



MEGA MEDICAL

MEGA MEDICAL TECHNOLOGY LIMITED

美加醫學科技有限公司

(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)

2017

Interim Report 中期報告

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Xu Hao
Dr. Jiang Feng (resigned on 21 February 2017)

Independent Non-executive Directors

Dr. Loke Yu alias Loke Hoi Lam
(resigned on 11 January 2017)
Mr. Wu Jixian (resigned on 23 January 2017)
Mr. Song Qun (resigned on 11 April 2017)
Dr. Liu Yanwen (appointed on 11 January 2017)
Mr. Guo Peineng (appointed on 11 January 2017)
Mr. Wang Wansong (appointed on 11 April 2017)

AUDIT COMMITTEE

Dr. Liu Yanwen (*Chairman*) (appointed on 11 January 2017)
Dr. Loke Yu alias Loke Hoi Lam (*Chairman*)
(resigned on 11 January 2017)
Mr. Wu Jixian (resigned on 23 January 2017)
Mr. Song Qun (resigned on 11 April 2017)
Mr. Guo Peineng (appointed on 23 January 2017)
Mr. Wang Wansong (appointed on 11 April 2017)

REMUNERATION COMMITTEE

Mr. Guo Peineng (*Chairman*)
(appointed on 23 January 2017)
Mr. Wu Jixian (*Chairman*) (resigned on 23 January 2017)
Mr. Wu Tianyu
Mr. Song Qun (resigned on 11 April 2017)
Mr. Wang Wansong (appointed on 11 April 2017)

NOMINATION COMMITTEE

Mr. Wu Tianyu (*Chairman*)
Mr. Wu Jixian (resigned on 23 January 2017)
Mr. Song Qun (resigned on 11 April 2017)
Mr. Guo Peineng (appointed on 23 January 2017)
Mr. Wang Wansong (appointed on 11 April 2017)

COMPANY SECRETARY

Mr. Lam Wai Fung, Dominic

AUTHORISED REPRESENTATIVES

Mr. Wu Tianyu
Mr. Lam Wai Fung, Dominic

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu
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
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Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Two International Finance Centre,
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SHARE REGISTRARS

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Clarendon House
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STOCK CODE

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COMPANY WEBSITE

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF MEGA MEDICAL TECHNOLOGY LIMITED

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Mega Medical Technology Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 5 to 25, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain 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. 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 Hong Kong Institute of Certified Public Accountants. 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.

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.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

28 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

| | | Six months ended | |
|--|-------|---|--|
| | NOTES | 30.6.2017 HK\$'000 (unaudited) | 30.6.2016 HK\$'000 (unaudited) (restated) |
| Continuing operation | | | |
| Revenue | 3 | 101,690 | 94,352 |
| Cost of sales | | (45,911) | (40,841) |
| Gross profit | | 55,779 | 53,511 |
| Other income, gains and losses | | 11,130 | 3,743 |
| Selling and distribution costs | | (23,851) | (13,514) |
| Administrative expenses | | (21,982) | (27,157) |
| Other expenses | | (6,226) | (4,786) |
| Profit before taxation | 4 | 14,850 | 11,797 |
| Taxation | 5 | (4,790) | (5,086) |
| Profit for the period from continuing operation | | 10,060 | 6,711 |
| Discontinued operation | | | |
| (Loss) profit for the period from discontinued operation | 18 | (3,451) | 1,325 |
| Profit for the period | | 6,609 | 8,036 |
| Other comprehensive income (expense) | | | |
| <i>Items that may be subsequently reclassified to profit or loss:</i> | | | |
| Exchange differences arising on translation of foreign operations | | 4,944 | (11,565) |
| Reclassification of exchange differences upon disposal of subsidiaries | | (2,343) | 2,849 |
| Other comprehensive income (expense) for the period | | 2,601 | (8,716) |
| Total comprehensive income (expense) for the period | | 9,210 | (80) |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

| | NOTE | Six months ended 30.6.2017 HK\$'000 (unaudited) | 30.6.2016 HK\$'000 (unaudited) (restated) |
|---|------|--|--|
| Profit (loss) for the period attributable to owners of the Company: | | | |
| – from continuing operation | | 10,362 | 6,361 |
| – from discontinued operation | | (3,428) | 3,153 |
| | | 6,934 | 9,514 |
| (Loss) profit for the period attributable to non-controlling interests: | | | |
| – from continuing operation | | (302) | 350 |
| – from discontinued operation | | (23) | (1,828) |
| | | (325) | (1,478) |
| Profit for the period | | 6,609 | 8,036 |
| Total comprehensive income (expense) attributable to: | | | |
| Owners of the Company | | 8,532 | (33) |
| Non-controlling interests | | 678 | (647) |
| | | 9,210 | (680) |
| Earnings per share | 7 | | |
| From continuing and discontinued operation | | | |
| – Basic | | 0.18 HK cents | 0.25 HK cents |
| – Diluted | | 0.18 HK cents | 0.25 HK cents |
| From continuing operation | | | |
| – Basic | | 0.27 HK cents | 0.17 HK cents |
| – Diluted | | 0.27 HK cents | 0.17 HK cents |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017

| | NOTES | 30.6.2017 HK\$'000 (unaudited) | 31.12.2016 HK\$'000 (audited) |
|--|-------|---|-------------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 8 | 11,684 | 8,380 |
| Intangible asset | | 28,800 | 29,146 |
| Goodwill | | 330,805 | 330,805 |
| Convertible bonds receivable | 9 | 45,914 | 40,984 |
| | | 417,203 | 409,315 |
| Current assets | | | |
| Inventories | | 3,832 | 2,429 |
| Trade and other receivables | 10 | 56,902 | 55,845 |
| Amount due from a director | | 34,399 | 35,534 |
| Short-term investments | 11 | 22,587 | — |
| Bank balances and cash | | 41,793 | 64,597 |
| | | 159,513 | 158,405 |
| Assets classified as held for sale | 12 | — | 18,700 |
| | | 159,513 | 177,105 |
| Current liabilities | | | |
| Trade and other payables | 13 | 37,123 | 48,909 |
| Amounts due to related parties | 14 | 921 | 712 |
| Amount due to a non-controlling shareholder of a subsidiary | 15 | — | 1,232 |
| Taxation payable | | 7,096 | 6,266 |
| | | 45,140 | 57,119 |
| Liabilities associated with assets classified as held for sale | 12 | — | 15,512 |
| | | 45,140 | 72,631 |
| Net current assets | | 114,373 | 104,474 |
| Total assets less current liabilities | | 531,576 | 513,789 |
| Non-current liabilities | | | |
| Deferred taxation | | 7,200 | 7,287 |
| | | 524,376 | 506,502 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017

