MODERN Dental Group

MODERN DENTAL GROUP LIMITED
現代牙科集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3600)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017, INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

RESULTS HIGHLIGHTS

- The Group's revenue in the six months ended 30 June 2017 was approximately HK$1,082,185,000, representing an increase of approximately HK$307,745,000 or 39.7% as compared with that of the six months ended 30 June 2016.
- Gross profit for the six months ended 30 June 2017 was approximately HK$535,555,000, representing an increase of approximately HK$107,797,000 or 25.2% as compared with that of the six months ended 30 June 2016. The gross profit margin was approximately 49.5%.
- Profit for the six months ended 30 June 2017 was approximately HK$85,518,000, representing an increase of HK$14,384,000 or 20.2% as compared with that of the six months ended 30 June 2016.
- The Group's Adjusted EBITDA for the six months ended 30 June 2017 was approximately HK$173,674,000 (six months ended 30 June 2016: HK$166,290,000).

- Basic earnings per share for the six months ended 30 June 2017 amounted to HK8.50 cents (six months ended 30 June 2016: HK7.10 cents).
- The Board declared an interim dividend of HK2.5 cents per share for the six months ended 30 June 2017 (six months ended 30 June 2016: HK2.1 cents). The interim dividend will be payable on Friday, 6 October 2017 to shareholders of the Company whose names appear on the register of members of the Company on Wednesday, 13 September 2017.

INTERIM RESULTS

The board of directors (the "**Board**" or the "**Directors**") of Modern Dental Group Limited (the "**Company**") is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2017, together with the comparative figures for the corresponding period in 2016, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Notes	Six months ended 30 June 2017 (Unaudited) *HK$'000*	2016 (Unaudited) *HK$'000*
REVENUE	4	**1,082,185**	774,440
Cost of sales		**(546,630)**	(346,682)
Gross profit		**535,555**	427,758
Other income and gains	4	**2,709**	2,103
Selling and distribution expenses		**(122,009)**	(81,596)
Administrative expenses		**(293,104)**	(219,475)
Other operating expenses		**(1,492)**	(15,326)
Finance costs	6	**(14,155)**	(14,265)
PROFIT BEFORE TAX	5	**107,504**	99,199
Income tax expense	7	**(21,986)**	(28,065)
PROFIT FOR THE PERIOD		**85,518**	71,134
ATTRIBUTABLE TO:			
Owners of the Parent		**84,700**	70,442
Non-controlling interests		**818**	692
		85,518	71,134
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	8	**HK8.50 cents**	HK7.10 cents
Diluted	8	**HK8.50 cents**	HK7.10 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**85,518**	71,134
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**108,100**	11,184
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**108,100**	11,184
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**193,618**	82,318
ATTRIBUTABLE TO:		
Owners of the Parent	**192,732**	81,557
Non-controlling interests	**886**	761
	193,618	82,318

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Notes	**30 June 2017 (Unaudited) *HK$'000***	31 December 2016 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**221,204**	173,238
Prepaid land lease payments		**12,313**	12,071
Goodwill	10	**1,353,218**	1,256,356
Intangible assets		**392,544**	390,028
Interests in associates	11	**11,613**	—
Deferred tax assets		**11,734**	7,482
Deposits paid for purchase of property, plant and equipment		**39,896**	40,901
Prepayments for acquisition of subsidiaries		**—**	41,027
Long term prepayments and deposits		**13,136**	—
Total non-current assets		**2,055,658**	1,921,103
CURRENT ASSETS			
Inventories		**92,523**	74,098
Trade receivables	12	**425,135**	359,354
Prepayments, deposits and other receivables		**47,933**	43,603
Current tax assets		**7,592**	5,615
Pledged deposits		**11,337**	3,726
Cash and cash equivalents		**241,212**	337,004
Total current assets		**825,732**	823,400
CURRENT LIABILITIES			
Trade payables	13	**64,926**	73,760
Other payables and accruals		**166,050**	146,874
Interest-bearing bank and other borrowings	14	**205,574**	190,746
Tax payable		**43,038**	40,451
Total current liabilities		**479,588**	451,831
NET CURRENT ASSETS		**346,144**	371,569
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,401,802**	2,292,672

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2017

	Notes	**30 June 2017 (Unaudited)** ***HK$'000***	31 December 2016 (Audited) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,401,802**	2,292,672
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	14	**359,538**	430,450
Deferred tax liabilities		**28,850**	31,288
Other non-current liabilities		**3,893**	8,704
Total non-current liabilities		**392,281**	470,442
NET ASSETS		**2,009,521**	1,822,230
EQUITY			
Equity attributable to owners of the Parent			
Share capital		**77,500**	77,500
Treasury shares		**(304)**	(304)
Reserves		**1,926,127**	1,738,543
		2,003,323	1,815,739
Non-controlling interests		**6,198**	6,491
TOTAL EQUITY		**2,009,521**	1,822,230

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

Modern Dental Group Limited (the "Company") is incorporated as an exempted company with limited liability in the Cayman Islands on 5 July 2012 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised). The Company's registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-1111, Cayman Islands. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the production and distribution of dental prosthetic devices.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

These interim condensed consolidated financial statements are unaudited, but have been reviewed by the Audit Committee of the Company.

2.2 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017, noted below.

IAS 7 Amendments	*Disclosure Initiative*
IAS 12 Amendments	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12	*Disclosure of Interests in Other Entities*

The adoption of these new and revised IFRSs did not have any significant effect on the financial position or performance of the Group.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) The fixed prosthetic devices segment is a supplier of restorative dental procedures, such as crowns, bridges and implants.

(b) The removable prosthetic devices segment produces full dentures and partial dentures. Dentures can be further classified as dentures with metal frameworks and dentures without metal frameworks.

(c) The "others" segment comprises, principally, orthodontic devices, sport guards and anti-snoring devices, raw materials, dental equipment, the service of educational events and seminars rendered.

Management monitors the revenue and cost of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment gross profit/(loss).

