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MEGA MEDICAL

# 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 2017

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE SIX MONTHS ENDED 30 JUNE 2017*

| | | **Six months ended** | |
|---|---|---|---|
| | | **30.6.2017** | 30.6.2016 |
| | *NOTES* | ***HK$'000*** | *HK$'000* |
| | | **(unaudited)** | (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 |

| | NOTE | Six months ended 30.6.2017 HK$'000 (unaudited) | 30.6.2016 HK$'000 (unaudited) (restated) |
|---|---|---|---|
| **Discontinued operation** | | | |
| (Loss) profit for the period from discontinued operation | *10* | **(3,451)** | 1,325 |
| Profit for the period | | **6,609** | 8,036 |
| **Other comprehensive income (expense)** | | | |
| *Items that may be subsequently reclassified to profit or loss:* | | | |
| 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** | (680) |

| | 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 | | **11,684** | 8,380 |
| Intangible asset | | **28,800** | 29,146 |
| Goodwill | | **330,805** | 330,805 |
| Convertible bonds receivable | | **45,914** | 40,984 |
| | | **417,203** | 409,315 |
| Current assets | | | |
| Inventories | | **3,832** | 2,429 |
| Trade and other receivables | *8* | **56,902** | 55,845 |
| Amount due from a director | | **34,399** | 35,534 |
| Short-term investments | | **22,587** | — |
| Bank balances and cash | | **41,793** | 64,597 |
| | | **159,513** | 158,405 |
| Assets classified as held for sale | | **—** | 18,700 |
| | | **159,513** | 177,105 |
| Current liabilities | | | |
| Trade and other payables | *9* | **37,123** | 48,909 |
| Amounts due to related parties | | **921** | 712 |
| Amount due to a non-controlling shareholder of a subsidiary | | **—** | 1,232 |
| Taxation payable | | **7,096** | 6,266 |
| | | **45,140** | 57,119 |
| Liabilities associated with assets classified as held for sale | | **—** | 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 |
| Capital and reserves | | | |
| Share capital | | **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 |

## 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 10, 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.

## 3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received and receivable for goods sold by the Group to outside customers net of discounts, 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) |

## 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 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.

## 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) |
| 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 | **—** | 4,142,308 |
| 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.

**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. 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** | — |
| | **46,123** | 38,203 |

## 9. TRADE AND OTHER PAYABLES

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

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** | 31.12.2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 - 90 days | **5,561** | 4,770 |
| 91 - 180 days | **130** | 198 |
| 181 - 365 days | **132** | — |
| | **5,823** | 4,968 |

## 10. 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** | Six months ended 30 June 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue | **2,308** | 71,452 |
| Cost of sales | **(2,010)** | (70,849) |
| Gross profit | **298** | 601 |
| Other income | **—** | 386 |
| Selling expenses | **(10)** | (2,746) |
| Administrative expenses | **(365)** | (9,389) |
| Finance costs | **—** | (70) |
| Other expenses | **—** | (5) |
| Loss before taxation | **(77)** | (11,223) |
| Taxation | **—** | 7 |
| Loss for the period | **(77)** | (11,216) |
| (Loss) gain on disposal of subsidiaries | **(3,374)** | 12,541 |
| (Loss) profit for the period from discontinued operation | **(3,451)** | 1,325 |

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 | 7,278 |
| **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 | 2,343 |
| Loss on disposal | (3,374) |
| **Net cash outflow arising on disposal:** | |
| Cash consideration received | 2,800 |
| Bank balances and cash disposed of | (5,880) |
| | (3,080) |

*(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 | (7,432) |
| Net assets disposed of | 163,191 |
| **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 | (10,347) |
| Gain on disposal | 5,734 |
| **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 | (27) |
| | 23,839 |

### (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 | 6,373 |
| **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 | 7,498 |
| Gain on disposal | 6,807 |
| **Net cash inflow arising on disposal:** | |
| Cash consideration received | 4,368 |
| Cash and cash equivalents disposed of | (481) |
| | 3,887 |

## REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements of the Company for the six months ended 30 June 2017 have been reviewed by the Audit Committee and the Company's auditor, Messrs. Deloitte Touche Tohmatsu, 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 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).

**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.

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 canner (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.

### *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.

***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).

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.

**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.

By order of the Board
**Mega Medical Technology Limited**
**Luo Jun**
*Chairman*

Hong Kong, 28 August 2017

*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 three independent non-executive directors, namely Dr. Liu Yanwen, Mr. Guo Peineng and Mr. Wang Wansong.*