| | NOTE | 30.6.2017 HK\$'000 (unaudited) | 31.12.2016 HK\$'000 (audited) |
|--|------|---|-------------------------------------|
| Capital and reserves | | | |
| Share capital | 16 | 4,783 | 4,783 |
| Reserves | | 518,712 | 499,619 |
| Equity attributable to owners of the Company | | 523,495 | 504,402 |
| Non-controlling interests | | 881 | 2,100 |
| | | 524,376 | 506,502 |

The condensed consolidated financial statements on pages 5 to 25 were approved and authorised for issue by the Board of Directors on 28 August 2017 and are signed on its behalf by:

Mr. Luo Jun
DIRECTOR

Mr. Wu Tianyu
DIRECTOR

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

| | Equity attributable to owners of the Company | | | | | | | Amounts recognised in other comprehensive income and accumulated in equity relating to disposal group classified as held for sale HK\$'000 | Non-controlling interest HK\$'000 | Total HK\$'000 |
|---|--|------------------------|--------------------------|------------------------------|-------------------------------|-----------------------------|--------------------|--|-----------------------------------|----------------|
| | 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 | Sub-total HK\$'000 | | | |
| At 1 January 2016 (audited) | 4,783 | 495,069 | 1,545 | 10,648 | 14,821 | (19,506) | – | 507,360 | 69,796 | 567,156 |
| Profit (loss) for the period | – | – | – | – | – | 9,514 | – | 9,514 | (1,478) | 8,036 |
| Exchange differences arising on translation of foreign operations | – | – | – | (9,292) | – | – | – | (9,292) | (2,273) | (11,565) |
| Reclassification of exchange differences upon disposal of subsidiaries (note 18(b)) | – | – | – | (255) | – | – | – | (255) | 3,104 | 2,849 |
| Total comprehensive income (expense) for the period | – | – | – | (9,547) | – | 9,514 | – | (33) | (647) | (680) |
| Dividend paid to non-controlling shareholder of a subsidiary | – | – | – | – | – | – | – | – | (51,300) | (51,300) |
| Acquisition of additional interests in a subsidiary (note) | – | – | – | – | – | (3,137) | – | (3,137) | (463) | (3,600) |
| Recognition of equity-settled share-based payment | – | – | – | – | 11,399 | – | – | 11,399 | – | 11,399 |
| Disposal of subsidiaries (note 18(b)) | – | – | – | – | – | – | – | – | (1,314) | (1,314) |
| At 30 June 2016 (unaudited) | 4,783 | 495,069 | 1,545 | 1,101 | 26,220 | (13,129) | – | 515,589 | 6,072 | 521,661 |
| 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 18(b)) | – | – | – | – | – | – | (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 18(b)) | – | – | – | – | – | – | – | – | (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 |

Note: During the six months ended 30 June 2016, the Group acquired additional interests in a subsidiary. As a result of the acquisition, HK\$3,137,000, being the difference between the consideration paid of RMB3,000,000 (or equivalent to HK\$3,600,000) and the amount of non-controlling interests of HK\$463,000, was directly recognised in equity.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

| | NOTE | Six months ended 30.6.2017 HK\$'000 (unaudited) | 30.6.2016 HK\$'000 (unaudited) |
|--|------|---|--------------------------------------|
| Net cash used in operating activities | | (263) | (11,419) |
| Investing activities | | | |
| Net cash (outflow) inflow from disposal of subsidiaries | 18 | (3,080) | 27,726 |
| Interest received | | 11 | 6 |
| Purchase of property, plant and equipment | | (4,787) | (1,783) |
| Purchase of short-term investments | | (25,810) | — |
| Proceeds from redemption of short-term investments | | 3,618 | — |
| Net cash (used in) from investing activities | | (30,048) | 25,949 |
| Financing activities | | | |
| Advances from related parties | | 209 | 2,400 |
| Repayments to related parties | | — | (38,578) |
| (Repayment to) advance from a non-controlling shareholder of a subsidiary | | (1,232) | 1,232 |
| Repayments of bank loans | | — | (1,134) |
| Interest paid | | — | (70) |
| Dividend paid to a non-controlling shareholder of a subsidiary | | — | (25,000) |
| Net cash used in financing activities | | (1,023) | (61,150) |
| Net decrease in cash and cash equivalents | | (31,334) | (46,620) |
| Cash and cash equivalents at 1 January | | 72,131 | 130,150 |
| Effect of foreign exchange rate changes | | 996 | 420 |
| Cash and cash equivalents at 30 June, representing bank balances and cash | | 41,793 | 83,950 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“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.

As further disclosed in notes 3 and 18, pursuant to the board resolution dated 2 December 2016, the directors of the Company (the “Directors”) decided to discontinue the electronic manufacturing services business (the “EMS Business”). In addition, during the current interim period, the Group completed the disposal of Modern Success Holdings Limited (“Modern Success”) and its subsidiaries (collectively referred to as the “Modern Success Group”), i.e. the EMS Business. As a result, the EMS Business is presented 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 and the comparative figures for preceding interim period were restated accordingly.

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 amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

| | |
|------------------------|--|
| Amendments to HKAS 7 | Disclosure initiative |
| Amendments to HKAS 12 | Recognition of deferred tax assets for unrealised losses |
| Amendments to HKFRS 12 | As part of the annual improvements to HKFRS 2014 - 2016 cycle |

The application of the above amendments to HKFRSs in the current interim period has had no material impact on the amounts and/or disclosures reported in these condensed consolidated financial statements.

