Kaisa Health Group Holdings Limited
佳 兆 業 健 康 集 團 控 股 有 限 公 司

(Incorporated in Bermuda with limited liability 於百慕達註冊成立之有限公司)

(Stock Code 股份代號: 876)

Interim Report 2018
中期報告

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Luo Jun *(Chairman)*
Mr. Wu Tianyu *(Chief Executive Officer)*

Non-executive Director

Mr. Xu Hao

Independent Non-executive Directors

Dr. Liu Yanwen
Mr. Guo Peineng
(resigned on 5 March 2018)
Mr. Wang Wansong
Mr. Fok Hei Yu (appointed on 5 March 2018)
Dr. Lyu Aiping (appointed on 5 March 2018)

AUDIT COMMITTEE

Dr. Liu Yanwen *(Chairman)*
Mr. Guo Peineng
(resigned on 5 March 2018)
Mr. Wang Wansong
Mr. Fok Hei Yu (appointed on 5 March 2018)

REMUNERATION COMMITTEE

Mr. Fok Hei Yu *(Chairman)*
(appointed on 5 March 2018)
Mr. Guo Peineng *(Chairman)*
(resigned on 5 March 2018)
Mr. Wu Tianyu
Mr. Wang Wansong

NOMINATION COMMITTEE

Mr. Luo Jun *(Chairman)*
(appointed on 19 January 2018)
Mr. Wu Tianyu *(Chairman)*
(ceased to act on 19 January 2018)
Mr. Guo Peineng
(resigned on 5 March 2018)
Mr. Wang Wansong
Mr. Fok Hei Yu (appointed on 5 March 2018)

COMPANY SECRETARY

Mr. Lam Wai Fung, Dominic

AUTHORISED REPRESENTATIVES

Mr. Luo Jun (appointed on 19 January 2018)
Mr. Lam Wai Fung, Dominic
Mr. Wu Tianyu (ceased to act on 19 January 2018)

INDEPENDENT AUDITOR

Grant Thornton Hong Kong Limited
Certified Public Accountants

LEGAL ADVISERS

Hong Kong

Sidley Austin

Bermuda

Conyers Dill & Pearman

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Nanyang Commercial Bank, Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 2016A, 20/F,
Two International Finance Centre,
8 Finance Street,
Central, Hong Kong

SHARE REGISTRARS

Bermuda Principal

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Hong Kong Branch

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

876

COMPANY WEBSITE

www.kaisahealth.com

INDEPENDENT REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Grant Thornton
致同

To the Board of Directors of Kaisa Health Group Holdings Limited 佳兆業健康集團控股有限公司
(formerly known as Mega Medical Technology Limited 美加醫學科技有限公司)
(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Kaisa Health Group Holdings Limited (formerly known as Mega Medical Technology Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 5 to 41, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34.

Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

INDEPENDENT REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

24 August 2018

Chiu Wing Ning
Practising Certificate No.: P04920

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Unaudited Six months ended 30 June 2018 HK$'000	2017 HK$'000
Continuing operation			
Turnover	3	**127,126**	101,690
Cost of sales		**(66,048)**	(45,911)
Gross profit		**61,078**	55,779
Other income, gains and losses		**4,998**	11,130
Selling and distribution costs		**(21,386)**	(23,851)
Administrative expenses		**(27,887)**	(21,982)
Loss from change in fair value of convertible bonds receivable	10	**(1,382)**	—
Loss from change in fair value of convertible promissory note	11	**(702)**	—
Other expenses		**(10,453)**	(6,226)
Profit before income tax	4	**4,266**	14,850
Income tax expense	5	**(3,161)**	(4,790)
Profit for the period from continuing operation		**1,105**	10,060
Discontinued operation			
Loss for the period from discontinued operation	7	**—**	(3,451)
Profit for the period		**1,105**	6,609
Other comprehensive (expense)/income, including reclassification adjustments			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(4,934)**	4,944
Reclassification of exchange differences upon disposal of subsidiaries	7	**—**	(2,343)
Other comprehensive (expense)/income for the period		**(4,934)**	2,601
Total comprehensive (expense)/income for the period		**(3,829)**	9,210

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Unaudited Six months ended 30 June **2018** **HK$'000**	 2017 HK$'000
Profit/(Loss) for the period attributable to owners of the Company:			
– from continuing operation		**1,105**	10,362
– from discontinued operation		**–**	(3,428)
		1,105	6,934
Loss for the period attributable to non-controlling interests:			
– from continuing operation		**–**	(302)
– from discontinued operation		**–**	(23)
		–	(325)
Profit for the period		**1,105**	6,609
Total comprehensive (expense)/income for the period attributable to:			
Owners of the Company		**(3,829)**	8,532
Non-controlling interests		**–**	678
		(3,829)	9,210
		HK cents	HK cents (Restated)
Earnings per share	8		
From continuing and discontinued operation			
– Basic		**0.02**	0.19*
– Diluted		**0.02**	0.19*
From continuing operation			
– Basic		**0.02**	0.28*
– Diluted		**0.02**	0.28*

* Adjusted for rights issue of shares during the year ended 31 December 2017 as disclosed in note 17.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	**Unaudited 30 June 2018 HK$'000**	Audited 31 December 2017 HK$'000
Non-current assets			
Property, plant and equipment	9	**24,401**	16,716
Intangible assets		**28,107**	28,453
Goodwill		**330,805**	330,805
Convertible bonds receivable	10	**48,085**	49,441
Convertible promissory note	11	**27,238**	—
		458,636	425,415
Current assets			
Inventories		**4,084**	3,247
Trade and other receivables	12	**92,743**	72,569
Deposit paid to a fellow subsidiary	13	**80,000**	—
Amount due from a director	14	**27,942**	30,087
Bank balances and cash		**438,994**	575,448
		643,763	681,351
Current liabilities			
Trade and other payables	15	**45,564**	54,926
Amount due to a related party	16	**757**	768
Taxation payable		**3,505**	1,077
		49,826	56,771
Net current assets		**593,937**	624,580
Total assets less current liabilities		**1,052,573**	1,049,995
Non-current liabilities			
Deferred taxation		**7,028**	7,114
Net assets		**1,045,545**	1,042,881

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	**Unaudited 30 June 2018 HK$'000**	Audited 31 December 2017 HK$'000
Capital and reserves			
Share capital	17	**6,377**	6,377
Reserves		**1,039,168**	1,036,504
		1,045,545	1,042,881

The condensed consolidated financial statements on pages 5 to 41 were approved and authorised for issue by the Board of Directors on 24 August 2018 and are signed on behalf of the Board by:

Mr. Luo Jun
Director

Mr. Wu Tianyu
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Amounts recognised in other comprehensive income and accumulated in equity relating to disposal group classified as held for sale HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017 (audited)	4,783	495,069	1,545	(3,396)	41,329	(37,831)	2,903	504,402	2,100	506,502
Profit/(Loss) for the period	–	–	–	–	–	6,934	–	6,934	(325)	6,609
Exchange differences arising on translation of foreign operations	–	–	–	4,501	–	–	311	4,812	132	4,944
Reclassification of exchange differences upon disposal of subsidiaries (note 7)	–	–	–	–	–	–	(3,214)	(3,214)	871	(2,343)
Total comprehensive income/(expense) for the period	–	–	–	4,501	–	6,934	(2,903)	8,532	678	9,210
Recognition of equity-settled share-based payment	–	–	–	–	10,561	–	–	10,561	–	10,561
Disposal of subsidiaries (note 7)	–	–	–	–	–	–	–	–	(1,897)	(1,897)
At 30 June 2017 (unaudited)	4,783	495,069	1,545	1,105	51,890	(30,897)	–	523,495	881	524,376
At 1 January 2018 (audited)	6,377	1,000,779	1,545	5,727	59,373	(30,920)	–	1,042,881	–	1,042,881
Profit for the period	–	–	–	–	–	1,105	–	1,105	–	1,105
Exchange differences arising on translation of foreign operations	–	–	–	(4,934)	–	–	–	(4,934)	–	(4,934)
Total comprehensive (expense)/income for the period	–	–	–	(4,934)	–	1,105	–	(3,829)	–	(3,829)
Recognition of equity-settled share-based payment (note 18)	–	–	–	–	6,493	–	–	6,493	–	6,493
Release of share option reserve upon share options forfeited	–	–	–	–	(59)	59	–	–	–	–
At 30 June 2018 (unaudited)	**6,377**	**1,000,779**	**1,545**	**793**	**65,807**	**(29,756)**	**–**	**1,045,545**	**–**	**1,045,545**

