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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

RESULTS HIGHLIGHTS

- The Group's revenue in 2017 was approximately HK$2,181,292,000, representing an increase of approximately HK$539,116,000 or 32.8% as compared with the prior year.
- Gross profit for 2017 was approximately HK$1,061,512,000, representing an increase of approximately HK$180,851,000 or 20.5% as compared with the prior year.
- Profit for 2017 was approximately HK$157,363,000, representing an increase of approximately HK$54,295,000 or 52.7% as compared with the prior year.
- The Group's EBITDA for the year ended 31 December 2017 was approximately HK$319,919,000 (2016: HK$261,250,000) represented an increase of approximately HK$58,669,000 or 22.5% as compared with the prior year.
- The net cash flows from operating activities for the year ended 31 December 2017 were approximately HK$194,673,000 (2016: HK$181,696,000) represented an increase of approximately HK$12,977,000 or 7.1% as compared with the prior year.

- Basic earnings per share for the financial year ended 31 December 2017 amounted to HK15.6 cents (2016: HK10.2 cents).
- The Board recommended a final dividend of HK2.1 cents per ordinary share for the year ended 31 December 2017 (2016: HK0.9 cents). Subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The final dividend will be payable on 25 June 2018 to shareholders of the Company whose names appear on the Register of Members of the Company on 4 June 2018.

FINANCIAL RESULTS

The board of directors (the "**Board**" or the "**Directors**") of Modern Dental Group Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	**2017**	2016
		HK$'000	*HK$'000*
REVENUE	3	**2,181,292**	1,642,176
Cost of sales		**(1,119,780)**	(761,515)
Gross profit		**1,061,512**	880,661
Other income and gains	3	**23,912**	4,072
Selling and distribution expenses		**(265,926)**	(185,222)
Administrative expenses		**(586,525)**	(499,549)
Other operating expenses		**(1,582)**	(18,435)
Finance costs	5	**(28,582)**	(28,411)
Share of losses on associates		**(1,288)**	—
PROFIT BEFORE TAX	4	**201,521**	153,116
Income tax expense	6	**(44,158)**	(50,048)
PROFIT FOR THE YEAR		**157,363**	103,068
ATTRIBUTABLE TO:			
Owners of the Company		**155,371**	101,483
Non-controlling interests		**1,992**	1,585
		157,363	103,068
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	8	**HK15.6 cents**	HK10.2 cents
Diluted	8	**HK15.6 cents**	HK10.2 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	HK$'000	*HK$'000*
Profit for the year	**157,363**	103,068
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**155,284**	(64,634)
Other comprehensive income/(loss) for the year, net of tax	**155,284**	(64,634)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**312,647**	38,434
ATTRIBUTABLE TO:		
Owners of the Company	**310,542**	36,703
Non-controlling interests	**2,105**	1,731
	312,647	38,434

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	**2017**	2016
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**326,703**	173,238
Prepaid land lease payments		**12,652**	12,071
Goodwill	9	**1,389,250**	1,256,356
Intangible assets		**384,046**	390,028
Investments in associates	10	**10,325**	—
Deferred tax assets		**9,090**	7,482
Long term prepayments and deposits		**60,653**	40,901
Prepayments for acquisition of subsidiaries		**—**	41,027
Total non-current assets		**2,192,719**	1,921,103
CURRENT ASSETS			
Inventories		**81,861**	74,098
Trade receivables	11	**413,682**	359,354
Prepayments, deposits and other receivables		**59,858**	43,603
Due from an associate	10	**274**	—
Current tax assets		**10,709**	5,615
Pledged deposits		**12,467**	3,726
Cash and cash equivalents		**368,660**	337,004
Total current assets		**947,511**	823,400
CURRENT LIABILITIES			
Trade payables	12	**57,195**	73,760
Other payables and accruals		**179,947**	146,874
Interest-bearing bank and other borrowings	13	**270,360**	190,746
Tax payable		**43,477**	40,451
Total current liabilities		**550,979**	451,831
NET CURRENT ASSETS		**396,532**	371,569
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,589,251**	2,292,672

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	**2017**	2016
		HK$'000	*HK$'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	13	**447,098**	430,450
Deferred tax liabilities		**23,379**	31,288
Other non-current liabilities		**13,781**	8,704
Total non-current liabilities		**484,258**	470,442
NET ASSETS		**2,104,993**	1,822,230
EQUITY			
Equity attributable to owners of the Company			
Share capital		**77,500**	77,500
Treasury shares		**(39)**	(304)
Reserves		**2,020,029**	1,738,543
		2,097,490	1,815,739
Non-controlling interests		**7,503**	6,491
TOTAL EQUITY		**2,104,993**	1,822,230

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**"), and Interpretations) issued by the International Accounting Standards Board ("**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for contingent consideration payable which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

1.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on the financial statements.