HKAS 7 amendments will result in more disclosure relating to the reconciliation of liabilities arising from financing activity in the Group’s annual consolidated financial statements which included: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

3. REVENUE 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.

Pursuant to the board resolution dated 2 December 2016 and subsequent to the disposal of Modern Success Group during the six months ended 30 June 2017, the internal organisation structure and reporting is changed such that the EMS Business, i.e. discontinued operation, is no longer separately assessed or reviewed. Instead, the information reviewed by the chief operating decision maker ("CODM") as at the end of the reporting period analyses the performance of the continuing operation, being the manufacturing of and trading in dental prosthetics business.

The Group's operating activities are attributable to a single operating segment under HKFRS 8 "Operating segments" which focuses on the operation of manufacturing of and trading in dental prosthetics. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs that are regularly reviewed by the CODM (i.e. the executive directors of the Company). 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. Other than these, no operating results and other discrete financial information is available for the assessment of performance. Accordingly, no separate segment information other than entity level information is presented. Comparative figures have been restated to reflect these changes.

4. PROFIT BEFORE TAXATION FROM CONTINUING OPERATION

Profit before taxation from continuing operation has been arrived at after charging (crediting):

| | Six months ended | |
|--|-------------------------|------------|
| | 30.6.2017 | 30.6.2016 |
| | HK\$'000 | HK\$'000 |
| | | (restated) |
| Amortisation of intangible asset (included in cost of sales) | 346 | 1,848 |
| Depreciation of property, plant and equipment | 1,698 | 1,338 |
| Research and development expenses (included in other expenses) | 6,226 | 4,678 |
| Interest income on bank deposits | (11) | (6) |
| Interest income on convertible bonds receivable | (1,053) | — |
| Income from short-term investments | (4) | — |
| Net exchange gain | (1,499) | (813) |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

5. TAXATION

| | Six months ended | |
|-----------------------------|-------------------------|------------------------|
| | 30.6.2017 | 30.6.2016 |
| | HK\$'000 | HK\$'000 (restated) |
| Continuing operation | | |
| Current tax: | | |
| Hong Kong Profits Tax | 2,721 | 3,467 |
| PRC Enterprise Income Tax | 2,155 | 2,081 |
| | 4,876 | 5,548 |
| Deferred tax credit | (86) | (462) |
| | 4,790 | 5,086 |

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 the period.

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. A subsidiary of the Group was accredited as a "High and New Technology Enterprise" in the PRC with effect from 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 2017.

6. DIVIDENDS

No dividends were paid, declared or proposed during the current interim period. The directors of the Company determined that no dividend will be paid in respect of the current interim period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

7. EARNINGS (LOSS) PER SHARE

From continuing operation

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

| | Six months ended | |
|--|-------------------------|------------------------|
| | 30.6.2017 | 30.6.2016 |
| | HK\$'000 | HK\$'000 (restated) |
| Earnings figures are calculated as follows: | | |
| Profit for the period attributable to owners of the Company | 6,934 | 9,514 |
| Loss (profit) for the period from discontinued operation | 3,428 | (3,153) |
| | <u>10,362</u> | <u>6,361</u> |
| Profit for the purpose of basic and diluted earnings per share from continuing operation | 10,362 | 6,361 |

| | Six months ended | |
|--|-------------------------|------------------|
| | 30.6.2017 | 30.6.2016 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 3,826,207,031 | 3,826,207,031 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | <u>—</u> | <u>4,142,308</u> |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 3,826,207,031 | 3,830,349,339 |

From continuing and discontinued operation

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

| | Six months ended | |
|--|-------------------------|-----------|
| | 30.6.2017 | 30.6.2016 |
| | HK\$'000 | HK\$'000 |
| Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share | 6,934 | 9,514 |

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

7. EARNINGS (LOSS) PER SHARE (CONTINUED)

From discontinued operation

Basic loss per share for the discontinued operation is 0.090 HK cents per share (six months ended 30 June 2016: basic and diluted earnings per share of 0.082 HK cents per share), based on the loss for the period from the discontinued operation of HK\$3,428,000 (six months ended 30 June 2016: profit for the period from the discontinued operation of HK\$3,153,000) and the denominators detailed above for basic loss per share (six months ended 30 June 2016: basic and diluted earnings per share).

The computation of diluted earnings per share for the six months ended 30 June 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.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired property, plant and equipment of HK\$4,787,000 (six months ended 30 June 2016: HK\$1,783,000). In addition, the Group disposed property, plant and equipment of HK\$836,000 upon disposal of subsidiaries as disclosed in note 18(b)(i) (six months ended 30 June 2016: nil).

9. 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

9. CONVERTIBLE BONDS RECEIVABLE (CONTINUED)

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 are set out in the Company’s announcements dated 19 October 2016 and 29 November 2016.

The Convertible Bonds are initially measured at transaction price, which is also the fair value resulted from arm’s length market transaction. At initial recognition, the entire hybrid instrument is treated as financial instrument held for trading as the management of the Company considers the fair value of the conversion option which will be settled by unquoted instrument cannot be reliably measured. The Convertible Bonds are subsequently measured at cost, accrued interest less impairment as the conversion option of the hybrid instrument is sufficiently significant to preclude the Group from obtaining a reliable estimate of the entire instrument.

Details of movement is set out below:

| | HK\$'000 |
|----------------------|----------------------|
| At 1 January 2017 | 40,984 |
| Exchange realignment | 3,877 |
| Interest income | <u>1,053</u> |
| At 30 June 2017 | <u><u>45,914</u></u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

10. TRADE AND OTHER RECEIVABLES

At 30 June 2017, included in the balances were trade receivables of HK\$46,123,000 (31 December 2016: HK\$38,203,000). 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 dates (also approximates to revenue recognition date) at the end of the reporting period:

| | 30.6.2017 | 31.12.2016 |
|----------------|----------------------|---------------|
| | HK\$'000 | HK\$'000 |
| 0 - 90 days | 41,397 | 32,940 |
| 91 - 180 days | 2,849 | 5,263 |
| 181 - 365 days | 1,877 | — |
| | <u>46,123</u> | <u>38,203</u> |

11. SHORT-TERM INVESTMENTS

As at 30 June 2017, the Group's short-term investments mainly represented financial products issued by banks in the PRC, with expected but not guaranteed returns ranging from 3.0% to 4.9% per annum, depending on the market prices of their underlying financial instruments, mainly comprised of deposits, bonds and debentures. These financial products were measured at fair value at the end of the reporting period. The Directors considered the fair values of these financial products approximate to its principal amounts as at 30 June 2017 because of its short-term nature. No fair value change was recognised during the six months ended 30 June 2017. Subsequent to 30 June 2017, all of the short-term investments were redeemed at the principal amount together with investment return which approximated their expected return.