The special reserve arose pursuant to a group reorganisation in 1997 being the difference between the nominal amount of the share capital issued by the Company in exchange for the shares of the subsidiaries and the nominal amount of the share capital of the subsidiaries acquired, capital reduction and bonus issue by way of capitalisation of the reserve in 2005 and 2006.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

		Unaudited	
		Six months ended 30 June	
		2018	2017
	Notes	**HK$'000**	HK$'000
Net cash used in operating activities		**(18,079)**	(263)
Investing activities			
Net cash outflow from disposal of subsidiaries	7	**–**	(3,080)
Interest received		**312**	11
Purchase of property, plant and equipment	9	**(11,287)**	(4,787)
Purchase of short-term investments		**(4,434)**	(25,810)
Redemption of short-term investments		**4,492**	3,618
Payment of deposit to a fellow subsidiary	13	**(80,000)**	–
Purchase of convertible promissory note	11	**(27,489)**	–
Other cash flows arising from investing activities		**2,102**	–
Net cash used in investing activities		**(116,304)**	(30,048)
Financing activities			
Advances from related parties		**–**	209
Repayment to a non-controlling shareholder of a subsidiary		**–**	(1,232)
Net cash used in financing activities		**–**	(1,023)
Net decrease in cash and cash equivalents		**(134,383)**	(31,334)
Cash and cash equivalents at 1 January		**575,448**	72,131
Effect of foreign exchange rate changes		**(2,071)**	996
Cash and cash equivalents at 30 June, representing bank balances and cash		**438,994**	41,793

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

1.1 Basis of preparation

This condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017.

Pursuant to a special resolution passed on 22 December 2017 and approved by the Registrar of Companies in Bermuda, with effect from 9 January 2018, the Company's name was changed from "Mega Medical Technology Limited" to "Kaisa Health Group Holdings Limited". The Chinese name of the Company was changed from "美加醫學科技有限公司" to "佳兆業健康集團控股有限公司".

As further disclosed in note 7, pursuant to the board resolution dated 2 December 2016 and subsequent to the disposal of Modern Success Holdings Limited and its subsidiaries (collectively referred to as the "Modern Success Group"), i.e. Electronic Manufacturing Services Business (the "EMS Business") during the year ended 31 December 2017, the EMS Business was accounted for as a discontinued operation in the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2017.

1.2 Principal accounting policies

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

Except for the application of new standards, amendments and interpretation to Hong Kong Financial Reporting Standards ("HKFRSs") as described in note 2, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

The following new and amended HKFRSs have been issued but are not yet effective for the financial period beginning on 1 January 2018 that are relevant to and have not been adopted early by the Group:

		Effective for the accounting period beginning on or after
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 16	Leases	1 January 2019
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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

HKFRS 16 "Leases"

As discussed in the annual financial statements for the year ended 31 December 2017, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. Upon the adoption of HKFRS 16, where the Group is the lessee under the lease, the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for items of office premises which are currently classified as operating leases.

Updated information about the Group's future minimum lease payments, based on the non-cancellable operating leases that have been entered into by 30 June 2018 is disclosed in note 19.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

HKFRS 16 "Leases" (Continued)

Upon the initial adoption of HKFRS 16 at 1 January 2019, the present value of most of the future minimum lease payments will be recognised as lease liabilities, with corresponding right-of-use assets recognised as non-current assets. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16.

2. CHANGES IN ACCOUNTING POLICIES

The following new standards, amendments and interpretation that may be relevant to the Group's operations have been adopted by the Group for the first time for the financial period beginning on 1 January 2018.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRSs	Annual Improvements HKFRSs 2014-2016 Cycle
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

Other than HKFRS 9 "Financial Instruments" ("HKFRS 9") and HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15"), the application of the above new standards, amendments and interpretation which are effective for the financial period beginning on 1 January 2018 had no material impact to the Group's condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

2.1 Impact on the condensed consolidated financial statements

As explained in notes 2.2 and 2.3 below, HKFRS 9 and HKFRS 15 were generally adopted without restating comparative information. As a result of the changes in the Group's accounting policies, certain reclassifications and adjustments are therefore not reflected in the condensed consolidated financial statements for the year ended 31 December 2017, but are recognised in the opening balance of the condensed consolidated financial statements on 1 January 2018.

The adjustments are explained in more details below.

2.2 HKFRS 9 "Financial Instruments"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement" ("HKAS 39"). It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the condensed consolidated financial statements.

The adoption has not had a significant effect on the Group's accounting policies related to financial liabilities. The impact of HKFRS 9 on the classification and measurement of financial assets are set out below.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

2.2 HKFRS 9 "Financial Instruments" (Continued)

(i) Classification of financial assets and financial liabilities

HKFRS 9 classifies financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity financial assets held by the Group are classified into one of the following measurement categories:

- amortised cost, if the financial asset is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the financial asset is calculated using the effective interest method;

- FVOCI (recycling), if the contractual cash flows of the financial asset comprise solely payments of principal and interest and the financial asset is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the financial asset is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

- FVPL, if the financial asset does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the financial asset (including interest) are recognised in profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

2.2 HKFRS 9 "Financial Instruments" (Continued)

(i) Classification of financial assets and financial liabilities (Continued)

Investment in equity securities are classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The measurement categories for all financial liabilities remain the same.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

2.2 HKFRS 9 "Financial Instruments" (Continued)

(i) Classification of financial assets and financial liabilities (Continued)

Reclassification from financial assets stated at cost to financial assets carried at FVPL

The Group has convertible bonds receivable of approximately HK$49,441,000 at 31 December 2017 that was stated at cost, accrued interest less impairment under the previous standard HKAS 39. As a result of the adoption of HKFRS 9, the convertible bonds receivable is reclassified to FVPL based on the business model and contractual cash flow characteristics. At 1 January 2018, the fair value of convertible bonds receivable was approximate to its carrying amount with reference to the valuation conducted by an independent external valuer, and accordingly, no adjustment to the opening balance at 1 January 2018 and no restatement to the comparative information are required.

(ii) Impairment of financial assets

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and amount due from a director).

Financial assets measured at fair value through profit or loss, including the convertible bonds receivable and convertible promissory note are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

2.2 HKFRS 9 "Financial Instruments" (Continued)

(ii) Impairment of financial assets (Continued)

Measurement of ECLs (Continued)

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— Lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial assets, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

ECLs are remeasured at each reporting date to reflect changes in the financial asset's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

As a result of this change in accounting policy on financial assets impairment, there is no significant impact to the Group's condensed consolidated financial statements and accordingly no adjustment to the opening balance of equity at 1 January 2018 and no restatement to the comparative information are required.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

2.3 HKFRS 15 "Revenue from Contracts with Customers"

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

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

2.3 HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Timing of revenue recognition

Prior to 1 January 2018, revenue arising from provision of services was recognised when services were provided, whereas revenue from sale of goods was recognised when the goods were delivered and titles had passed.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these three situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on the timing and amounts of revenue recognised in the Group's condensed consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. TURNOVER AND SEGMENT INFORMATION

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

For the six months ended 30 June 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. These operating segments have been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, that are regularly reviewed by the chief operating decision maker ("CODM"). The CODM regularly review revenue analysis and profit for the period of the Group as a whole in order to make decisions about resource allocation. The details of operating and reportable segments of the Group are as follows:

- Dental prosthetics business — manufacturing of and trading in dental prosthetics
- Health care business — provision of public health and medical services

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

For the year ended 31 December 2017, the Group's operating activities were attributable to a single operating segment which focused on the operation of manufacturing of and trading in dental prosthetics. Accordingly, no separate segment information other than entity level information was presented.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

3.1 Segment revenue and results

For the six months ended 30 June 2018

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

3.2 Segment assets and liabilities

As at 30 June 2018

	Dental prosthetics business HK$'000	Health care business HK$'000	Total HK$'000
Reportable segment assets	**569,372**	**88,119**	**657,491**
Unallocated assets			**444,908**
Total assets			**1,102,399**
Reportable segment liabilities	**44,964**	**872**	**45,836**
Deferred taxation			**7,028**
Taxation payable			**3,505**
Unallocated liabilities			**485**
Total liabilities			**56,854**

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

- all assets are allocated to operating segments other than certain prepayments and bank balances and cash held by the respective head offices, convertible promissory note and convertible bonds receivable; and

- all liabilities are allocated to operating segments other than liabilities of the respective head offices, deferred taxation and taxation payable from both segments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

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 turnover from continuing operation by the location of business operation and the Group's non-current assets by geographical location of assets.

