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)
(Stock Code: 876)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Unaudited	
		Six months ended 30 June	
		2018	2017
	Notes	***HK$'000***	*HK$'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	*8*	**(1,382)**	—
Loss from change in fair value of convertible promissory note	*9*	**(702)**	—
Other expenses		**(10,453)**	(6,226)
Profit before income tax	*4*	**4,266**	14,850
Income tax expense	*5*	**(3,161)**	(4,790)

		Unaudited	
		Six months ended 30 June	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
Profit for the period from continuing operation		**1,105**	10,060
Discontinued operation			
Loss for the period from discontinued operation		—	(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		—	(2,343)
Other comprehensive (expense)/income for the period		**(4,934)**	2,601
Total comprehensive (expense)/income for the period		**(3,829)**	9,210

	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	*7*		
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.

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		**24,401**	16,716
Intangible assets		**28,107**	28,453
Goodwill		**330,805**	330,805
Convertible bonds receivable	*8*	**48,085**	49,441
Convertible promissory note	*9*	**27,238**	—
		458,636	425,415
Current assets			
Inventories		**4,084**	3,247
Trade and other receivables	*10*	**92,743**	72,569
Deposit paid to a fellow subsidiary	*11*	**80,000**	—
Amount due from a director		**27,942**	30,087
Bank balances and cash		**438,994**	575,448
		643,763	681,351
Current liabilities			
Trade and other payables	*12*	**45,564**	54,926
Amount due to a related party		**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
Capital and reserves			
Share capital		**6,377**	6,377
Reserves		**1,039,168**	1,036,504
		1,045,545	1,042,881

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 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.

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.

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.

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.

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories 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.

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.

Reclassification from financial assets stated at cost to financial assets carried at fair value through profit or loss ("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.

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.

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.

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.

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.

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.

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.

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.

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)

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.

7. 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.

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.

8. CONVERTIBLE BONDS RECEIVABLE

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

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

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

As 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**

9. CONVERTIBLE PROMISSORY NOTE

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

10. 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	31 December 2017
	HK$'000	*HK$'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

11. DEPOSIT PAID TO A FELLOW SUBSIDIARY

The balance represents deposit paid to a fellow subsidiary, Rui Jing Investment Company Limited ("Vendor"), 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 entire issued share capital of Trade Guide Limited, a wholly-owned subsidiary of the Vendor, and the interest free shareholder's loan provided by the Vendor to Trade Guide Limited and its associates, at an aggregate consideration of RMB193,000,000 (equivalent to approximately HK$221,732,000). Further details are disclosed in the Company's announcements dated 4 May 2018, 24 May 2018 and 3 August 2018.

12. TRADE AND OTHER PAYABLES

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

REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements of the Company for the six months ended 30 June 2018 have been reviewed by the Audit Committee and the Company's auditor, Messrs. Grant Thornton Hong Kong Limited, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

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.

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 .

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.

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 announcement 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.

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.

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.

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 announcement, the 2018 Proposed Acquisition is in progress and may or may not be materialized.

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.

By order of the Board
Kaisa Health Group Holdings Limited
Luo Jun
Chairman

Hong Kong, 24 August 2018

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Luo Jun (Chairman) and Mr. Wu Tianyu (Chief Executive Officer), one non-executive Director, namely Mr. Xu Hao, and four independent non-executive Directors, namely Dr. Liu Yanwen, Mr. Wang Wansong, Mr. Fok Hei Yu and Dr. Lyu Aiping.

* *For identification purposes only*