12. ASSETS (LIABILITIES) CLASSIFIED AS HELD FOR SALE

As at 31 December 2016, the directors determined the disposal of Modern Success Group was highly probable to be completed within the next twelve months. As a result, the relevant assets and liabilities of Modern Success Group were classified to assets classified as held for sale and liabilities associated with assets classified as held for sale respectively as at 31 December 2016.

The disposal was completed on 22 February 2017 and further details are disclosed in note 18.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

12. ASSETS (LIABILITIES) CLASSIFIED AS HELD FOR SALE (CONTINUED)

The major classes of assets and liabilities of the Modern Success Group at the end of 31 December 2016 are as follows:

| | 31.12.2016 HK\$'000 |
|--|------------------------|
| Property, plant and equipment | 1,161 |
| Inventories | 3,067 |
| Trade and other receivables | 6,938 |
| Bank balances and cash | <u>7,534</u> |
| Assets classified as held for sale | <u>18,700</u> |
| Trade and other payables | (11,766) |
| Amount due to a related party | (3,252) |
| Amount due to a non-controlling shareholder of a subsidiary | <u>(494)</u> |
| Liabilities associated with assets classified as held for sale | <u>(15,512)</u> |

13. TRADE AND OTHER PAYABLES

| | 30.6.2017 HK\$'000 | 31.12.2016 HK\$'000 |
|------------------|-----------------------|------------------------|
| Trade payables | 5,823 | 4,968 |
| Accrued expenses | 15,494 | 28,649 |
| Other payables | <u>15,806</u> | <u>15,292</u> |
| | <u>37,123</u> | <u>48,909</u> |

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

| | 30.6.2017 HK\$'000 | 31.12.2016 HK\$'000 |
|----------------|-----------------------|------------------------|
| 0 - 90 days | 5,561 | 4,770 |
| 91 - 180 days | 130 | 198 |
| 181 - 365 days | <u>132</u> | <u>—</u> |
| | <u>5,823</u> | <u>4,968</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

14. AMOUNTS DUE TO RELATED PARTIES

The balance as at 30 June 2017 included an amount due to Kaisa Group Holdings Limited (“Kaisa Group”), a substantial shareholder of the Company, of HK\$182,000 (31 December 2016: nil); and an amount of HK\$739,000 (31 December 2016: HK\$712,000) due to Ms. Jiang Sisi (“Ms. Jiang”, the spouse of Mr. Wu Tianyu (“Mr. Wu”), the Director). The balances are unsecured, interest-free and repayable on demand.

15. AMOUNT DUE TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

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

16. SHARE CAPITAL

| | Number of shares | Share capital HK\$'000 |
|--|------------------------|------------------------------|
| Ordinary shares of HK\$0.00125 each: | | |
| Authorised: | | |
| At 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017 (HK\$0.00125 each) | <u>160,000,000,000</u> | <u>200,000</u> |
| Issued and fully paid: | | |
| At 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017 | <u>3,826,207,031</u> | <u>4,783</u> |

17. SHARE OPTIONS

The Company approved and adopted a share option scheme (the “Scheme”) for eligible director, employees and consultants.

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 were 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 2017

17. SHARE OPTIONS (CONTINUED)

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

| Type of participant | Option type | Outstanding at 1.1.2017 and 30.6.2017 |
|----------------------------------|--------------------|--|
| Mr. Wu | 2015B | 74,070,000 |
| Ms. Jiang | 2015B | 74,070,000 |
| Mr. Wu | 2016 | 38,000,000 |
| Ms. Jiang | 2016 | 38,000,000 |
| Ms. Wu Ansheng (note) | 2016 | 8,000,000 |
| Employees | 2015A | 4,900,000 |
| Employees | 2016 | 30,000,000 |
| Consultants | 2015A | <u>12,000,000</u> |
| | | <u>279,040,000</u> |
| Exercisable at the end of period | | <u>88,520,000</u> |
| Weighted average exercise price | | <u>0.627</u> |

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.

The Group recognised a share-based payment expense of HK\$10,561,000 (six months ended 30 June 2016: HK\$11,399,000) during the six months ended 30 June 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

18. DISCONTINUED OPERATION AND DISPOSAL OF SUBSIDIARIES*(a) Discontinued operation*

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 notes 1 and 3, the results of the EMS Business up till the completion date of the disposal transaction are 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 and the comparative figures for preceding interim period were restated accordingly.

The (loss) profit for the period from the discontinued operation is analysed as follows:

| | From 1 January 2017 to 22 February 2017 HK\$'000 | Six months ended 30 June 2016 HK\$'000 |
|--|---|--|
| Revenue | 2,308 | 71,452 |
| Cost of sales | (2,010) | (70,851) |
| Gross profit | 298 | 601 |
| Other income | — | 386 |
| Selling expenses | (10) | (2,746) |
| Administrative expenses | (365) | (9,389) |
| Finance costs | — | (70) |
| Other expenses | — | (5) |
| (Loss) gain on disposal of subsidiaries | (3,374) | 12,541 |
| (Loss) profit before taxation | (3,451) | 1,318 |
| Taxation | — | 7 |
| (Loss) profit for the period from discontinued operation | (3,451) | 1,325 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

18. DISCONTINUED OPERATION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

(a) *Discontinued operation (Continued)*

During the six months ended 30 June 2017, the discontinued operation paid cash flows of HK\$6,192,000 (six months ended 30 June 2016: contributed cash flows of HK\$48,782,000) in respect of the Group's operating activities, paid HK\$3,080,000 (six months ended 30 June 2016: contributed HK\$27,733,000) in respect of investing activities and contributed cash flow of HK\$123,000 (six months ended 30 June 2016: paid cash flows of HK\$24,972,000) in respect of financing activities.