The geographical information of the non-current assets excludes deferred tax assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

	Six months ended 30 June					
	2017 (unaudited)			2016 (unaudited)		
	Revenue	**Cost of sales**	**Gross profit**	Revenue	Cost of sales	Gross profit
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Fixed prosthetic devices	**785,494**	**402,121**	**383,373**	527,820	226,901	300,919
Removable prosthetic devices	**202,705**	**101,813**	**100,892**	174,220	77,856	96,364
Others	**93,986**	**42,696**	**51,290**	72,400	41,925	30,475
Total	**1,082,185**	**546,630**	**535,555**	774,440	346,682	427,758

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Europe	**414,427**	385,306
Greater China	**199,380**	194,760
North America	**357,761**	90,480
Australia	**103,784**	98,033
Others	**6,833**	5,861
	1,082,185	774,440

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	30 June 2017	31 December 2016
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Europe	**751,247**	678,631
Greater China	**146,700**	138,840
North America	**590,014**	580,291
Australia	**473,384**	449,436
Others	**82,579**	66,423
	2,043,924	1,913,621

The non-current assets information above is based on the locations of the assets and excludes deferred tax assets.

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**1,082,185**	774,440
Other income		
Bank interest income	**430**	487
Government subsidies*	**871**	—
Others	**1,391**	1,468
	2,692	1,955
Gains		
Gain on disposal of items of property, plant and equipment, net	**17**	148
	17	148
Other income and gains	**2,709**	2,103

* Government subsidies contain the stabilisation subsidy and special fund of self-independent innovation industry from the government of the People's Republic of China.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**173,545**	103,866
Depreciation	**23,811**	15,180
Amortisation of intangible assets	**17,939**	18,065
Amortisation of prepaid land lease payments	**126**	—
Minimum lease payments under operating leases	**31,395**	17,168
Auditors' remuneration	**3,130**	3,346
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	**439,173**	295,434
Pension scheme contributions	**65,773**	32,362
Equity-settled Pre-IPO RSU Scheme expense	**3,852**	11,796
	508,798	339,592
Bank interest income	**(430)**	(487)
Gain on disposal of items of property, plant and equipment, net	**(17)**	(148)
Fair value loss, net:		
Call options and put options*	**—**	372
Forward foreign exchange contracts*	**—**	7,704
Remeasurement loss on contingent consideration*	**—**	521
Write-off of property, plant and equipment*	**190**	15
Allowance for impairment of trade receivables	**134**	2,804
Foreign exchange loss, net*	**1,279**	6,632

* Included in "other operating expenses" in the interim condensed consolidated statement of profit or loss.

6. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other loans	**11,507**	11,303
Finance charges on bank loans	**2,589**	2,875
Interest on finance leases	**59**	87
	14,155	14,265

7. INCOME TAX EXPENSE

The Group calculates the income tax expense for the period using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed consolidated statement of profit or loss are:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong	**4,024**	2,441
Current – Elsewhere	**24,275**	28,956
Deferred	**(6,313)**	(3,332)
Total tax charge for the period	**21,986**	28,065

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the six months ended 30 June 2017 attributable to ordinary equity holders of the Parent, and the weighted average number of ordinary shares of 996,310,049 (six months ended 30 June 2016: 991,850,962) in issue during the period.

The calculation of the diluted earnings per share amount is based on the profit for the six months ended 30 June 2017 attributable to ordinary equity holders of the Parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares. No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2017 and 2016 in respect of a dilution as the impact of the shares outstanding under the Pre-IPO RSU Scheme had an anti-dilutive effect on the basic earnings per share amounts presented.

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Parent, used in the basic earnings per share calculation	**84,700**	70,442

	Number of shares	
	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**996,310,049**	991,850,962
Effect of dilution – weighted average number of ordinary shares:		
The Pre-IPO RSU Scheme	**—**	236,372
	996,310,049	992,087,334

9. DIVIDENDS

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interim dividend	**25,000**	21,000
Total	**25,000**	21,000

The Board declared an interim dividend of HK2.5 cents per share for the six months ended 30 June 2017 (the six months ended 30 June 2016: HK2.1 cents).

10. GOODWILL

	30 June 2017 (Unaudited) *HK$'000*	31 December 2016 (Audited) *HK$'000*
Carrying amount at 1 January	**1,256,356**	857,592
Acquisition of subsidiaries	**35,060**	432,520
Impairment	—	(9,832)
Exchange realignment	**61,802**	(23,924)
Carrying amount at 30 June/31 December	**1,353,218**	1,256,356

11. INTERESTS IN ASSOCIATES

STM Digital Dentistry Holding Limited ("STM Digital") was established in Hong Kong in cooperation with the Straumann Group. STM Digital was established for the production of customised dental prosthetics for the Chinese market.

As the Company does not have control over STM Digital, the interests in STM Digital was classified as interests in associates.

Breakdown of interests in associates is as follows:

	30 June 2017 (Unaudited) *HK$'000*
Share of net assets	**11,613**
	11,613

12. TRADE RECEIVABLES

An aging analysis of the trade receivables as at 30 June 2017 and 31 December 2016, based on the invoice date and net of provision, is as follows:

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
	HK$'000	*HK$'000*
Within 1 month	**257,098**	211,621
1 to 2 months	**59,426**	54,576
2 to 3 months	**31,247**	24,241
3 months to 1 year	**66,841**	63,613
Over 1 year	**10,523**	5,303
	425,135	359,354

The Group normally allows credit terms of 30 to 90 days to established customers, and extends credit terms up to 180 days for major customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Certain of the Group's trade receivables of approximately HK$96,432,000 (unaudited) (31 December 2016: HK$76,348,000 (audited)) were pledged to secure general banking facilities granted to the Group.

13. TRADE PAYABLES

An aging analysis of the trade payables as at 30 June 2017 and 31 December 2016, based on the invoice date, is as follows:

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
	HK$'000	*HK$'000*
Within 1 month	**33,698**	32,991
1 to 2 months	**18,135**	17,288
2 to 3 months	**5,229**	10,275
Over 3 months	**7,864**	13,206
	64,926	73,760

The trade payables are unsecured, non-interest-bearing and are normally repayable within one to three months or on demand. The carrying amounts of trade payables approximate to their fair values due to their relatively short maturity terms.