	Turnover from external customers		Non-current assets	
	Six months ended 30 June		30 June	31 December
	2018	2017	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	**71,615**	67,124	**—**	—
PRC	**54,508**	33,120	**24,072**	16,295
Others	**1,003**	1,446	**329**	421
	127,126	101,690	**24,401**	16,716

Note: Non-current assets exclude financial instruments, intangible assets and goodwill.

3.4 Information about major customers

The Group's customer base includes three (six months ended 30 June 2017: three) customers with each of whom transactions have exceeded 10% of the Group's total revenue. Revenue from sales to these customers amounted to approximately HK$24,777,000, HK$20,031,000 and HK$14,127,000 (six months ended 30 June 2017: HK$14,519,000, HK$13,320,000 and HK$12,723,000) respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

4. PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATION

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Profit before income tax has been arrived at after (crediting)/charging:		
Amortisation of intangible assets (included in cost of sales)	**346**	346
Depreciation of property, plant and equipment	**3,094**	1,698
Research and development expenses (included in other expenses)	**10,453**	6,226
Bad debt recovered	**(337)**	—
Interest income on bank deposits	**(192)**	(11)
Interest income on convertible bonds receivable	**(1,186)**	(1,053)
Interest income on convertible promissory note	**(760)**	—
Income from short-term investments	**(58)**	(4)
Net foreign exchange gain	**(1,090)**	(1,499)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Continuing operation		
Current tax:		
Hong Kong Profits Tax	**2,702**	2,721
PRC Enterprise Income Tax	**545**	2,155
	3,247	4,876
Deferred tax credit	**(86)**	(86)
	3,161	4,790

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

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

Under the Law of the People's Republic of China 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 2 November 2015, and was registered with the local tax authority to be eligible to a concessionary tax rate of 15% for three years.

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% of the research and development expenses incurred in a year as tax deductible expenses in determining taxable profits for that period ("Super Deduction"). A subsidiary is eligible to such Super Deduction in ascertaining its tax assessable profit for the six months ended 30 June 2018 and 2017.

6. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended 30 June 2018 and 2017, nor has any dividend been proposed since the end of the reporting periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

7. DISCONTINUED OPERATION AND DISPOSAL OF SUBSIDIARIES

7.1 Discontinued operation

Pursuant to the board resolution dated 2 December 2016, the directors of the Company decided to discontinue the EMS Business. In addition, on 24 January 2017, Mega Smart Holdings Limited ("Mega Smart"), an indirect wholly owned subsidiary of the Company, entered into an agreement with a non-controlling shareholder of a subsidiary, Dragon Fortune Group Holdings Limited (formerly known as Jialong Investment Co., Limited) ("Dragon Fortune"), pursuant to which Dragon Fortune has agreed to acquire and Mega Smart has agreed to dispose of the entire issued share capital of Modern Success Group, at a consideration of HK$2,800,000. The disposal was completed on 22 February 2017.

As detailed in note 1, the results of the EMS Business (comprise of the results of Modern Success Group up till the completion date of its disposal, and those subsidiaries that had abandoned and ceased the business operation) were accounted for as a discontinued operation in the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2017.

The loss for the period from the discontinued operation was analysed as follows:

	Six months ended 30 June 2017 HK$'000
Turnover	2,308
Cost of sales	(2,010)
Gross profit	298
Selling and distribution costs	(10)
Administrative expenses	(365)
Loss on disposal of subsidiaries	(3,374)
Loss before income tax	(3,451)
Income tax expense	—
Loss for the period from discontinued operation	(3,451)

During the six months ended 30 June 2017, the discontinued operation paid cash flows of HK$6,192,000 in respect of the Group's operating activities, paid cash flows of HK$3,080,000 in respect of investing activities and contributed cash flow of HK$123,000 in respect of financing activities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

7. DISCONTINUED OPERATION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

7.2 Disposal of subsidiaries

The net assets of the Modern Success Group at the date of disposal were as follows:

	22 February 2017 HK$'000
Analysis of assets and liabilities of Modern Success Group at the date of disposal were as follows:	
Property, plant and equipment	836
Inventories	2,727
Trade and other receivables	8,460
Bank balances and cash	5,880
Trade and other payables	(6,756)
Amount due to intermediate holding company	(3,136)
Amount due to non-controlling shareholder of a subsidiary	(733)
Net assets disposed of	7,278
Loss on disposal of subsidiaries:	
Consideration received	2,800
Net assets disposed of	(7,278)
Waiver of amount due to intermediate holding company	(3,136)
Non-controlling interests	1,897
Cumulative exchange reserve reclassified from equity to profit or loss upon disposal	2,343
Loss on disposal	(3,374)
Net cash outflow arising on disposal:	
Cash consideration received	2,800
Bank balances and cash disposed of	(5,880)
	(3,080)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

8. EARNINGS PER SHARE

From continuing operation

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

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Earnings figures are calculated as follows:		
Profit for the period attributable to owners of the Company	**1,105**	6,934
Loss for the period from discontinued operation attributable to owners of the Company	**–**	3,428
Profit for the purpose of basic and diluted earnings per share from continuing operation	**1,105**	10,362

	Six months ended 30 June	
	2018	2017
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**5,101,609,374**	3,736,630,278*

* Adjusted for rights issue of shares during the year ended 31 December 2017 as disclosed in note 17.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

8. EARNINGS PER SHARE (CONTINUED)

From continuing and discontinued operation

The calculation of the basic earnings per share from continuing and discontinued operation attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	**1,105**	6,934

The diluted earnings per share for the six months ended 30 June 2018 and 2017 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.

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operation

Basic loss per share for the discontinued operation for the six months ended 30 June 2017 was 0.092 HK cents per share adjusted for rights issue of shares during the year ended 31 December 2017, based on the loss for the six months ended 30 June 2017 from the discontinued operation attributable to owners of the Company of HK$3,428,000 and the denominators detailed above for basic loss per share.

The computation of diluted loss per share for the discontinued operation for the six months ended 30 June 2017 did 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.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired property, plant and equipment of HK$11,287,000 (six months ended 30 June 2017: HK$4,787,000) and disposed of property, plant and equipment of HK$22,000 (six months ended 30 June 2017: HK$836,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

10. CONVERTIBLE BONDS RECEIVABLE

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

10. CONVERTIBLE BONDS RECEIVABLE (CONTINUED)

As detailed in note 2.2(i), the convertible bonds receivable is reclassified to FVPL upon the adoption of HKFRS 9 on 1 January 2018. As at 30 June 2018, the convertible bonds receivable has been fair valued with reference to the valuation conducted by an independent external valuer. A loss from change in fair value of approximately HK$1,382,000 is recognised in the condensed consolidated statement of profit or loss and other comprehensive income during the six months ended 30 June 2018.

Details of movement is set out below:

	HK$'000
At 1 January 2017	40,984
Exchange realignment	6,254
Interest income receivable	2,203
At 31 December 2017 and 1 January 2018	49,441
Exchange realignment	(1,160)
Interest income receivable	1,186
Change in fair value recognised in profit or loss	(1,382)
At 30 June 2018	**48,085**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

11. 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. The acquisition was funded by internal resources of the Group.

The convertible promissory note is classified as FVPL under HKFRS 9 and as at 30 June 2018, the convertible promissory note has been fair valued with reference to the valuation conducted by an independent external valuer. A loss from change in fair value of approximately HK$702,000 is recognised in the condensed consolidated statement of profit or loss and other comprehensive income during the six months ended 30 June 2018.