(b) *Disposal of subsidiaries*(i) Disposal of Modern Success Group

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 ultimate holding company | (3,136) |
| Amount due to non-controlling shareholder of a subsidiary | (733) |
| Net assets disposed of | <u>7,278</u> |

Loss on disposal of subsidiaries:

| | |
|--|----------------|
| Consideration received | 2,800 |
| Net assets disposed of | (7,278) |
| Waiver of amount due to ultimate holding company | (3,136) |
| Non-controlling interests | 1,897 |
| Cumulative exchange reserve reclassified from equity to profit or loss upon disposal | <u>2,343</u> |
| Loss on disposal | <u>(3,374)</u> |

Net cash outflow arising on disposal:

| | |
|------------------------------------|----------------|
| Cash consideration received | 2,800 |
| Bank balances and cash disposed of | <u>(5,880)</u> |
| | <u>(3,080)</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

18. DISCONTINUED OPERATION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)(b) *Disposal of subsidiaries (Continued)*(ii) Disposal of Decent Choice Limited and its subsidiaries (collectively referred to as the "Decent Choice Group")

During the six months ended 30 June 2016, the Group completed the disposal of Decent Choice Group, which is principally engaged in property holding within the EMS Business, to an independent third party, for a cash consideration of RMB158,000,000 (approximately HK\$190,638,000). The net assets of the Decent Choice Group at the date of disposal were as follows:

HK\$'000

Analysis of assets and liabilities of Decent Choice Group at the date of disposal were as follows:

| | |
|---|----------------|
| Investment properties | 172,725 |
| Bank balances and cash | 27 |
| Other payables | (2,129) |
| Amount due to immediate holding company | <u>(7,432)</u> |
| Net assets disposed of | <u>163,191</u> |

Gain on disposal of subsidiaries:

| | |
|---|-----------------|
| Consideration received | 190,638 |
| Expenses incurred on disposal of subsidiaries | (3,934) |
| Net assets disposed of | (163,191) |
| Waiver of amount due to immediate holding company | (7,432) |
| Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss upon disposal | <u>(10,347)</u> |
| Gain on disposal | <u>5,734</u> |

Net cash inflow arising on disposal:

| | |
|---|---------------|
| Cash consideration received | 190,638 |
| Less: deposit received included in other payables as at 31 December 2015 | (122,808) |
| Less: outstanding balances included in other receivables as at 30 June 2016 | (43,964) |
| Bank balances and cash disposed of | <u>(27)</u> |
| | <u>23,839</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

18. DISCONTINUED OPERATION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)(b) *Disposal of subsidiaries (Continued)*(iii) Disposal of Morning Star Industrial Company Limited and its subsidiaries (collectively referred to as the "MSIC Group")

In June 2016, the Group disposed of its entire equity interest in MSIC Group, which principally engaged in property holding within the EMS Business, to an independent third party, for a cash consideration of HK\$4,368,000.

HK\$'000

Analysis of assets and liabilities of MSIC Group at the date of disposal were as follows:

| | |
|-----------------------------------|---------|
| Prepaid lease payments | 7,685 |
| Other receivables and prepayments | 1,220 |
| Bank balances and cash | 481 |
| Other payables | (2,998) |
| Taxation payable | (15) |

| | |
|------------------------|--------------|
| Net assets disposed of | <u>6,373</u> |
|------------------------|--------------|

Gain on disposal of subsidiaries:

| | |
|---|--------------|
| Consideration received | 4,368 |
| Net assets disposed of | (6,373) |
| Non-controlling interests | 1,314 |
| Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss upon disposal | <u>7,498</u> |

| | |
|------------------|--------------|
| Gain on disposal | <u>6,807</u> |
|------------------|--------------|

Net cash inflow arising on disposal:

| | |
|---------------------------------------|-------|
| Cash consideration received | 4,368 |
| Cash and cash equivalents disposed of | (481) |

| | |
|--|--------------|
| | <u>3,887</u> |
|--|--------------|

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The short-term investments are measured at fair value at the end of each reporting period. The fair value of short-term investments as at 30 June 2017 is HK\$22,587,000 which is determined with reference to discounted cash flow model, which is based on the expected return of the their underlying financial instruments, mainly comprised of deposits, bonds and debentures. The fair value measurement is classified under level 2 of the fair value hierarchy. There were no transfers between Level 1, 2 and 3 in the current period.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

20. RELATED PARTIES TRANSACTIONS

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

| | Six months ended | |
|---|-------------------------|-----------|
| | 30.6.2017 | 30.6.2016 |
| | HK\$'000 | HK\$'000 |
| Nature of transactions | | |
| Rental expenses paid to Kaisa Group | 46 | — |
| Promotional expenses paid to a related company controlled by Mr. Wu | 468 | — |
| | <u>468</u> | <u>—</u> |

21. EVENT AFTER THE REPORTING PERIOD

Pursuant to the joint announcement by Company and Kaisa Group dated 28 July 2017, the Group proposed to have rights issue on the basis of one rights share for every three shares held by shareholders of the Company on the Record Date, as defined on the announcement. Kaisa Group is the underwriter of such rights issue. Further details of the proposed transactions are disclosed in the Company's announcements dated 28 July 2017 and 18 August 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

For the six months ended 30 June 2017 (the "Period"), the Company and its subsidiaries (together the "Group") recorded turnover from its continuing operation of approximately HK\$101.7 million, representing an increase of 7.73% from HK\$94.4 million of the corresponding period in 2016. The profit attributable to the owners of the Company was approximately HK\$6.9 million compared to a profit attributable to the owners of the Company of HK\$9.5 million in the corresponding period in 2016. Basic and diluted earnings per share for the Period were 0.18 HK cents per share and 0.18 HK cents per share, respectively; and the basic and diluted earnings per share in the corresponding period in 2016 were 0.25 HK cents per share and 0.25 HK cents per share respectively.