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
	Effective/ contractual interest rate (%)	**HK$'000**	Effective/ contractual interest rate (%)	HK$'000
Current				
Finance lease payables	**4.53-8.50**	**1,464**	4.53-8.50	1,769
Bank loan – secured	**LIBOR+(2.60)**	**77,500**	LIBOR+(2.60)	77,500
Current portion of long term bank loans – secured	**LIBOR+(2.60)**	**126,610**	LIBOR+(2.60)	111,477
		205,574		190,746
Non-current				
Finance lease payables	**4.53-8.50**	**623**	4.53-8.50	812
Long term bank loans - secured	**LIBOR+(2.60)**	**358,915**	LIBOR+(2.60)	429,638
		359,538		430,450
		565,112		621,196

	30 June 2017	31 December 2016
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Analysed into:		
Bank loans and bank overdrafts repayable:		
Within one year or on demand	**204,110**	188,977
In the second year	**142,485**	141,794
In the third to fifth years, inclusive	**216,430**	287,844
	563,025	618,615
Finance lease payables:		
Within one year	**1,464**	1,769
In the second year	**356**	466
In the third to fifth years, inclusive	**267**	346
	2,087	2,581
	565,112	621,196

Notes:

(a) On 6 November 2015, the Group has drawn down a US$75 million 5 year term loan and a US$10 million revolving loan, and has repaid the majority of its previous bank loan facilities in the same month. The principal and interest payments for existing loan facilities will be repaid according to the loan agreements. As at 30 June 2017, all of the amounts borrowed from these facilities are guaranteed by the Company and its subsidiaries and secured by the shares of the subsidiaries as well as certain trade receivables, bank deposits and equipment of the subsidiaries.

(b) As at 30 June 2017 (unaudited), the Group's bank borrowings denominated in United States Dollar ("US$") and Canadian Dollar ("CAD") amounted to approximately HK$562,846,000 and HK$179,000 respectively. The Group's finance lease payables denominated in Hong Kong Dollar ("HK$"), Australian Dollar ("AUD") and US$ amounted to approximately HK$21,000, HK$1,700,000 and HK$366,000 respectively.

As at 31 December 2016 (audited), the Group's bank borrowings denominated in US$ and CAD amounted to approximately HK$618,382,000 and HK$233,000 respectively. The Group's finance lease payables denominated in HK$, AUD and US$ amounted to approximately HK$26,000, HK$2,036,000 and HK$519,000 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

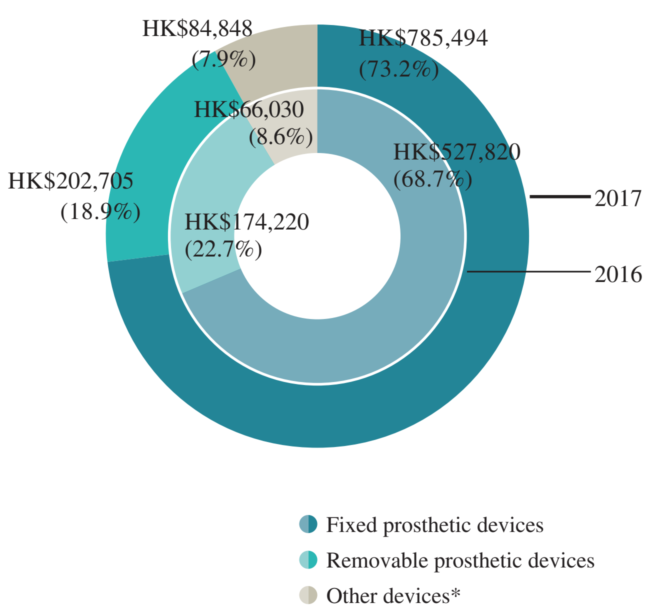
BUSINESS REVIEW

The Group is a leading global dental prosthetic device provider with a focus on providing custom-made prostheses to customers in the growing prosthetics industry. Our product portfolio is broadly categorised into three product lines: fixed prosthetic devices such as crowns and bridges; removable prosthetic devices such as removable dentures; and other devices such as orthodontic devices, sports guards and anti-snoring devices, raw materials, dental equipment and the services of educational events and seminars rendered.

Product Category

The figures below set forth the breakdown of revenue (in thousand Hong Kong dollars (HK$'000) and percentage) by product category for the six months ended 30 June 2017 and 2016 respectively:

Breakdown of revenue (HK$'000)



* Raw materials revenue, dental equipment revenue and the service revenue are subtracted from the Group's revenue.

Fixed Prosthetic Devices

Our fixed prosthetic devices, including crowns and bridges, are used for restorative dental procedures. Crowns are fixed replacements for a single tooth while bridge treatments permanently replace several adjacent teeth.

During the period under review, fixed prosthetic devices business segment recorded revenue of approximately HK$785,494,000, representing an increase of approximately HK$257,674,000 as compared with the six months ended 30 June 2016. This business segment accounted for approximately 73.2% of the Group's total revenue as compared with approximately 68.7% in the six months ended 30 June 2016.

Removable Prosthetic Devices

Our removable prosthetic devices primarily comprise dentures. As prostheses are used to replace natural teeth, they must provide functional biting and chewing surfaces and must also appear and feel natural.

During the period under review, removable prosthetic devices business segment recorded revenue of approximately HK$202,705,000, representing an increase of approximately HK$28,485,000 as compared with the six months ended 30 June 2016. This business segment accounted for approximately 18.9% of the Group's total revenue as compared with approximately 22.7% in the six months ended 30 June 2016.

Other Devices

Other devices include orthodontic devices, anti-snoring devices, and sports guards.

During the period under review, other devices business segment recorded revenue of approximately HK$84,848,000, representing an increase of approximately HK$18,818,000 as compared with the six months ended 30 June 2016. This business segment accounting for approximately 7.9% of the Group's total revenue as compared with approximately 8.6% in the six months ended 30 June 2016.

Product Category

The following table sets forth the breakdown of sales volume, revenue, and average selling price ("**ASP**") by product category for the six months ended 30 June 2017 and 2016 respectively:

	Six months ended 30 June					
	2017			2016		
	Sales Volume (number of cases)	**Revenue (HK$'000)**	**ASP (HK$ per case)**	Sales Volume (number of cases)	Revenue (HK$'000)	ASP (HK$ per case)
Product category						
Fixed prosthetic devices	**544,032**	**785,494**	**1,444**	378,538	527,820	1,394
Removable prosthetic devices	**190,799**	**202,705**	**1,062**	173,786	174,220	1,002
Other devices*	**137,757**	**84,848**	**616**	111,727	66,030	591
Total	**872,588**	**1,073,047**	**1,230**	664,051	768,070	1,157

* We subtract the raw materials revenue, dental equipment revenue and the service revenue from the Group's revenue.

Geographic Market

By leveraging on our sales and distribution network, we achieved a leading position in the dental prosthetics industry across Europe, North America, Greater China, Australia, and other countries. The following table sets forth a breakdown of the revenue generated from the aforesaid markets:

	Six months ended 30 June	
	2017	2016
	Revenue	Revenue
	(HK$'000)	(HK$'000)
Market		
Europe*	**411,113**	383,294
North America	**357,761**	90,480
Greater China**	**196,381**	193,226
Australia***	**100,959**	95,206
Others	**6,833**	5,864
Total	**1,073,047**	768,070

* We subtract the dental equipment revenue from the European revenue.

