with the Listing Rules.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank all our valuable shareholders, respectable customers, dedicated vendors and professional bankers for their support over the year and look forward to a closer cooperation in the coming years.

I would also like to personally thank our management and staff for their hard working and commitment to the Group.

By order of the Board
Kaisa Health Group Holdings Limited
Luo Jun
Chief Executive Officer

Hong Kong, 30 March 2020

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. Lau Shui Fung, Mr. Fok Hei Yu and Dr. Lyu Aiping.