Details of movement is set out below:

	HK$'000
At 1 January 2018	—
At date of subscription	27,489
Exchange realignment	(189)
Interest income receivable	640
Change in fair value recognised in profit or loss	(702)
At 30 June 2018	**27,238**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

12. TRADE AND OTHER RECEIVABLES

As at 30 June 2018, included in trade and other receivables were trade receivables of HK$75,547,000 (31 December 2017: HK$62,958,000). Payment terms with customers are mainly on credit. Invoices are normally payable within 30 to 90 days after issuance, except for certain well-established customers, where the terms are extended to 120 days.

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

	30 June 2018 HK$'000	31 December 2017 HK$'000
0 - 90 days	**65,314**	55,876
91 - 180 days	**7,209**	5,002
181 - 365 days	**2,204**	1,493
Over 1 year	**820**	587
	75,547	62,958

13. DEPOSIT PAID TO A FELLOW SUBSIDIARY

The balance represents deposit paid to a fellow subsidiary, Rui Jing Investment Company Limited, a wholly-owned subsidiary of Kaisa Group Holdings Ltd., the Group's ultimate holding company, pursuant to the memorandum of understanding entered into by the Group and Kaisa Group Holdings Ltd. on 4 May 2018, for the proposed acquisition of the Sale Share and Sale Loan of the Target Group (defined in note 22). Further details are disclosed in the Company's announcements dated 4 May 2018, 24 May 2018 and 3 August 2018.

14. AMOUNT DUE FROM A DIRECTOR

The amount is unsecured, interest-free and repayable on demand.

The amount is due from a director, Mr. Wu Tianyu ("Mr. Wu", the executive director and chief executive officer of the Company), and the maximum amount outstanding during the six months ended 30 June 2018 is HK$30,215,000 (31 December 2017: HK$35,534,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

15. TRADE AND OTHER PAYABLES

	30 June 2018 HK$'000	31 December 2017 HK$'000
Trade payables	**7,202**	9,792
Other payables	**15,965**	15,211
Accrued charges	**22,397**	29,923
	45,564	54,926

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

	30 June 2018 HK$'000	31 December 2017 HK$'000
0 - 90 days	**5,954**	9,369
91 - 180 days	**760**	256
Over 180 days	**488**	167
	7,202	9,792

16. AMOUNT DUE TO A RELATED PARTY

The balance represents amount due to Ms. Jiang Sisi ("Ms. Jiang", the spouse of Mr. Wu (defined in note 14)). The amount is unsecured, interest-free and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

17. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Ordinary shares of HK$0.00125 each:		
Authorised:		
At 1 January 2017, 30 June 2017, 31 December 2017, 1 January 2018 and 30 June 2018	160,000,000,000	200,000
Issued and fully paid:		
At 1 January 2017 and 30 June 2017	3,826,207,031	4,783
Issue of shares upon rights issue (note)	1,275,402,343	1,594
At 31 December 2017, 1 January 2018 and 30 June 2018	**5,101,609,374**	**6,377**

Note: On 13 November 2017, the Company issued and allotted 1,275,402,343 ordinary shares of HK$0.00125 each to qualifying shareholders pursuant to the rights issue on the basis of one rights share for every three existing shares held by the qualifying shareholders on 15 September 2017 at the subscription price of HK$0.40 per rights share for a total gross cash consideration of approximately HK$510.16 million. The related issue expenses of approximately HK$2,858,000 that were directly attributable to the issue of new shares were deducted against the share premium account.

18. SHARE OPTIONS

The Company approved and adopted a share option scheme (the "Scheme") for eligible participant which includes any full-time or part-time employees, consultants, potential employees, executives or officers (including executive, non-executive and independent non-executive directors) of the Company or any of its subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the sole opinion of the board of directors, will contribute or has contributed to the Company and/or any of its subsidiaries.

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercisable period	Exercise price
2015A	16.6.2015	16.6.2015 - 15.6.2019	16.6.2016 - 15.6.2020	HK$0.784
2015B	24.7.2015 (note)	16.6.2015 - 15.6.2019	16.6.2016 - 15.6.2020	HK$0.784
2016	12.9.2016	12.9.2016 - 11.9.2021	12.9.2017 - 11.9.2022	HK$0.400

Note: Share options subject to approval of independent shareholders was proposed and granted by board of directors on 16 June 2015. The approval was subsequently obtained on 24 July 2015 which was the date of grant as defined in accordance with HKFRS 2.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

18. SHARE OPTIONS (CONTINUED)

A summary of the movements of the number of share options under the Scheme during the period/year is as follows:

Type of participant	Option type	Outstanding at 1 January 2017	Forfeited during the year	Outstanding at 31 December 2017	Forfeited during the period	Outstanding at 30 June 2018
Mr. Wu	2015B	74,070,000	–	74,070,000	–	**74,070,000**
Ms. Jiang	2015B	74,070,000	–	74,070,000	–	**74,070,000**
Mr. Wu	2016	38,000,000	–	38,000,000	–	**38,000,000**
Ms. Jiang	2016	38,000,000	–	38,000,000	–	**38,000,000**
Ms. Wu Ansheng (note)	2016	8,000,000	–	8,000,000	–	**8,000,000**
Employees	2015A	4,900,000	(1,100,000)	3,800,000	–	**3,800,000**
Employees	2016	30,000,000	–	30,000,000	(500,000)	**29,500,000**
Consultants	2015A	12,000,000	(8,000,000)	4,000,000	–	**4,000,000**
		279,040,000	(9,100,000)	269,940,000	(500,000)	**269,440,000**
Exercisable at the end of year/period		50,260,000		112,170,000		**151,005,000**
Weighted average exercise price		HK$0.627	HK$0.784	HK$0.622	HK$0.400	**HK$0.622**

Note: Ms. Wu Ansheng is the General Manager and Sales Director of a subsidiary of the Group and a sister of Mr. Wu.

In the opinion of the directors, the fair value of the services received from consultants cannot be estimated reliably, the equity-settled share-based payment transactions with consultants are measured at the fair value of the equity instruments granted.

During the six months ended 30 June 2018, the Group recognised a share-based payment expense of HK$6,493,000 (six months ended 30 June 2017: HK$10,561,000) in the condensed consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

19. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group was committed to make the following future minimum lease payments in respect of office premises rented under non-cancellable operating leases which fall due as follows:

	30 June 2018 HK$'000	31 December 2017 HK$'000
Within one year	**3,537**	4,115
In second to fifth year inclusive	**872**	2,624
	4,409	6,739

Leases are negotiated and rentals are fixed for an average term of 3 years (31 December 2017: 3 years).

20. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measure at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 "Fair Value Measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

	At 30 June 2018			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Recurring fair value measurement				
Financial assets at fair value through profit or loss:				
Convertible bonds receivable	–	–	48,085	48,085
Convertible promissory note	–	–	27,238	27,238
	–	–	75,323	75,323

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

20. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and liabilities measured at fair value (Continued)

As at 31 December 2017, the Group had no financial assets and liabilities measured at fair value.

During the six months ended 30 June 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

The fair value of convertible bonds receivable and convertible promissory note is determined by using the binomial option pricing model. The valuation techniques and significant unobservable inputs are as follows:

Valuation techniques	Significant unobservable inputs	Range (Weighted average)	Sensitivity relationship of unobservable inputs to fair value
Discounted cash flow model and binomial option pricing model	Expected volatility	Convertible bonds receivable: 38.1% Convertible promissory note: 41.8% (39.4%) (2017: Nil)	Increase/(decrease) in expected volatility would result in increase/(decrease) in fair value
	Discount rate	Convertible bonds receivable: 8.8% Convertible promissory note: 8.5% (8.7%) (2017: Nil)	Increase/(decrease) in discount rate would result in (decrease)/increase in fair value

The movements during the period in the balance of Level 3 fair value measurements are disclosed in notes 10 and 11.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

20. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and liabilities not reported at fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost in the condensed consolidated financial statements approximate their fair values as at 30 June 2018 and 31 December 2017.

21. RELATED PARTIES TRANSACTIONS

Other than the transactions and balances with related parties as disclosed in the respective notes, during the period, the Group entered into the following transactions with the following related parties:

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Nature of transactions		
Rental expenses paid to Kaisa Group Holdings Ltd.	**273**	46
Promotional expenses paid to a related company controlled by Mr. Wu	**468**	468

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

22. EVENT AFTER THE REPORTING PERIOD

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, at an aggregate consideration of RMB193,000,000 (equivalent to approximately HK$221,732,000).