** We subtract the raw materials and dental equipment revenue from the Greater China revenue.

*** Our Australian market includes both Australia and New Zealand. We subtract the services revenue from the Australian revenue.

Sales volume and average selling price

For the six months ended 30 June 2017, the sales volume and average selling price of the Group's products across its markets were 872,588 cases (six months ended 30 June 2016: 664,051 cases) and HK$1,230 per case (six months ended 30 June 2016: HK$1,157 per case), representing an increase of 31.4% and 6.3%, respectively.

Europe

The revenue generated from sales in the European markets, including France, Germany, the Netherlands, Belgium, Denmark, Sweden, Norway, Spain, the United Kingdom and other European countries, accounted for the largest portion of our revenue in the period under review.

Our sales and distribution network in Europe is able to reach 13 countries and we offer a portfolio of respected, long-established and trusted brands. Notwithstanding the political uncertainties and the generally weak economic environment in Europe, the Group outperformed the overall market to further increase our market share, through acquisitions and organic growth. Our sales and marketing efforts yielded positive results and this was reflected in the strong growth in our revenue in this market, in particular, our PRC-made imports. This growth has been product-and customer-led, as customers are typically purchasing different products from our broad product line. We offer comparatively more competitive prices for products of comparable quality in the market with high quality customer services.

The Group has continued to actively acquire dental laboratories and distributors of dental prosthetic products in the first half of 2017 in Europe. In January 2017, the Group completed the acquisition of Schmidt Dentalkeramik APS. In February 2017, the Group completed the acquisitions of CDI Dental AB and CDI Supply AB ("**CDI Group**").

One key strategy in Europe is to offer existing clients better local services such as providing quicker and more efficient turnaround time through our satellite local laboratories which are in close proximity to our clients. The Group is in a position to match our clients' high expectations through our various onshore and offshore resources. Through our improved local presence, the Group is in a better position to attract new customers. At the same time, our team and management are working intensively on growth strategies and synergies, and on a range of new products and innovations to stimulate further growth. As our newly acquired companies integrate into the Group, we expect to capture further cost-savings and synergies. In Europe, we have a geographically diversified business model which puts us in a strong position for seizing acquisition opportunities going forward. At the same time, we have organic growth drivers such as improved marketing and sales, brand awareness, track-record in quality and customer service, and providing value-added services to our clients.

Through our most recent acquisitions, the Group has effectively expanded its footprint in Norway, Sweden and Denmark. In Norway, our acquisition was a key first step in creating further synergies in the Norwegian market where, after a few months of organisational changes, we expect to (i) further cost-save with our global procurement arrangement; and share marketing and sales resources; and (ii) fully utilise our brand "Elysee" to promote our products. In Sweden, CDI Group is the leading supplier of offshore prosthetics and is in a strong position in the south of Sweden. Through synergies and integration, we expect to further grow our Swedish business effectively with the assistance of our existing operations under "Elysee". In Denmark, we are currently in the process of integrating our recently acquired business, and expect to achieve full synergies by the end of 2017 by utilising our Elysee platform.

During the period under review, the European market recorded a revenue of approximately HK$411,113,000, representing an increase of approximately HK$27,819,000 as compared with the six months ended 30 June 2016. Together with the sales of dental equipment of approximately HK$3,314,000, this geographic market accounted for 38.3% of the Group's total revenue as compared with approximately 49.8% in the six months ended 30 June 2016. The increase of revenue from the European market was largely attributable to (i) the acquisitions completed during the period; (ii) the organic growth in sales volume; and (iii) the annual increment of the retail price to the dentists, offset by the depreciation in Euro against Hong Kong Dollar during the period.

North America

The revenue generated from sales in the North American market, including the United States and Canada, represented the second largest portion of our revenue in the period under review.

After the completion of the Group's acquisition of MicroDental Group in late October 2016, MicroDental Group contributed approximately HK$260,144,000 (year ended 31 December 2016: HK$97,707,000) to the Group's revenue, approximately HK$1,510,000 (year ended 31 December 2016: HK$1,062,000) to the Group's adjusted EBITDA and approximately HK$5,292,000 (year ended 31 December 2016: HK$6,120,000) of loss to the Group's profit for the six months ended 30 June 2017. The loss of approximately HK$5,292,000 for the six months ended 30 June 2017 included (i) non-cash depreciation and amortisation of approximately HK$5,178,000; (ii) non-recurring expenses, such as professional fees in connection with the acquisitions of approximately HK$1,808,000; and (iii) one-off audit fee for the overrun in 2016 audit of approximately HK$1,550,000. Our main strategies for MicroDental Group are (i) to increase sales through new products and strengthen our sales and marketing team and strategies; (ii) to increase ASP through strategically placing each of our products at the optimal price-point; (iii) to capitalise on existing and future synergies, utilise MicroDental Group's 40 year brand history, its extensive distribution network and its very experienced employees; and (iv) cost restructuring, effectively leveraging existing resources and minimizing any overlap of resources. The above strategies are expected to be implemented during the year of 2017.

With our Group's onshore and offshore North American production capabilities, we are in a unique position to offer customers a wide range of onshore-and offshore-made products, improve customer services and shorten turnaround time. Our expanded North American distribution network is an useful platform for the Group to effectively promote new products. In particular, the Group recently entered into an exclusive distribution agreement with Oventus Medical Ltd (ASX:OVN) for the United States market. The Group is expected to further utilise its extensive North American distribution network for its existing products as well as new products.

The dental prosthetics market in North America grew during the period under review as a result of various factors. The aging population had a direct impact on the demand for dental prosthetic devices. In addition, since the promulgation of the Affordable Care Act in 2010, the coverage of health insurance has expanded. Moreover, the United States government has been funding and promoting oral health awareness.

During the period under review, the North American market recorded revenue of approximately HK$357,761,000, representing an increase of approximately HK$267,281,000 as compared with the six months ended 30 June 2016. This geographic market accounted for approximately 33.1% of the Group's total revenue as compared with approximately 11.7% in the six months ended 30 June 2016. The increase of revenue from the North American market was largely attributable to (i) the acquisition of MicroDental Group; and (ii) strong ASP and growth in sales volume of our offshore-made products.