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

During the Period, the Group recorded turnover from its continuing operation of approximately HK\$101.7 million, representing an increase of 7.73% from HK\$94.4 million of the corresponding period in 2016. The gross profit margin has been decreased from 56.71% for the six months ended 30 June 2016 to 54.85% for the six months ended 30 June 2017.

During the Period, the Group recorded profit before taxation from continuing operation of approximately HK\$14.9 million compared to a profit before taxation from continuing operation of approximately HK\$11.8 million in the corresponding period in 2016. Profit for the Period after taxation from the continuing operation of approximately HK\$10.1 million compared to a profit after tax from continuing operation of approximately HK\$6.7 million in the corresponding period in 2016. The profit attributable to the owners of the Company from continuing operation was approximately HK\$10.4 million compared to a profit attributable to the owners of the Company from continuing operation of HK\$6.4 million in the corresponding period in 2016.

Basic and diluted earnings per share from continuing operation for the Period were 0.27 HK cents per share and 0.27 HK cents per share, respectively; and the basic and diluted earnings per share from continuing operation in the corresponding period in 2016 were 0.17 HK cents per share and 0.17 HK cents per share respectively.

Interim Dividend

The board of Directors (the "Board") did not recommend the payment of an interim dividend for the Period (six months ended 30 June 2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Dental Prosthetics Business

Through the completion of the acquisition (the “On Growth Acquisition”) of, among others, 100% equity interests in On Growth Global Development Limited and its subsidiaries on 15 May 2015, the Group commenced to engage 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.

During the Period, the Group has launched a new product, the Mega Clear Aligner, which are our brands for custom-made invisible dental braces. 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. The product materials used for Mega Clear Aligner are certified by the relevant health and safety authorities in the European Union, United States and the PRC. The launch of the Mega Clear Aligner will raise the competitive edge of the Company in the PRC orthodontics market, and also provides support for Mega Medical to enter the international orthodontics market in the future.

Prospect

The Group has a business strategy to diversifying its business and further enhancing shareholder value. The Group plans to leverage on the experience and network of the management to capture business and investment opportunities.

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.

After the On Growth Acquisition, the Group has formulated a number of growth strategies in the Dental Prosthetics Business, including enlarging its sales network in the PRC and foreign markets like the US, expanding its production capacity in the PRC and developing high-end new denture prosthetics products with beauty attributes. In order to develop the Dental Prosthetics Business, which in the view of the Company has strong growth potentials, the Group would continue to devote its resources and efforts to this business going forward.

Apart from the organic growth and sales network integration and consolidation for the Dental Prosthetics Business, the Group will also actively seek investment opportunities in high tech dental-related areas.

MANAGEMENT DISCUSSION AND ANALYSIS

Prospect (Continued)

As disclosed in the announcement of the Company dated 19 October 2016, United Noble was appointed as the sole and exclusive distributor of the Condor intraoral scanner (also known as 3D Intra Oral Scanner) and other products supplied by Condor International to United Noble (including any of their enhancements or improved versions) in the PRC. The Condor intraoral scanner is a digital instrument to make images of the teeth and inner mouth of the patients. It consists of a scanner handpiece and software which generates files consisting of three-dimensional images of the anatomy of the teeth in hyper realistic colors. These files are then sent to the laboratories where they will be used to make the crown and bridges for the patients. The scanner facilitates CAD/CAM (computer-aided design and computer-aided manufacturing) dentistry. Moreover, it is a versatile tool which enables the dentist to visually communicate with the patients and also enhances the collaboration among peers and other dentists. It enables convenient and quick documentation of dental cases and can be shared to provide vital statistics to the health industry. The distribution of the products in the PRC by United Noble pursuant to the Exclusive Distribution Agreement is subject to obtainment by United Noble of registration and licence from the PRC government to distribute the products in the PRC (the "CFDA"). The Group expects that CFDA approval in the PRC for the 3D Intra Oral Scanners will be obtained by United Noble by 2018.

Operating Results and Financial Review

Revenue

The turnover for the Period from continuing operation was amounted to HK\$101.7 million (six months ended 30 June 2016: HK\$94.4 million). Revenue has been increased slightly which is a combined effect of the keen market competition and the Group's effort to maintain good relationship with customers and provide good and value-added services.

Gross Profit and Gross Profit Margin

Gross profit from continuing operation for the Period amounted to HK\$55.8 million (six months ended 30 June 2016: HK\$53.5 million). Gross profit margin from continuing operation for the Period was 54.85% (six months period ended 30 June 2016: 56.71%). Gross profit margin from continuing operation has been slightly 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 and hence increase in the costs of sales.

Goodwill

Goodwill of HK\$330.8 million was generated from the On Growth Acquisition.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results and Financial Review (Continued)

Bank Balance and Cash and Short Term Investments

The Group has a solid cash position for the Period under review, with bank balances and cash amounting to approximately HK\$41.8 million as at 30 June 2017 (31 December 2016: HK\$64.6 million). The Group has placed HK\$22.6 million (31 December 2016: nil) in short term investments which could yield higher interest rate than bank deposit and with very short maturity date which provide higher liquidity.

Capital Expenditure and Capital Commitments

During the Period, the Group invested approximately HK\$4.8 million (six months ended 30 June 2016: approximately HK\$1.8 million), mainly on production equipment. As at 30 June 2017, there was no capital expenditure commitment.

Deferred Taxation

Deferred taxation represent the deferred tax liabilities of the intangible asset acquired in the On Growth Acquisition.

Contingent Liabilities

The Group had no significant contingent liabilities as at 30 June 2017.

Charge on the Group's Assets

As at 30 June 2017, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results and Financial Review (Continued)

Liquidity, Capital Structure and Financial Resources

Equity attributable to owners of the Company as at 30 June 2017 amounted to approximately HK\$523.5 million (31 December 2016: approximately HK\$504.4 million).

As at 30 June 2017, the net current assets of the Group amounted to approximately HK\$114.4 million (31 December 2016: HK\$104.5 million). The current and quick ratio was 3.53 and 3.45 respectively (31 December 2016: 2.44 and 2.40 respectively).