Further details of the SPA are disclosed in the Company's announcements dated 4 May 2018 24 May 2018 and 3 August 2018.

23. COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting polices are disclosed in note 2.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

For the six months ended 30 June 2018 (the "Period"), the Company and its subsidiaries (together the "Group") recorded turnover from its continuing operation of approximately HK$127.1 million, representing an increase of 25.0% from HK$101.7 million of the corresponding period in 2017. The profit attributable to the owners of the Company was approximately HK$1.1 million compared to a profit attributable to the owners of the Company of HK$6.9 million in the corresponding period in 2017. Basic and diluted earnings per share for the Period were 0.02 HK cents per share and 0.02 HK cents per share, respectively; and the basic and diluted earnings per share in the corresponding period in 2017 were 0.19 HK cents per share (restated) and 0.19 HK cents per share (restated) respectively.

The detailed financial performance of the Group from its continuing and discontinued activities are as follows:

During the Period, the Group recorded profit before income tax from continuing operation of approximately HK$4.3 million compared to a profit before income tax from continuing operation of approximately HK$14.9 million in the corresponding period in 2017. Profit for the Period after income tax from continuing operation of approximately HK$1.1 million compared to a profit after income tax from continuing operation of approximately HK$10.1 million in the corresponding period in 2017. The profit attributable to the owners of the Company from continuing operation for the Period was approximately HK$1.1 million compared to a profit attributable to the owners of the Company from continuing operation of HK$10.4 million in the corresponding period in 2017. There is no profit or loss attributable to owners of the Company from discontinued operation for the Period (six months ended 30 June 2017: loss of HK$3.5 million).

Basic and diluted earnings per share from continuing and discontinued operation for the Period were 0.02 HK cents per share and 0.02 HK cents per share, respectively; and the basic and diluted earnings per share from continuing and discontinued operation in the corresponding period in 2017 were 0.19 HK cents per share (restated) and 0.19 HK cents per share (restated) respectively.

Basic and diluted earnings per share from continuing operation for the Period were 0.02 HK cents per share and 0.02 HK cents per share, respectively; and the basic and diluted earnings per share from continuing operation in the corresponding period in 2017 were 0.28 HK cents per share (restated) and 0.28 HK cents per share (restated) respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Dividend

The board of Directors (the "Board") did not recommend the payment of an interim dividend for the Period (six months ended 30 June 2017: Nil).

Business Review

Dental Prosthetics Business

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

Turnover from this Dental Prosthetics Business is approximately HK$127.1 million for the six months ended 30 June 2018, compared to a turnover of approximately HK$101.7 million for the corresponding period in 2017.

Turnover and earnings contributed from the Dental Prosthetics Business continued to grow steadily. Overall speaking, the scale of operation of the Dental Prosthetics Business continued to increase. On the other hand, gross margin has been reduced to 48.05% (six months ended 30 June 2017: 54.85%) which is attributable to the increase in direct labor costs due to the continued keen competition for skilled labor resources, together with more sales discounts were given to customers. The Group will continue to cooperate with technical institutes for more stable supplies of labor resources and implement automation in order to reduce the reliance to labor resources. Government subsidy has been reduced to HK$19,000 (six months ended 30 June 2017: HK$5,138,000). Research and development expense increased to HK$10.5 million during the six months ended 30 June 2018 (six months ended 30 June 2017: HK$6.2 million).

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 for the six months ended 30 June 2018 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 custom invisible dental braces for each patient .

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review (Continued)

Health Care Business

The Directors considers the healthcare business should form a new operating segment since it has a distinct economic characteristic and has engaged in business activities already. In January 2018, the Company has decided that the Group endeavors to leverage on the experience and network of the management to capture business and investment opportunities, including but not limited to partnership and investment in fund within the health industry and investment in high-end medical equipment to prepare the Group's development in the long run. In May 2018, due to the escalation of the tense trade relationships among various countries, the Board considers that it would be more prudent for the Company to take a more cautious approach for the expansion of the Group's production capacity, the Company decided to re-allocate the sum of approximately HK$296 million initially allocated for the purpose of the proposed acquisition of land for the manufacturing of dental prosthetics products to the possible investment opportunities within the health industry in the PRC. The Company will seek for suitable investment opportunities in this segment of business and will continue to develop this segment of business in the future.

Electronic Manufacturing Services Business (the "EMS Business")

On 2 December 2016, the Board has resolved to discontinue the EMS Business and it was expected that the discontinuation of the EMS Business would allow the Group to reallocate its resources and effort to the Dental Prosthetics Business, which has proven to be a more profitable segment of the Group's business. There was no longer any revenue or profit or losses arising from this EMS Business for the six months ended 30 June 2018 and this segment of business was closed.

Prospect

The Group is principally engaged in the Dental Prosthetics Business and Health Care Business, and has a business strategy to further diversify its business so as to further enhance shareholder value.

Dental Prosthetic Business

The Group is optimistic about the long-term outlook of the dental prosthetics market in the PRC, particularly in view of the rising living standard causing surge in sugar consumption by the citizens and thereby faster dental decay among the general public and the increasing awareness of cosmetics, which together are expected to induce augmenting demand for dental prosthesis. In addition, the dental prosthetics industry on a global scale has been growing positively over the past few years and such trend is likely to continue.

The Group has formulated a number of growth strategies in the Dental Prosthetics Business, including enlarging its sales network in the PRC and overseas markets and developing high-end new denture prosthetics products with beauty attributes.

MANAGEMENT DISCUSSION AND ANALYSIS

Prospect (Continued)

Dental Prosthetic Business (Continued)

Apart from the organic growth and sales network integration and consolidation for the Dental Prosthetics Business, the Group will also actively seek investment and collaboration opportunities in high-tech dental related areas so as to enhance cross selling opportunities and the returns of investment for the shareholders of the Company.

Health Care Business

As disclosed in the paragraph "event after the reporting period" of the management discussion and analysis section of this report and announcements of the Company dated 4 May 2018, 24 May 2018 and 3 August 2018, the Group is intended to participate in the health care industry through the 2018 Proposed Acquisition of the target companies engaged in the provision of public health and medical services. If the 2018 Proposed Acquisition materializes, it is expected that the Company will be able to penetrate to the front line of the health sector, facing and identifying the needs of the patients directly. It will also facilitate investment decision on the health industry and building market reputation for the Group. Moreover, by expanding into the healthcare business in Hangzhou, the Company believes that the Group's Dental Prosthetic Business can further expand its presence in the Yangtze River Delta region by sharing the resources and reputation of the hospital to be constructed on the Project.

Operating Results and Financial Review

Turnover

The turnover for the Period from continuing operation was amounted to HK$127.1 million (six months ended 30 June 2017: HK$101.7 million). Turnover has been increased which is the Group's continued effort to maintain competitive pricing policies and provide good and value-added services.

Gross Profit and Gross Profit Margin

Gross profit from continuing operation for the Period amounted to HK$61.1 million (six months ended 30 June 2017: HK$55.8 million). Gross profit margin from continuing operation for the Period was 48.05% (six months ended 30 June 2017: 54.85%). Gross profit margin from continuing operation has been decreased because the demand for skilled workers for the dental prosthetic industry is high which has been reflected in the increase in direct labor cost in the costs of sales.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results and Financial Review (Continued)

Goodwill

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

Convertible Bonds Receivable

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

Convertible Promissory Note

On 15 March 2018, the Group entered into a Note Purchase Agreement with an independent third party, pursuant to which the Group has subscribed for senior secured convertible promissory 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).

Bank Balance and Cash

The Group has a solid cash position for the Period under review, with bank balances and cash amounting to approximately HK$439.0 million as at 30 June 2018 (31 December 2017: HK$575.4 million).

Deposit paid to a fellow subsidiary

The balance represents a deposit paid to a wholly-owned subsidiary of Kaisa Group Holdings Ltd., the Group's ultimate holding company, pursuant to the memorandum of understanding entered into by the Group and Kaisa Group Holdings Ltd. on 4 May 2018. For details, please refer to the announcements of the Company dated 4 May 2018, 24 May 2018 and 3 August 2018.