Greater China

Our Greater China market comprises Mainland China, Hong Kong and Macau. The revenue generated from sales in the Greater China market accounted for the third largest portion of our revenue in the period under review.

Given the significant rise in the living standards in Greater China over the years, people have become increasingly aware of the importance of oral health, which benefits the custom-made dental prosthetics domestic sales market. We offer comparatively higher prices for products of premium quality in Greater China, which appeal to the population that has a strong demand for higher quality products. The Group experienced a pick-up in activity in this market in the first half of 2017 due to the Group's strategy of focusing on building better relationships with, and attracting new clients from, private clinics in first tier cities in Mainland China. Another key strategy was to expand our geographic presence, such as improving our sales and marketing strategies, customer service and technical service teams to provide customers with a higher quality service. STM Digital Dentistry Holding Limited ("STM Digital") was established in Hong Kong in cooperation with the Straumann Group in order to widen our coverage in the premium Chinese market. STM Digital was established for the production of customised dental prosthetics for the Chinese market.

With our new production facilities in Dongguan, we expect to further consolidate our status in the Mainland China market as we expect to be able to greatly increase our production volumes.

During the period under review, the Greater China market recorded revenue of approximately HK$196,381,000, representing an increase of approximately HK$3,155,000 as compared with the six months ended 30 June 2016. Together with the sales of raw materials and dental equipment of approximately HK$2,999,000, this geographic market accounted for approximately 18.4% of the Group's total revenue as compared with approximately 25.1% in the six months ended 30 June 2016. The increase of revenue from the Greater China market was largely attributable to (i) the results of our recent sales and marketing efforts in Mainland China, (ii) consistent growth in sales in the Hong Kong market and (iii) the volume growth in Mainland China primarily driven by the new private clinics in first tier cities in Mainland China and was partially offset by depreciation in Renminbi against Hong Kong Dollar.

Australia

The Australian market includes both Australia and New Zealand. In Australia and New Zealand, individuals are primarily responsible for financing their own dental treatments. Therefore, the growth in the disposable income per capita in Australia since 2008 helped boost the development of the dental prosthetics industry.

Through our various brands, which offer onshore-and offshore-made products, at multiple price points ranging from economy and standard to premium/boutique, the Group is able to effectively penetrate the entire Australian market. Similar to our strategy in Europe, where the Group is focusing on providing better local service, we are able to serve our existing clients better and attract new clients in the Australian market with our strengthen local production presence. The Group is one of the largest players in the Australian market. In a highly challenging market, where the Group faces tough competition from competitors that are willing to provide products at a lower price, volatile consumer confidence and underlying customer demand, the Group is still able to maintain its status as the key supplier to a number of corporate dental groups due to our largest and most comprehensive laboratory offered in Australia, our quality and reliable products, and our award-winning customers online portal, MySCD system, which enables customers to manage their dental-related product and/or service with us at a single real-time platform.

During the period under review, the Australian market recorded revenue of approximately HK$100,959,000, representing an increase of approximately HK$5,753,000 as compared with the six months ended 30 June 2016. Together with the service revenue generated from rendering educational events and seminars of approximately HK$2,825,000, this geographic market accounted for approximately 9.6% of the Group's total revenue as compared with approximately 12.7% in the six months ended 30 June 2016. The increase in the revenue from the Australian market was largely attributable to the increase in sales to corporate dental groups with bulk discounts offered during the period.

Others

Other markets primarily include Indian Ocean countries and Japan. During the period under review, these markets recorded revenue of approximately HK$6,833,000, representing an increase of approximately HK$969,000 as compared with the six months ended 30 June 2016. This geographic market accounted for approximately 0.6% of the Group's total revenue as compared with approximately 0.7% in the six months ended 30 June 2016. The decrease in ASP was mainly due to the change in product variety as more removable and other products with lower ASP were sold in the first half of 2017.

FUTURE PROSPECTS AND STRATEGIES

The Board is optimistic that the global demand for dental prosthetics continues to increase owing to the growing global population and the increasing aging population.

The Board is of the view that through further acquisitions, continuing organic growth and joint ventures, the Group will go from strength-to-strength in consolidating its status as the leading global dental prosthetic device provider. In particular, the Board is of the view that with the (i) addition of MicroDental Group; (ii) our most recent acquisitions in Europe; (iii) distribution and joint venture arrangements with upstream suppliers, such as Oventus and the Straumann Group, respectively; and (iv) new products, such as orthodontic devices, the Group is expected to outperform its competitors in the industry.

The construction of phase 1 of new production facilities in Dongguan had been commenced in December 2016 and targeted to be completed in 2018, some of the existing production facilities in Shenzhen will be gradually relocated to the new production facilities in Dongguan, the relocation will enhance the Group's production capacity and lower its labour costs in the future.

FINANCIAL REVIEW

Revenue

During the period under review, the consolidated revenue of the Group amounted to approximately HK$1,082,185,000, representing an increase of approximately 39.7% as compared with approximately HK$774,440,000 in the six months ended 30 June 2016. The increase was mainly attributable to (i) the acquisitions of MicroDental Group and CDI Group in October 2016 and February 2017 respectively; (ii) the annual increment of retail prices to the dentists; and (iii) the organic growth in the sales volume.

Gross Profit and Gross Profit Margin

The gross profit for the six months ended 30 June 2017 was approximately HK$535,555,000, which was approximately 25.2% higher than that of the six months ended 30 June 2016. The decrease of the gross profit margin of approximately 5.7% was mainly attributable to the dilution effect of sales from MicroDental Group's local production in North America with lower gross profit margin.

The gross profit margins of Fixed Prosthetic Devices business segment, Removable Prosthetic Devices business segment and Others business segment were approximately 48.8%, 49.8% and 54.6% respectively. The following table sets forth the breakdown of our gross profit and gross profit margin by product category.

	Six months ended 30 June			
	2017		2016	
	Gross profit *HK$'000*	**Gross profit margin** *(%)*	Gross profit *HK$'000*	Gross profit margin *(%)*
Product category				
Fixed prosthetic devices	**383,373**	**48.8**	300,919	57.0
Removable prosthetic devices	**100,892**	**49.8**	96,364	55.3
Others	**51,290**	**54.6**	30,475	42.1
Total	**535,555**	**49.5**	427,758	55.2

Selling and Distribution Expenses

During the period under review, selling and distribution expenses increased by approximately 49.5% from approximately HK$81,596,000 for the six months ended 30 June 2016 to approximately HK$122,009,000 for the six months ended 30 June 2017, accounting for approximately 11.3% of the Group's revenue, as compared with approximately 10.5% for the corresponding period in 2016. The percentage increase was primarily attributable to the increase in salaries, bonuses, commissions and other benefits for sales personnel, which resulted from the increase in headcount after our acquisitions of MicroDental Group and CDI Group in October 2016 and February 2017 respectively.