2. 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, bridge 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 and 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 resource allocation and performance assessment. Segment performance is evaluated based on reportable segment gross profit.

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.

	2017			2016		
	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	**1,575,585**	**808,607**	**766,978**	1,133,792	507,436	626,356
Removable prosthetic devices	**417,000**	**216,354**	**200,646**	355,890	169,950	185,940
Others	**188,707**	**94,819**	**93,888**	152,494	84,129	68,365
Total	**2,181,292**	**1,119,780**	**1,061,512**	1,642,176	761,515	880,661

Geographical information

(a) Revenue from external customers

	2017	2016
	HK$'000	*HK$'000*
Europe	**843,598**	753,465
North America	**687,293**	277,096
Greater China	**421,365**	398,224
Australia	**214,556**	201,085
Others	**14,480**	12,306
	2,181,292	1,642,176

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

As no revenue derived from sales to any single customer of the Group has accounted for 10% or more of the Group's total revenue during the year, no information about major customer is presented.

(b) Non-current assets

	2017	2016
	HK$'000	*HK$'000*
Europe	**786,535**	678,631
North America	**627,253**	580,291
Greater China	**211,480**	138,840
Australia	**484,947**	449,436
Others	**73,414**	66,423
	2,183,629	1,913,621

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

3. 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:

	2017	2016
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**2,181,292**	1,642,176
Other income		
Bank interest income	**443**	701
Government subsidies*	**3,032**	2,437
Others	**5,357**	934
	8,832	4,072
Gains		
Foreign exchange gains, net	**14,985**	—
Gains on disposal of items of property, plant and equipment, net	**95**	—
	15,080	—
Other income and gains	**23,912**	4,072

* Government subsidies contain the stabilisation subsidy and special fund of self-independent innovation industry from the government. There are no unfulfilled conditions or contingencies relating to these subsidies.

4. PROFIT BEFORE TAX

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

	2017	2016
	HK$'000	*HK$'000*
Cost of inventories sold#	**1,119,780**	761,515
Depreciation	**53,183**	34,346
Amortisation of intangible assets	**36,820**	36,160
Minimum lease payments under operating leases	**65,259**	40,755
Amortisation of prepaid land lease payments	**256**	86
Auditors' remuneration	**12,129**	10,809
Employee benefit expense (excluding directors and chief executive's remuneration):		
Wages and salaries	**885,616**	637,975
Pension scheme contributions	**133,736**	68,896
Equity-settled Pre-IPO RSUs expense	**2,667**	9,069
	1,022,019	715,940
Impairment of goodwill*	**—**	9,832
Bank interest income	**(443)**	(701)
Gains on disposal of items of property, plant and equipment, net	**(95)**	—
Fair value loss, net:		
Call options and put options*	**—**	372
Forward foreign exchange contracts*	**—**	4,182
Remeasurement loss on contingent consideration*	**1,096**	196
Write-back of consideration payable*	**(3,610)**	—
Write-off of property, plant and equipment*	**895**	140
Allowance for impairment of trade and other receivables, net	**811**	7,666
Foreign exchange (gain)/loss, net**	**(14,985)**	3,487

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

** Foreign exchange gain, net, is included in "other income and gains" in the consolidated statement of profit or loss. Foreign exchange loss, net, is included in "other operating expenses" in the consolidated statement of profit or loss.

\# Cost of inventories sold includes HK$669,391,000 (2016: HK$443,766,000) relating to employee benefit expense, minimum lease payments under operating leases and depreciation, which are also included in the respective total amounts disclosed above for each of these types of expenses.

5. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other loans	**24,976**	22,630
Less: amount capitalised on qualifying assets	**(2,995)**	—
	21,981	22,630
Finance charges on bank loans	**6,438**	5,617
Interest on finance leases	**163**	164
	28,582	28,411

6. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempt from the payment of the Cayman Islands income tax.

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any tax in the British Virgin Islands.

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Pursuant to the PRC Income Tax Law and the respective regulations, the companies which operate in Mainland China are subject to Corporate Income Tax ("**CIT**") at the rate of 25% on the taxable income for the years ended 31 December 2017 and 2016.

Pursuant to the rules and regulations of the United States, the companies, except limited liability companies ("**LLC**"), which operate in the United States are subject to a top rate of 39% at the federal level, and are also subject to the statutory application state CIT. LLC are generally treated as flow-through entities ("**FTE**"), where income "flows through" to investors or owners, which are not subject to CIT.