Capital Expenditure and Capital Commitments

During the Period, the Group invested approximately HK$11.3 million (six months ended 30 June 2017: approximately HK$4.8 million), mainly on production equipment. As at 30 June 2018, there was no capital expenditure commitment.

Deferred Taxation

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

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results and Financial Review (Continued)

Contingent Liabilities

The Group had no significant contingent liabilities as at 30 June 2018.

Charge on the Group's Assets

As at 30 June 2018, there was no pledge of assets of the Group for banking facilities.

Treasury Policy

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

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

Liquidity, Capital Structure and Financial Resources

Equity attributable to owners of the Company as at 30 June 2018 amounted to approximately HK$1,045.5 million (31 December 2017: approximately HK$1,042.9 million).

As at 30 June 2018, the net current assets of the Group amounted to approximately HK$593.9 million (31 December 2017: HK$624.6 million). The current and quick ratio was 12.92 and 12.84 respectively (31 December 2017: 12.00 and 11.94 respectively).

At 30 June 2018, indebtedness of the Group including an amount due to Ms. Jiang Sisi ("Ms. Jiang", the spouse of Mr. Wu Tianyu) of HK$757,000 (31 December 2017: HK$768,000) which is unsecured, interest-free and repayable on demand.

As at 30 June 2018 and 31 December 2017, no gearing ratio of the Group could be calculated as there were no bank loan outstanding.

The number of issued ordinary shares (the "Shares") of the Company was 5,101,609,374 as at 30 June 2018 (31 December 2017: 5,101,609,374 Shares).

A general mandate to repurchase the Shares of up to 10% of the total number of Shares in issue was granted to the Board at the annual general meeting of the Company held on 18 May 2018. Pursuant to such mandate and subsequent to 30 June 2018, the Company bought back an aggregate of 18,820,000 Shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK$5,425,450. All Shares that were bought back were subsequently cancelled. As at the date of this Report, the total number of Shares in issue is 5,082,789,374.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results and Financial Review (Continued)

Liquidity, Capital Structure and Financial Resources (Continued)

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

Event after the reporting period

On 3 August 2018, Mega Deluxe Holdings Limited, a wholly-owned subsidiary of the Company and Rui Jing Investment Company Limited (a wholly-owned subsidiary of Kaisa Group Holdings Ltd., a controlling shareholder of the Company), entered into the Sale and Purchase Agreement for the proposed acquisition (the "2018 Proposed Acquisition") of the target companies which comprises 20% of the equity interest in Hangzhou Jinyun Investment Management Co., Ltd.* (杭州金韻投資管理有限公司) ("Hangzhou Jinyun") and as one of the limited partners and holding 9.57% interest of Hangzhou Jiayue Investment Partnership* (杭州佳躍投資合夥企業(有限合夥)("Hangzhou Jiayue"). Hangzhou Jinyun is the sole general partner of Hangzhou Jiayue and Hangzhou Jiayue indirectly holds 90% equity interest in Hangzhou Zhaojin Real Estate Co., Ltd.* (杭州兆金置業有限公司), which in turns owns the project in Hangzhou City, Zhejiang Province, the PRC for the provision of public health and medical services (the "Project"). For details, please refer to the announcements of the Company dated 4 May 2018, 24 May 2018 and 3 August 2018. As at the date of this report, the 2018 Proposed Acquisition is in progress and may or may not be materialized.

Subsequent to 30 June 2018, the Company bought back a total of 18,820,000 Shares on The Stock Exchange of Hong Kong Limited, with the aggregate consideration paid (before expenses) amounting to HK$5,425,450. All the Shares bought back have been cancelled. As at the date of this Report, the total number of Shares in issue is 5,082,789,374.

Employees and Remuneration Policy

The Group employed 1,320 employees in total as at 30 June 2018 (31 December 2017: 1,370) in Hong Kong and the PRC. The Group implemented its remuneration policy, bonus and share option schemes based on the performance of the Group and its employees. The Group provided benefits such as social insurance and pensions to ensure competitiveness. In addition, the Group had also adopted a share option scheme as a long term incentive to the Directors and eligible employees. The emolument policy for the Directors and senior management of the Group is set up by the Company's Remuneration Committee, having regard to the Group's performance, individual performance and comparable market conditions.

DISCLOSURE OF ADDITIONAL INFORMATION

Change of Company Name

Pursuant to a special resolution passed on 22 December 2017 and approved by the Registrar of Companies in Bermuda, with effect from 9 January 2018, the Company's name was changed from "Mega Medical Technology Limited" to "Kaisa Health Group Holdings Limited". The Chinese name of the Company was changed from "美加醫學科技有限公司" to "佳兆業健康集團控股有限公司".

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' dealings in the Company's securities. Having made specific enquiry to all the Directors, the Company confirmed that all members of the Board complied with the Model Code throughout the six months ended 30 June 2018.

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 six months ended 30 June 2018.

Changes in Information of Directors

Since the publication of the Company's 2017 Annual Report, the changes in information of the Directors are set out below:

Mr. Xu Hao, a non-executive Director, was appointed as a non-executive director of Nam Tai Property Inc., a company listed on the New York Stock Exchange (NYSE Symbol: NTP) on 1 August 2018.

Mr. Fok Hei Yu, an independent non-executive Director, was appointed as an independent non-executive director of Nam Tai Property Inc., a company listed on the New York Stock Exchange (NYSE Symbol: NTP) on 1 June 2018.

Dr. Liu Yanwen, an independent non-executive Director, resigned as the independent non-executive director of 沈陽萃華金銀珠寶股份有限公司 (Shenyang Cuihua Gold and Silver Jewelry Co., Ltd.*), a PRC incorporated company listed on the Shenzhen Stock Exchange (Stock Code: 002731) on 9 June 2018. On 11 May 2018, Dr. Liu was appointed as an independent non-executive director of 大化集團大連化工股份有限公司 (Dahua Group Dalian Chemical Industry Company Limited*), a PRC incorporated company listed on the Shanghai Stock Exchange (Stock Code: 900951).

Save as disclosed above, there is no change in the information of the Directors that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the publication of the Company's 2017 Annual Report and up to the date of this Interim Report.

** for identification purpose only*

DISCLOSURE OF ADDITIONAL INFORMATION

Corporate Governance

The corporate governance principles of the Company emphasis an effective Board, sound internal control, appropriate independence policy, transparency and accountability to the shareholders of the Company. The Board will continue to monitor and revise the Company's corporate governance policies in order to ensure that such policies meet the general rules and standards required by the Listing Rules. For the six months ended 30 June 2018, the Company has complied with all material code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules, save for the following deviations:

Code Provision A.6.7

There was a deviation from code provision A.6.7 of the CG Code: Pursuant to code provision A.6.7 of the CG Code, independent non-executive Directors and non-executive Director 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 non-executive Director attended the annual general meetings of the Company held on 18 May 2018. The Company will finalise and inform the dates of the general meetings as soon as possible to make sure that all the independent non-executive Director and non-executive Director can attend the general meetings in future.

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Subsequent to 30 June 2018, the Company bought back a total of 18,820,000 Shares on The Stock Exchange of Hong Kong Limited, with the aggregate consideration paid (before expenses) amounting to HK$5,425,450. All the Shares bought back have been cancelled. As at the date of this Report, the total number of Shares in issue is 5,082,789,374.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures, and Future Plans for Material Investments or Capital Assets

On 15 March 2018, the Group entered into a Note Purchase Agreement with an independent third party entity (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. The acquisition was funded by internal resources of the Group.

DISCLOSURE OF ADDITIONAL INFORMATION

Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures, and Future Plans for Material Investments or Capital Assets (Continued)

On 3 August 2018, the Group has entered into transaction with an associate of Kaisa Group Holdings Ltd., the controlling shareholder of the Company, for the 2018 Proposed Acquisition of the target companies engaged in the provision of public health and medical services. For details, please refer to the announcements of the Company dated 4 May 2018, 24 May 2018 and 3 August 2018.

Save as disclosed above, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2018. There was no plan authorised by the Board for other material investments or additional capital assets as at the date of this report.