Administrative Expenses

During the period under review, the administrative expenses increased by approximately 33.5% from approximately HK$219,475,000 for the six months ended 30 June 2016 to approximately HK$293,104,000 for the six months ended 30 June 2017, accounting for approximately 27.1% of the Group's revenue, as compared with approximately 28.3% for the corresponding period in 2016. The increase in administrative expenses was primarily attributable to (i) an increase in the administrative labour costs, office expenses and rental expenses as a result of our acquisitions of MicroDental Group in October 2016 and (ii) the increase in one-off transaction costs in connection with acquisitions and disposals (six months ended 30 June 2017: approximately HK$6,562,000; six months ended 30 June 2016: approximately HK$196,000).

Other Operating Expenses

During the period under review, other operating expenses decreased by approximately 90.2% from approximately HK$15,326,000 for the six months ended 30 June 2016 to approximately HK$1,492,000 for the six months ended 30 June 2017, accounting for approximately 0.1% of the Group's revenue, as compared with approximately 2.0% for the corresponding period in 2016. Other operating expenses mainly represented (i) exchange losses, net, incurred of approximately HK$1,279,000 (six months ended 30 June 2016: HK$6,632,000); and (ii) the fair value loss on derivate instruments (six months ended 30 June 2017: Nil; six months ended 30 June 2016: HK$8,076,000).

Finance Costs

During the period under review, the finance costs decreased by approximately 0.8% from approximately HK$14,265,000 for the six months ended 30 June 2016 to approximately HK$14,155,000 for the six months ended 30 June 2017, accounting for approximately 1.3% of the Group's revenue, as compared with approximately 1.8% for the corresponding period in 2016. The decrease was primarily attributable to the lower finance charges incurred.

Income Tax Expense

During the period under review, income tax expense decreased by approximately 21.7% from approximately HK$28,065,000 for the six months ended 30 June 2016 to approximately HK$21,986,000 for the six months ended 30 June 2017. The decrease was primarily attributable to (i) the increase in deferred tax credit (six months ended 30 June 2017: approximately HK$6,313,000; six months ended 30 June 2016: approximately HK$3,332,000) mainly arising from recognition of deferred tax assets for losses incurred in the new production facilities in Dongguan and the amortisation of intangible assets which was valued at fair value at the time of acquisitions and (ii) utilisation of previously unrecognised tax losses during the period.

Profit for the Period

Profit for the period increased by approximately 20.2% from approximately HK$71,134,000 for the six months ended 30 June 2016 to approximately HK$85,518,000 for the six months ended 30 June 2017, accounting for approximately 7.9% of the Group's revenue, as compared with approximately 9.2% for the corresponding period in 2016.

Profit Attributable to Owners of the Period

Profit attributable to owners of the period amounted to approximately HK$84,700,000, representing an increase of approximately HK$14,258,000, or approximately 20.2%, as compared with approximately HK$70,442,000 for the corresponding period in 2016.

Non-IFRS Measures

To supplement our consolidated financial statements, which are presented in accordance with the International Financial Reporting Standards (the "**IFRS**"), the Company also assesses the operating performance based on a measure of adjusted earnings before interest, tax, depreciation and amortisation (the "**EBITDA**") and adjusted net profit as additional financial measures. By means of these financial measures, the management of the Group is able to evaluate their financial performance regardless of the items they do not consider indicative of the operating performance of their business.

EBITDA, Adjusted EBITDA, Adjusted Net Profit and Adjusted Net Profit Margin

During the period under review, the Company incurred some one-off expenses, which are not indicative of the operating performance of the business of the period. Therefore, the Company arrives at an adjusted EBITDA (the "**Adjusted EBITDA**"), an adjusted net profit (the "**Adjusted Net Profit**") and an adjusted net profit margin (the "**Adjusted Net Profit Margin**") by eliminating the effects of certain non-cash or non-recurring items, including one-off transaction costs in connection with acquisitions and disposals, loan arrangement fee, the Pre-IPO RSU Scheme (as defined below) related expenses and fair value loss on derivate instruments. The table below indicates the profit for the periods, reconciling the Adjusted EBITDA for the periods presented to the most comparable financial measures calculated in accordance with the IFRS:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
EBITDA and Adjusted EBITDA		
Net profit	**85,518**	71,134
Finance costs	**14,155**	14,265
Tax	**21,986**	28,065
Depreciation	**23,811**	15,180
Amortisation of intangible assets	**17,939**	18,065
Amortisation of prepaid land lease payments	**126**	—
Less:		
Interest income	**430**	487
EBITDA	**163,105**	146,222
One-off transaction cost in connection with acquisitions and disposals	**6,562**	196
Fair value loss on derivate instruments	**—**	8,076
Pre-IPO RSU Scheme related expenses	**4,007**	11,796
Adjusted EBITDA	**173,674**	166,290

The following table reconciles the Adjusted Net Profit for the periods presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, indicating profits for the periods:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Adjusted net profit		
Net profit	**85,518**	71,134
Amortisation of intangible assets	**17,939**	18,065
Amortisation of prepaid land lease payments	**126**	—
One-off transaction cost in connection with acquisitions and disposals	**6,562**	196
Loan arrangement fee	**2,589**	2,875
Pre-IPO RSU Scheme related expenses	**4,007**	11,796
Fair value loss on derivate instruments	**—**	8,076
Adjusted Net Profit	**116,741**	112,142
Adjusted Net Profit Margin	**10.8%**	14.5%

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the six months ended 30 June 2017 and 2016:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
Net cash flows from operating activities	**51,820**	41,571
Net cash flows used in investing activities	**(82,444)**	(462,161)
Net cash flows used in financing activities	**(71,535)**	(12,955)

The Group derives its working capital mainly from cash on hand, net cash generated from operating activities and financing activities. The Board expects that the Group will rely on the internally generated funds, the available bank facilities and the unutilised net proceeds from the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 15 December 2015 (the "**Listing**"), in the absence of unforeseen circumstances. There were no material changes in the funding and financial policies of the Group.