As at 30 June 2017, indebtedness of the Group including an amount due to Ms. Jiang Sisi (“Ms. Jiang”, the spouse of Mr. Wu Tianyu) of HK\$739,000 (31 December 2016: HK\$712,000) which is unsecured, interest-free and repayable on demand; and also an amount due to a substantial shareholder, Kaisa Group Holdings Limited, of HK\$182,000 (31 December 2016: nil).

As at 30 June 2017 and 31 December 2016, no gearing ratio of the Group could be calculated as there were no bank loan outstanding.

The number of issued shares of the Company was 3,826,207,031 as at 30 June 2017 (31 December 2016: 3,826,207,031 shares).

Taking the above figures into account and also the strong operational cash flows arising from the Dental Prosthetics Business as well as the right issue proceeds as mentioned in below section headed “Event after the reporting period”, 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 28 July 2017, the Group 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 Group will raise proceeds of not less than approximately HK\$510.16 million and not more than approximately HK\$547.37 million before expenses and the estimated net proceeds of the Rights Issue will not be less than approximately HK\$507.16 million and not more than approximately HK\$544.37 million, which are intended to be applied towards (i) funding potential acquisition in an overseas dental technology company; (ii) the acquisition of land to construct a manufacturing plant for the dental prosthetic business in the PRC; and (iii) general working capital requirements of the Group.

The details of the Rights Issue are set out in the Company’s announcement dated 28 July 2017 and 18 August 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Employees and Remuneration Policy

The Group employed 1,430 employees in total as at 30 June 2017 (31 December 2016: 1,230) 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

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 2017.

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 2017.

Changes in Information of Directors

Since the publication of the Company’s 2016 Annual Report, Mr. Wang Wansong has been appointed as the independent non-executive director of the Company on 11 April 2017.

Mr. Wang, aged 47, obtained his bachelor degree in Biology from the Peking University. Mr. Wang is currently working as a senior researcher at the State High-Tech Industrial Innovation Center, Shenzhen (深圳市國家高技術產業創新中心). Prior to that, Mr. Wang worked in several governmental bodies in the People’s Republic of China and in a commercial organisation for over 20 years. He has extensive experiences in policies formulation and implementation for high tech industrial development and construction in Shenzhen, and also in technological innovation, achievements transformation, and projects implementation and co-ordination for high tech bio-pharmaceutical industry and medical device industry. Mr. Wang is currently an independent non-executive director of Lifetech Scientific Corporation (stock code: 1302), a company listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Save as disclosed above and apart from the resignation of Mr. Song Qun as an independent non-executive Director on 11 April 2017, 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 2016 Annual Report and up to the date of this Interim Report.

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 2017, 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:

DISCLOSURE OF ADDITIONAL INFORMATION

Corporate Governance (Continued)

Code Provision A.5.1

There is a deviation from Code Provision A.5.1 of the CG Code: Nomination Committee should be chaired by the chairman of the Board or an independent non-executive director. Mr. Wu Tianyu, CEO and executive Director, was appointed as the chairman of the Nomination Committee since 30 June 2015.

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

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

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.

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

At 30 June 2017, 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 | 1.62% |
| Ms. Jiang Sisi | Interest of spouse | 61,910,000 (Note 1) | 1.62% |

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.

DISCLOSURE OF ADDITIONAL INFORMATION

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

(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 | 2.93% |
| Ms. Jiang Sisi (Note 1) | 112,070,000 | 112,070,000 | 2.93% |

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 2017.

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

Save as disclosed above, as at 30 June 2017, 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 2017.

DISCLOSURE OF ADDITIONAL INFORMATION

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

As at 30 June 2017, 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.

| Name | Capacity/ Nature of interest | Total number of Shares (Note 1) | Approximate percentage of the Company's issued share capital |
|---|---------------------------------------|---------------------------------------|---|
| Kaisa Group Holdings Limited (Note 2) | Beneficial owner | 830,949,743 (L) | 21.72% |
| Ying Hua Holdings Limited (Note 3) | Beneficial owner | 308,000,000 (L) | 8.05% |
| Mr. Kwok Ying Shing (Note 3) | Interest of controlled corporation | 308,000,000 (L) | 8.05% |
| Xianjian Advanced Technology Limited (Note 4) | Beneficial owner | 504,000,000 (L) | 13.17% |
| Mr. Xie Yuehui (Note 4) | Interest of controlled corporation | 504,000,000 (L) | 13.17% |
| Genius Earn Limited (Note 5) | Interest of controlled corporation | 256,410,256 (L) | 6.70% |
| Mr. Liu Xiaolin (Note 5) | Interest of controlled corporation | 256,410,256 (L) | 6.70% |
| Silver Empire Holding Limited (Note 5) | Beneficial owner | 256,410,256 (L) | 6.70% |
| ABG II-RYD Limited (Note 6) | Beneficial owner | 270,300,000 (L) | 7.06% |
| Ally Bridge Group Capital Partners II, L.P. (Note 6) | Interest of controlled corporation | 270,300,000 (L) | 7.06% |
| ABG Capital Partners II GP, L.P. (Note 6) | Interest of controlled corporation | 270,300,000 (L) | 7.06% |
| ABG Capital Partners II GP Limited (Note 6) | Interest of controlled corporation | 270,300,000 (L) | 7.06% |
| Mr. Yu Fan (Note 6) | Interest of controlled corporation | 270,300,000 (L) | 7.06% |
| View Bright Global Investment Limited (Note 7) | Beneficial owner | 240,000,000 (L) | 6.27% |
| Mr. Yan XT Timothy (Note 7) | Interest of controlled corporation | 240,000,000 (L) | 6.27% |

DISCLOSURE OF ADDITIONAL INFORMATION

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

Note:

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 Limited 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 Limited (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, Silver Empire Holding Limited is wholly owned by Genius Earn Limited. Genius Earn Limited is wholly owned by Mr. Liu Xiaolin.
6. 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 0.91% 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.
7. According to the information available to the Company, View Bright Global Investment Limited is wholly owned by Mr. Yan XT Timothy.

Save as disclosed above, as at 30 June 2017, 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.