Use of Proceeds from Rights Issue

On 28 July 2017, in order to equip the Group with more financial resources, the Company proposed to implement the rights issue (the "Rights Issue") on the basis of one (1) new shares to be issued and allotted under the Rights Issue (the "Rights Share") for every three (3) shares held on the record date at the subscription price of HK$0.40 per Rights Share. The Rights Issue has been completed on 13 November 2017 and the Group raised proceeds of approximately HK$510.16 million before expenses and the net proceeds of the Rights Issue was HK$507.16 million, which are intended to be applied towards (i) funding potential acquisition in an overseas dental technology company (the "Proposed Acquisition of the Target Company"); (ii) the acquisition of land to construct a manufacturing plant for the dental prosthetics business in the PRC (the "Proposed Acquisition of Land"); and (iii) general working capital requirements of the Group.

On 13 March 2018, since the parties were not able to come to an agreement on certain terms of the Proposed Acquisition of the Target Company, including but not limited to, the valuation of the target company and price adjustment mechanism, the Company announced to terminate the Proposed Acquisition of the Target Company. As disclosed in the rights issue prospectus of the Company dated 20 October 2017, in case the Proposed Acquisition of the Target Company does not proceed, the Company will first apply the proceeds to working capital for the Company's current product offerings, specifically, the 3D oral scanner and the Mega Clear Aligner (the "Existing Products"), and consider other potential acquisitions in the dental prosthetic and other dentistry areas (the "Other Potential Acquisitions"). The Company is considering the Other Potential Acquisitions and are in discussions with potential acquisition targets. For details, please refer to the announcement of the Company dated 13 March 2018.

DISCLOSURE OF ADDITIONAL INFORMATION

Use of Proceeds from Rights Issue (Continued)

On 4 May 2018, due to the escalation of the tense trade relationships among various countries, the Board considered to be more prudent for the Company to take a more cautious approach for the expansion of the Group's production capacity. It is currently expected that the Group shall enhance its business diversification and risk resistance capacity in order to better cope with the uncertainty of international market. Therefore, the Board decided to re-allocate the sum of approximately HK$296 million initially allocated for the purpose of the Proposed Acquisition of Land to the possible investment opportunities within the health industry in the PRC. On 3 August 2018, the Group has entered into transaction with an associate of Kaisa Group Holdings Ltd., the controlling shareholder of the Company, for the 2018 Proposed Acquisition of the target companies engaged in the provision of public health and medical services. For details, please refer to the announcements of the Company dated 4 May 2018, 24 May 2018 and 3 August 2018.

Together with the re-allocation and change of use of the proceeds from the Rights Issue, the net proceeds from the Rights Issue will be allocated in the following manner: (i) approximately HK$296 million would be applied to investments within the health industry in the PRC; (ii) approximately HK$154.16 million would be applied to the Other Potential Acquisitions in the dental prosthetic and other dentistry areas; and (iii) approximately HK$57 million to satisfy the working capital requirements of the Existing Products.

As of the date of this report, approximately HK$8.18 million has been utilized as working capital, HK$143.08 million has been paid as deposit for the 2018 Proposed Acquisition of the target companies engaged in the provision of public health and medical services and as cost in identifying investment opportunities in health industry in the PRC, and approximately HK$355.90 million of the actual proceeds from the Rights Issue remained unutilized.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the section headed "Directors' and Executives' Interest in Shares or Short Position in Shares and Underlying Shares and Debenture" of this Interim Report, at no time during the period was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangement to enable the Directors or their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DISCLOSURE OF ADDITIONAL INFORMATION

Directors' and Executives' Interest in Shares or Short Position in Shares and Underlying Shares and Debenture

At 30 June 2018, the interests of the Directors and the chief executives in the shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code and the SFO, were as follows:

(a) *Long position in the shares of the Company*

Name	Capacity/ nature of interest	Number of shares held	Approximate percentage of the issued share capital of the Company
Mr. Wu Tianyu	Beneficial owner	61,910,000	1.21%
Ms. Jiang Sisi	Interest of spouse	61,910,000 (Note 1)	1.21%

Note 1: Mr. Wu Tianyu, executive Director has personal interests in 61,910,000 shares and Ms. Jiang Sisi is the spouse of Mr. Wu Tianyu and therefore was deemed to be interested in these shares.

(b) *Long position in the share options of the Company*

Name	Number of options held	Number of underlying shares	Approximate percentage of the issued share capital of the Company
Mr. Wu Tianyu (Note 1)	112,070,000	112,070,000	2.20%
Ms. Jiang Sisi (Note 1)	112,070,000	112,070,000	2.20%

Note 1: Ms. Jiang Sisi is the chief operation officer of the Group and also the director of certain subsidiaries of the Company. She is also the spouse of Mr. Wu Tianyu. As such, Ms. Jiang Sisi and Mr. Wu Tianyu were deemed or taken to be interested in the share options of each other for the purposes of the SFO. The aggregate family interest in share options is 224,140,000 as at 30 June 2018.

DISCLOSURE OF ADDITIONAL INFORMATION

Directors' and Executives' Interest in Shares or Short Position in Shares and Underlying Shares and Debenture (Continued)

The details of share options held by the Directors, chief executives, employes and consultants of the Company are disclosed under the section headed "Share Option Scheme" of this Interim Report.

Save as disclosed above, as at 30 June 2018, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Directors' Interests in Competing Business

The Directors are of the view that none of the Directors has competed, or is likely to compete, either directly or indirectly, with our businesses, nor have they caused any harm to any interests owned by the Company during the six months ended 30 June 2018.

Interest and Short Positions of Substantial Shareholders in Shares and Underlying Shares of the Company

As at 30 June 2018, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued shares of the Company.

DISCLOSURE OF ADDITIONAL INFORMATION

Interest and Short Positions of Substantial Shareholders in Shares and Underlying Shares of the Company (Continued)

Name	Capacity/ Nature of interest	Total number of shares (Note 1)	Approximate % of the issued share capital in the Company
Kaisa Group Holdings Ltd. (Note 2)	Beneficial owner	2,105,210,491 (L)	41.27%
Ying Hua Holdings Limited (Note 3)	Beneficial owner	308,000,000 (L)	6.04%
Mr. Kwok Ying Shing (Note 3)	Interest of controlled corporation	308,000,000 (L)	6.04%
Xianjian Advanced Technology Limited (Note 4)	Beneficial owner	504,000,000 (L)	9.88%
Mr. Xie Yuehui (Note 4)	Interest of controlled corporation	504,000,000 (L)	9.88%
ABG II-RYD Limited (Note 5)	Beneficial owner	270,300,000 (L)	5.30%
Ally Bridge Group Capital Partners II, L.P. (Note 5)	Interest of controlled corporation	270,300,000 (L)	5.30%
ABG Capital Partners II GP, L.P (Note 5)	Interest of controlled corporation	270,300,000 (L)	5.30%
ABG Capital Partners II GP Limited (Note 5)	Interest of controlled corporation	270,300,000 (L)	5.30%
Mr. Yu Fan (Note 5)	Interest of controlled corporation	270,300,000 (L)	5.30%

Notes:

1. The letters "L" denote long position in the shares of the Company.

2. According to the information available to the Company, Kaisa Group Holdings Ltd. is a company incorporated in Cayman Islands and is listed on the main board of the Stock Exchange (stock code: 1638).

3. According to the information available to the Company, Ying Hua Holdings Limited is a company incorporated in the BVI and is wholly owned by Mr. Kwok Ying Shing who is also an executive director and a substantial shareholder of Kaisa Group Holdings Ltd. (Note 2).

4. According to the information available to the Company, Xianjian Advanced Technology Limited is a company incorporated in the BVI and is wholly owned by Mr. Xie Yuehui.

5. According to the information available to the Company, ABG II-RYD Limited is wholly owned by Ally Bridge Group Capital Partners II, L.P.. Ally Bridge Group Capital Partners II, L.P.'s general partner is ABG Capital Partners II GP, L.P. and Ally Bridge Group Capital Partners II, L.P is also 0.54% owned by ABG Capital Partners II GP, L.P.. ABG Capital Partners II GP, L.P. is 50% owned by Mr. Yu Fan and 50% owned by ABG Capital Partners II GP Limited which is wholly owned by Mr. Yu Fan.

DISCLOSURE OF ADDITIONAL INFORMATION

Interest and Short Positions of Substantial Shareholders in Shares and Underlying Shares of the Company (Continued)

Save as disclosed above, as at 30 June 2018, the Directors and chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had any other interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

Share Option Scheme

The share option scheme adopted by the Company in 2003 (the "2003 Scheme") had already expired on 31 January 2013. There was no share options outstanding under the 2003 Scheme.