The Group's balance of cash and cash equivalents was approximately HK$241,212,000 as of 30 June 2017 (31 December 2016: approximately HK$337,004,000), which was mainly denominated in Hong Kong dollar, Renminbi, United States dollar, Euro and Australian dollar. Decrease in cash and cash equivalents was mainly due to (i) payment for expansion of our production facilities and upgrade of our computer-aided/manufacturing production equipment and (ii) repayment of bank loans.

Operating Activities

Net cash flows from operating activities was approximately HK$51,820,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: HK$41,571,000). The increase in net cash flows from operating activities was primarily attributable to increase in cash generated from operations.

Investing Activities

The Group recorded a net cash outflow used in investing activities of approximately HK$82,444,000 for the six months ended 30 June 2017, of which approximately HK$64,921,000 was used primarily for the expansion of our production facilities and upgrade of our computer-aided/manufacturing production equipment.

Financing Activities

The Group recorded a net cash outflow from financing activities of approximately HK$71,535,000 for the six months ended 30 June 2017. The outflow was mainly attribute to repayment of bank loans and payment of interest expenses.

Capital Expenditure

During the period under review, the Group's capital expenditure amounted to approximately HK$64,921,000 which was mainly used for expansion of our production facilities and improvement on our production equipment. All of the capital expenditure was financed by internal resources, bank borrowings and unutilised net proceeds from the Listing.

CAPITAL STRUCTURE

Bank borrowings

Bank loans of the Group as of 30 June 2017 amounted to approximately HK$563,025,000 as compared to approximately HK$618,615,000 as of 31 December 2016. Pledged bank deposits of the Group as of 30 June 2017 amounted to approximately HK$11,337,000 as compared to approximately HK$3,726,000 as of 31 December 2016. As of 30 June 2017, the bank loans of approximately HK$562,846,000 and approximately HK$179,000 were denominated in US$ and CAD, respectively. As of 30 June 2017, except for bank borrowings of approximately HK$179,000 which were at fixed interest rates, all bank borrowings were at floating interest rates.

Finance lease payables

Finance lease payables of the Group as of 30 June 2017 amounted to approximately HK$2,087,000 as compared to approximately HK$2,581,000 as of 31 December 2016. As of 30 June 2017, the finance lease payables of approximately HK$21,000, approximately HK$1,700,000 and approximately HK$366,000 were denominated in HK$, AUD and US$, respectively. As of 30 June 2017, all finance lease payables were at floating interest rates.

Cash and cash equivalents

The amount in which cash and cash equivalents were held are set out in the paragraph headed "Liquidity and Financial Resources" in this Announcement.

Gearing ratio

The gearing ratio of the Group by reference to the net debt to total book capitalisation ratio (total book capitalisation means the sum of total liabilities and shareholders' equity) as of 30 June 2017 was approximately 21.5%, reflecting that the Group's financial position was at a sound level.

Debt securities

As of 30 June 2017, the Group did not have any debt securities.

Contingent liabilities

As of 30 June 2017, the Group did not have any material contingent liabilities or guarantees.

CHARGE OF GROUP ASSETS

In October 2015, Modern Dental Holding Limited, a subsidiary of the Company, entered into a facility agreement (the "**Facility Agreement**") for a term loan amounting to US$75,000,000 with a term of five years and a revolving credit amounting to US$10,000,000, secured by certain assets of the Group including certain shares, receivables and accounts of subsidiaries of the Company. Pursuant to the Facility Agreement, if the aggregate shareholding of Mr. Chan Kwun Fung, Mr. Chan Kwun Pan, Dr. Chan Ronald Yik Long, Ms. Chan Yik Yu, Mr. Ngai Chi Ho Alwin and Mr. Ngai Shing Kin, directly or indirectly, in the Company's share capital ceases to be at least 50%, the commitment under the Facility Agreement will be cancelled and all the outstanding amounts under the Facility Agreement will become immediately due and payable. Details of the Facility Agreement and the charge on the Group's assets are set out in the prospectus of the Company dated 3 December 2015 (the "**Prospectus**").

Commitments

The investment agreement, dated 28 April 2015, was entered into between Modern Dental Laboratory Company Limited and Dongguan Songshan Lake High-tech Industrial Development Zone Management Committee. Pursuant to the agreement, Modern Dental Laboratory Company Limited would invest not less than RMB246,000,000 for the acquisition of land, construction of a new factory and acquisition and installation of equipment in the Dongguan Songshan Lake High-tech Industrial Development Zone.

As of 30 June 2017, the Group has prepaid approximately RMB29,111,000 (31 December 2016: RMB11,094,000) and the remaining commitment was approximately RMB216,889,000 (31 December 2016: RMB234,906,000).

A shareholders' agreement was entered into between the Company and the Straumann Group for the establishment of STM Digital Dentistry Holding Limited and its subsidiaries ("**STM Digital Group**"). Pursuant to the agreement, the Company would inject no less than RMB15,300,000 (equivalent to HK$17,628,000) into STM Digital Group.

As of 30 June 2017, the Group has injected approximately HK$11,613,000 into STM Digital Group and the remaining commitment was approximately HK$6,015,000.

Save as disclosed above, the Group had other capital commitments contracted but not yet provided for amounted to HK$6,869,000 (31 December 2016: Nil) as of 30 June 2017.

DETAILS OF MATERIAL ACQUISITIONS

In January 2017, Modern Dental Europe B.V., a wholly owned subsidiary of the Company, executed a share purchase and transfer agreement in connection with the strategic acquisition of 100% equity interest of Schmidt Dentalkeramik APS, a dental laboratory in Denmark. The transaction was completed on 1 January 2017. Please refer to the announcement of the Company dated 5 January 2017 for further details.

In February 2017, Modern Dental Europe B.V., a wholly owned subsidiary of the Company, executed a share sale and purchase agreement in connection with the strategic acquisition of 100% equity interest of CDI Dental AB and CDI Supply AB, which are dental laboratories and existing distributors of the Group in Sweden. The transaction was completed on 7 February 2017. Please refer to the announcement of the Company dated 13 February 2017 for further details.

Save as disclosed above, the Group had no material acquisition during the six months ended 30 June 2017.

OFF-BALANCE SHEET TRANSACTIONS

As of 30 June 2017, the Group did not enter into any material off-balance sheet transactions.