DISCLOSURE OF ADDITIONAL INFORMATION

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 this report, and such limit may be refreshed by the shareholders of the Company in general meeting.

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.
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);

DISCLOSURE OF ADDITIONAL INFORMATION

Share Option Scheme (Continued)

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 2017 is as follows:–

| Name | Balance as at 1 January 2017 | Granted during the period | Exercised during the period | Balance as at 30 June 2017 | Exercisable period | Exercisable price | Approximate percentage of issued share capital of the Company |
|---------------------------|------------------------------|---------------------------|-----------------------------|----------------------------|---|-------------------|---|
| Mr. Wu Tianyu (note 1) | 74,070,000 (note 3) | – | – | 74,070,000 | 16 June 2016- 15 June 2020 | HK\$0.784 | 1.94% |
| | 38,000,000 (note 4) | – | – | 38,000,000 | 12 September 2017- 11 September 2022 | HK\$0.40 | 0.99% |
| | <u>112,070,000</u> | <u>–</u> | <u>–</u> | <u>112,070,000</u> | | | |
| Ms. Jiang Sisi (note 1) | 74,070,000 (note 3) | – | – | 74,070,000 | 16 June 2016- 15 June 2020 | HK\$0.784 | 1.94% |
| | 38,000,000 (note 4) | – | – | 38,000,000 | 12 September 2017- 11 September 2022 | HK\$0.40 | 0.99% |
| | <u>112,070,000</u> | <u>–</u> | <u>–</u> | <u>112,070,000</u> | | | |
| Employees and consultants | 16,900,000 (note 2) | – | – | 16,900,000 | 16 June 2016- 15 June 2020 | HK\$0.784 | 0.44% |
| | 38,000,000 (note 4 & 5) | – | – | 38,000,000 | 12 September 2017- 11 September 2022 | HK\$0.40 | 0.99% |
| | <u>54,900,000</u> | <u>–</u> | <u>–</u> | <u>54,900,000</u> | | | |
| Total | <u>279,040,000</u> | <u>–</u> | <u>–</u> | <u>279,040,000</u> | | | |

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 2017.

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 2017 and up to the date of this report:

- (i) On 24 January 2017, Mega Smart Holdings Limited (“Mega Smart”), an indirect wholly-owned subsidiary of the Company, has entered into an agreement with Dragon Fortune Group Holdings Limited (“Dragon Fortune”) (the “Disposal”), and pursuant to which Mega Smart has agreed to dispose of and Dragon Fortune has agreed to acquire the entire issued share capital of Modern Success Holdings Limited, an indirect wholly-owned subsidiary of the Company, and its subsidiaries (the “Disposal Group”). The consideration of the Disposal is HK\$2,800,000 and the transaction has been completed on 22 February 2017.

DISCLOSURE OF ADDITIONAL INFORMATION

Connected Transactions (Continued)

(i) (Continued)

Dragon Fortune is a company wholly-owned by Glory Gate International Limited which is wholly-owned by Ms. Shen Jing, spouse of Mr. Wen Jialong who was the former chairman and executive director of the Company. Dragon Fortune also owns 30% equity interest and is therefore a substantial shareholder of certain direct and indirect subsidiaries in the Disposal Group. Moreover, Ms. Shen, a director of certain companies in the Disposal Group, is the ultimate beneficial owner indirectly owning 100% equity interest of Dragon Fortune which is therefore an associate of Ms. Shen.

Therefore, Dragon Fortune is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As all the applicable percentage ratios (other than profit ratio) with respect to the Disposal are less than 25% and the consideration is less than HK\$10,000,000, the Disposal is exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules. This discloseable and connected transaction has been announced on 24 January 2017.

(ii) On 28 July 2017, the Group proposed to implement the rights issue (the "Right 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 Group will raise proceeds of not less than approximately HK\$510.16 million and not more than approximately HK\$547.37 million before expenses and the estimated net proceeds of the Rights Issue will not be less than approximately HK\$507.16 million and not more than approximately HK\$544.37 million, which are intended to be applied towards (i) funding potential acquisition in an overseas dental technology company; (ii) the acquisition of land to construct a manufacturing plant for the dental prosthetic business in the PRC; and (iii) general working capital requirements of the Group.

The Rights Issue is fully underwritten by Kaisa Group. Pursuant to the Underwriting Agreement, Kaisa Group has conditionally agreed to underwrite the Rights Shares not subscribed by the Qualifying Shareholders.

Kaisa Group is a substantial Shareholder of Mega Medical and therefore a connected person of Mega Medical. Accordingly, the Underwriting Agreement and the transactions contemplated thereunder constitutes a connected transaction of Mega Medical under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.92(2) of the Listing Rules, as Mega Medical has made arrangements for the Qualifying Shareholders to apply for the Rights Shares in excess of their entitlements under the Rights Issue in compliance with Rule 7.21(1) of the Listing Rules, the Underwriting Agreement is exempted from the reporting, announcement, and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The details of the Rights Issue are set out in the Company's announcement dated 28 July 2017 and 18 August 2017.

DISCLOSURE OF ADDITIONAL INFORMATION

Connected Transactions (Continued)

- (iii) During the six months ended 30 June 2017, the Group had rented a property from Kaisa Group Holdings Limited amounted to HK\$46,000. Kaisa Group Holdings Limited 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.
- (iv) During the six months ended 30 June 2017, 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. Guo Peineng and Mr. Wang Wansong.

On 11 January 2017, Dr. Loke Yu alias Loke Hoi Lam resigned as the chairman of the Audit Committee and Dr. Liu Yanwen, an independent non-executive Director, was appointed as chairman of the Audit Committee accordingly.

On 23 January 2017, Mr. Wu Jixian resigned as member of the Audit Committee and Mr. Guo Peineng was appointed as member of the Audit Committee.

On 11 April 2017, Mr. Song Qun resigned as member of the Audit Committee and Mr. Wang Wansong was appointed as member of the Audit Committee.

The Audit Committee met with the management on 28 August 2017 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.

MEGA MEDICAL TECHNOLOGY LIMITED

美加醫學科技有限公司