A new share option scheme (the "Scheme") was approved by an ordinary resolution passed by shareholders of the Company on 8 June 2015. The purpose of the Scheme is to recognise the contribution of the Directors, employees and consultants of the Group by granting share options to them as incentives or rewards. The major terms of the Scheme are summarised as follows:

1. Eligible participants of the Scheme include any full-time or part-time employees, consultants or potential employees, consultants, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company or any of its subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, will contribute or has contributed to the Company and/or any of its subsidiaries;

2. the maximum number of Shares in respect of which options under this Scheme or options under the other schemes may be granted must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Scheme i.e. 382,620,703 Shares, representing 10% of the total issued share capital of the Company as at the date of adoption of the Scheme, and such limit may be increased from time to time to 10% of the shares in issue as at the date of such shareholders approval.

   The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time.

3. The total number of Shares to be issued upon exercise of the options granted and to be granted to each eligible person (including both exercised and outstanding options) in any 12-month period up to and including the date of grant is limited to 1% of the Shares in issue. Any further grant of options in excess of this limit is subject to separate shareholders' approval in a general meeting of the Company.

DISCLOSURE OF ADDITIONAL INFORMATION

Share Option Scheme (Continued)

4. Any grant of share options to any connected person, such grant shall be subject to the approval by all the independent non-executive directors of the Company (and in the event that the Board offers to grant Options to an independent non-executive director of the Company, the vote of such independent non-executive director shall not be counted for the purposes of approving such grant);

5. Any grant of share options to a substantial shareholder or an independent non-executive Director of the Company, or any of their associates, which would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person within the 12-month period up to the date of grant of options representing in aggregate in excess of 0.1% of the Shares in issue and having an aggregate value (based on closing price of the Company's Shares at the date of the grant) in excess of HK$5 million, is subject to prior approval by shareholders in a general meeting.

6. The offer for the grant of options (the "Offer") must be taken up within 14 days from the date of Offer, with a payment of HK$1.00 as consideration by the grantee.

7. The exercise price of the share option will be determined at the highest of (i) the average closing prices of Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the Offer; (ii) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the Offer; and (iii) the nominal value of the Shares.

8. The period within which the Shares must be taken up under the option, which must not be more than 10 years from the date of grant of the option;

9. The Scheme will, unless otherwise cancelled or amended, remain in force for 10 years commencing on the date of approval of the Scheme and ending on 7 June 2025 (both dates inclusive);

DISCLOSURE OF ADDITIONAL INFORMATION

Share Option Scheme (Continued)

Movement of share options for the six months ended 30 June 2018 is as follows:–

Name	Balance as at 1 January 2018	Granted during the period	Exercised during the period	Forfeited during the period	Balance as at 30 June 2018	Exercisable price	Approximate percentage of the issued share capital of the Company
Mr. Wu Tianyu (note 1)	74,070,000 (note 3)	–	–	–	74,070,000	HK$0.784	1.45%
	38,000,000 (note 4)	–	–	–	38,000,000	HK$0.40	0.74%
	112,070,000	–	–	–	112,070,000		
Ms. Jiang Sisi (note 1)	74,070,000 (note 3)	–	–	–	74,070,000	HK$0.784	1.45%
	38,000,000 (note 4)	–	–	–	38,000,000	HK$0.40	0.74%
	112,070,000	–	–	–	112,070,000		
Employees and consultants	7,800,000 (note 2)	–	–	–	7,800,000	HK$0.784	0.15%
	38,000,000 (note 4 & 5)	–	–	(500,000)	37,500,000	HK$0.40	0.74%
	45,800,000	–	–	(500,000)	45,300,000		
	269,940,000	–	–	(500,000)	269,440,000		

DISCLOSURE OF ADDITIONAL INFORMATION

Share Option Scheme (Continued)

Note 1: Ms. Jiang Sisi is the Chief Operating Officer of the Group and also the director of certain subsidiaries of the Company. She is also the spouse of Mr. Wu Tianyu. As such, Ms. Jiang Sisi and Mr. Wu Tianyu were deemed or taken to be interested in the share options of each other for the purposes of the SFO. The aggregate family interest in share options is 224,140,000 as at 30 June 2018.

Note 2: These share options were granted on 16 June 2015. 25% of the granted share options would vest on 16 June 2016 and be exercisable from 16 June 2016 to 15 June 2020. Another 25% of the granted share options would vest on 16 June 2017 and be exercisable from 16 June 2017 to 15 June 2020. A further 25% of the granted share options would vest on 16 June 2018 and be exercisable from 16 June 2018 to 15 June 2020. The remaining 25% of the granted share options would vest on 16 June 2019 and be exercisable from 16 June 2019 to 15 June 2020.

Note 3: These share options were granted on 24 July 2015. 25% of the granted share options would vest on 16 June 2016 and be exercisable from 16 June 2016 to 15 June 2020. Another 25% of the granted share options would vest on 16 June 2017 and be exercisable from 16 June 2017 to 15 June 2020. A further 25% of the granted share options would vest on 16 June 2018 and be exercisable from 16 June 2018 to 15 June 2020. The remaining 25% of the granted share options would vest on 16 June 2019 and be exercisable from 16 June 2019 to 15 June 2020.

Note 4: These share options were granted on 12 September 2016. 30% of the granted share options would vest on 12 September 2017 and be exercisable from 12 September 2017 to 11 September 2022. Another 25% of the granted share options would vest on 12 September 2018 and be exercisable from 12 September 2018 to 11 September 2022. A further 20% of the granted share options would vest on 12 September 2019 and be exercisable from 12 September 2019 to 11 September 2022. A further 15% of the granted share options would vest on 12 September 2020 and be exercisable from 12 September 2020 to 11 September 2022. The remaining 10% of the granted share options would vest on 12 September 2021 and be exercisable from 12 September 2021 to 11 September 2022.

Note 5: Included in the balance represents 8,000,000 share options granted to Ms. Wu Ansheng who is the General Manager and Sales Director of a subsidiary of the Group and a sister of Mr. Wu Tianyu.

Connected Transactions

The Group had entered into the following transactions with connected parties, as defined under the Listing Rules, during the six months ended 30 June 2018 and up to the date of this report:

(i) During the six months ended 30 June 2018, the Group had rented a property from Kaisa Group Holdings Ltd., amounted to HK$273,000. Kaisa Group Holdings Ltd., is a substantial shareholder of the Company and therefore is a connected person of the Company under Chapter 14A of the Listing Rules and the lease constituted an exempted connected transaction of the Company under Chapter 14A of the Listing Rules.

DISCLOSURE OF ADDITIONAL INFORMATION

Connected Transactions (Continued)

(ii) During the six months ended 30 June 2018, the Group had incurred promotional expense to a dental clinic amounted to HK$468,000. Mr. Wu Tianyu, a Director and Chief Executive Officer of the Group, is the ultimate beneficial owner owning all equity interest of the dental clinic which is therefore an associate of Mr. Wu Tianyu. Therefore, the dental clinic is a connected person of the Company under Chapter 14A of the Listing Rules and the expense payment constituted an exempted connected transaction of the Company under Chapter 14A of the Listing Rules.

Audit Committee

The Audit Committee of the Board was established with written terms of reference in accordance with Appendix 14 to the Listing Rules. As at the date of this Interim Report, the Audit Committee comprises of three independent non-executive Directors, namely Dr. Liu Yanwen (chairman), Mr. Fok Hei Yu and Mr. Wang Wansong.

Mr. Guo Peineng act as a member of the Audit Committee since his appointment on 23 January 2017 and ceased to be a member of the Audit Committee upon his resignation on 5 March 2018.

The Audit Committee met with the management on 24 August 2018 to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting including the review of the Group's interim results for the Period, before proposing them to the Board for approval. The Audit Committee has reviewed the unaudited interim results announcement and this Interim Report of the Company for the Period.

Sufficiency of Public Float

Based on the information that is publicly available and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25 per cent of the Company's issued shares during the Period and as at the date of this Interim Report.

Kaisa Health Group Holdings Limited
佳兆業健康集團控股有限公司