IMPORTANT EVENTS AFTER THE PERIOD UNDER REVIEW

Save as disclosed above, the Group has no significant events after the reporting period up to the date of this announcement.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

Our exposure to the interest rate risk relates primarily to our long-term debt obligations with floating interest rates. We manage our interest rate exposure with a focus on reducing our overall cost of debt and exposure to changes in interest rate. Our management continues to monitor the cash flows of our operation and the debt markets, where we would expect to refinance these borrowings with a lower cost of debt when desirable. For the six months ended 30 June 2017, the effective interest rate on floating-rate bank loans was approximately US$ LIBOR+(2.60)% per annum. The Group had not entered into any type of interest rate agreements or derivative transactions to hedge against the fluctuations in interest rates.

Foreign Currency Risk

In light of the nature of our business, we are exposed to various foreign currencies, among which, RMB, EUR, AUD and US$ are mostly used apart from HK$. To minimise the impact of foreign currency rate volatility, we monitor foreign currency risk closely on an ongoing basis to ensure that the net exposure is at an acceptable level.

Credit Risk

The credit risk of our other financial assets, which comprise trade receivables, financial assets included in prepayments, deposits and other receivables, amount due from a related party, pledged deposit and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since we trade only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within our Group as the customer bases of our trade receivables are widely dispersed in different sectors and industries.

Liquidity Risk

Our policy is to maintain sufficient cash and cash equivalents and to have available funding through bank borrowings.

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 5,921 full-time employees at our production facilities, service centers, points of sales and other sites as of 30 June 2017, mainly including 4,596 production staff members, 460 general management staff members and 295 customer service staff members.

In line with the performance of the Group and individual employees, a competitive remuneration package is offered to retain employees, including salaries, discretionary bonuses and contributions to benefit plans (including pensions). Employees of the Group are the eligible participants of the Share Option Scheme (as defined below). During the period under review, the relationship between the Group and our employees had been stable. We had not experienced any strikes or other labor disputes which materially affected our business activities.

SHARE OPTION SCHEME

A share option scheme (the "**Share Option Scheme**") was adopted pursuant to the written resolutions of the shareholders of the Company passed on 25 November 2015 (the "**Share Option Scheme Adoption Date**").

The purpose of the Share Option Scheme is to enable the Company to grant options to the eligible participants including any employee, director, supplier, customer and advisor of the Group and invested entity of the Group as the Directors determine, as an incentive or a reward for their contribution to the Group.

As at 30 June 2017, no options had been granted or agreed to be granted pursuant to the Share Option Scheme.

PRE-IPO RESTRICTED SHARE UNIT SCHEME

A restricted share unit scheme (the "**Pre-IPO RSU Scheme**") was adopted pursuant to the written resolutions of the Shareholders of the Company passed on 19 June 2015 (the "**Pre-IPO RSU Scheme Adoption Date**"). The purpose of the Pre-IPO RSU Scheme is to give incentives thereto in order to retain key employees for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. The Pre-IPO RSU Scheme shall be valid and effective for a period of 10 years commencing on the Pre-IPO RSU Scheme Adoption Date, under the administration of the Board and the trustee.

As at 30 June 2017, an aggregate of 8,149,038 restricted share units ("**RSUs**") had been granted to eligible participants in accordance with the Pre-IPO RSU Scheme and out of which 3,433,108 RSUs had not been vested.

DIVIDENDS

The Board declared an interim dividend of HK2.5 cents per ordinary share for the six months ended 30 June 2017 (six months ended 30 June 2016: HK2.1 cents). The interim dividend will be paid on Friday, 6 October 2017 to the shareholders whose names appear on the Register of Members of the Company as at the close of business on Wednesday, 13 September 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 11 September 2017 to Wednesday,13 September 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for entitlement to the interim dividend for the six months ended 30 June 2017, unregistered holders of the shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration, no later than 4:30 p.m. on Friday, 8 September 2017.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the Listing amounted to approximately HK$647,483,000, and such proceeds are intended to be applied in the manner consistent with that set out in the Prospectus as follows:

	Available to utilise	Utilised as at 30 June 2017	Unutilised as at 30 June 2017
	HK'000	*HK'000*	*HK'000*
Financing the strategic acquisitions and new facilities establishment of the Company in Mainland China	125,000	80,474	44,526
Financing the strategic acquisitions and new facilities establishment of the Company in overseas	375,000	375,000	—
Financing the marketing and promotion activities to enhance the brand awareness of the Company	41,483	41,483	—
Implementing the Long Term Development Plan	100,000	71,971	28,029
Replenishing the working capital of the Company and other general corporate purpose	6,000	6,000	—
	647,483	**574,928**	**72,555**

The unutilised proceeds were placed as bank balances with licensed banks in Hong Kong and will be applied in the manner consistent with that mentioned in the Prospectus.

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

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the six months ended 30 June 2017, the Company has complied with the applicable code provisions of the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), except for the following deviation:

Under code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting.

Mr. Chan Kwun Fung, the chairman of the Board was unable to attend the annual general meeting of the Company held on 21 June 2017 due to work commitment. He delegated the duty of attending the annual general meeting to the chief executive officer of the Company ("CEO"). The chairman considers the CEO a suitable person for taking up such duty as the CEO has good understanding of each operating segment of the Group. The chairman of the Board will use his best endeavours to attend all future shareholders' meetings of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Securities Dealing Code containing the provisions set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, and after having made specific enquiry with regard to securities transactions by the Directors, all Directors have confirmed their compliance with the required standards set out in the Model Code regarding Directors' securities transactions during the six months ended 30 June 2017.

REVIEW OF INTERIM RESULTS

The audit committee of the Company consists of Dr. Cheung Wai Bun Charles, Dr. Chan Yue Kwong Michael and Dr. Wong Ho Ching, who are independent non-executive Directors. The Group's interim results for the six months ended 30 June 2017, including the accounting principles and practices adopted by the Group have been reviewed by all the members of the audit committee.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and on the website of the Company (www.moderndentalgp.com). The interim report of the Company for the six months ended 30 June 2017 will be despatched to the shareholders of the Company and will be published on the same websites in due course.

By order of the Board
Modern Dental Group Limited
Chan Kwun Fung
Chairman and Executive Director

Hong Kong, 23 August 2017

As at the date of this announcement, the board of directors of the Company comprises Chan Kwun Fung, Chan Kwun Pan, Ngai Shing Kin, Ngai Chi Ho Alwin, Chan Chi Yuen, Chan Ronald Yik Long and Chan Yik Yu as executive Directors, and Cheung Wai Bun Charles J.P., Chan Yue Kwong Michael, Wong Ho Ching and Cheung Wai Man William as independent non-executive Directors.