Pursuant to the Macau Offshore Company Law and the respective regulations, the operation of offshore companies and their activities in Macau is not subject to CIT.

The companies which operate in Europe are subject to income tax on their respective assessable profit at the prevailing rates in the jurisdictions in which they operate.

Pursuant to the rules and regulations of Australia, the companies which operate in Australia are subject to income tax at the rate of 30% on their respective taxable income.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2017	2016
	HK$'000	*HK$'000*
Current	**53,088**	54,022
Deferred	**(8,930)**	(3,974)
Total tax charge for the year	**44,158**	50,048

7. DIVIDENDS

	2017	2016
	HK$'000	*HK$'000*
Interim — HK2.5 cents (2016: HK2.1 cents) per ordinary share	**25,000**	21,000
Proposed final — HK2.1 cents (2016: HK0.9 cents) per ordinary share	**21,000**	9,000

The interim dividend of HK$25,000,000 has been paid on 6 October 2017.

On 29 March 2018, the Board recommended a final dividend of HK2.1 cents per ordinary share for the year ended 31 December 2017. The proposed final dividend for the year ended 31 December 2017 is subject to the approval by the shareholders of the Company in the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 996,234,160 (2016: 992,036,535) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, 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.

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

	2017	**2016**
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**155,371**	101,483

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the years used in the basic earnings per share calculation	**996,234,160**	992,036,535
Effect of dilution — weighted average number of ordinary shares:		
Pre-IPO RSU Scheme	**2,286,048**	—*
	998,520,208	992,036,535

* No adjustment had been made to the basic earnings per share amount presented for the year ended 31 December 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 amount presented.

9. GOODWILL

	HK$'000
At 1 January 2016:	
Cost	857,592
Accumulated impairment	—
Net carrying amount	857,592
Cost at 1 January 2016, net of accumulated impairment	857,592
Acquisition of subsidiaries	432,520
Impairment during the year	(9,832)
Exchange realignment	(23,924)
At 31 December 2016	1,256,356
At 31 December 2016:	
Cost	1,266,188
Accumulated impairment	(9,832)
Net carrying amount	1,256,356
Cost at 1 January 2017, net of accumulated impairment	**1,256,356**
Acquisition of subsidiaries	**35,060**
Exchange realignment	**97,834**
At 31 December 2017	**1,389,250**
At 31 December 2017:	
Cost	**1,399,244**
Accumulated impairment	**(9,994)**
Net carrying amount	**1,389,250**

10. INVESTMENTS IN ASSOCIATES

	2017	2016
	HK$'000	*HK$'000*
Share of net assets	**10,325**	—

The amount due from an associate included in the Group's current assets totaling HK$274,000 (2016: Nil) is unsecured, interest-free and repayable on demand.

Particulars of the principal associate is as follows:

			Percentage of			
Company name	**Particulars of issued shares held**	**Place of incorporation/ registration and business**	**Ownership interest**	**Voting power**	**Profit sharing**	**Principal activity**
STM Digital Dentistry Holding Limited ("STM Digital")#	Ordinary shares	Hong Kong	51%*	33%*	51%	Investment holding

* The Company is entitled to nominate one out of three directors in STM Digital. A board resolution is passed when two-third of the votes from the directors. Accordingly, the Company could not exercise control over STM Digital and the investments in STM Digital was classified as investments in associates.

\# STM Digital is an investment holding company with its 100% held subsidiary engaged in the production of customised dental prosthetics.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2017	2016
	HK$'000	*HK$'000*
Share of the associates' loss for the year	**(1,288)**	—
Aggregate carrying amount of the Group's investments in the associates	**10,325**	—

11. TRADE RECEIVABLES

An aging analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Within 1 month	**230,243**	211,621
1 to 2 months	**68,439**	54,576
2 to 3 months	**31,311**	24,241
3 months to 1 year	**68,662**	63,613
Over 1 year	**15,027**	5,303
	413,682	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$94,060,000 (2016: HK$76,348,000) were pledged to secure general banking facilities granted to the Group.

12. TRADE PAYABLES

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Within 1 month	**42,862**	32,991
1 to 2 months	**9,285**	17,288
2 to 3 months	**3,146**	10,275
Over 3 months	**1,902**	13,206
	57,195	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.

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017 Effective/ contractual interest rate		2016 Effective/ contractual interest rate	
	(%)	***HK$'000***	*(%)*	*HK$'000*
Current				
Finance lease payables	**4.53**	**486**	4.53-8.50	1,769
Bank loan — secured	**London Interbank Offered Rate ("LIBOR") +2.60**	**77,500**	LIBOR+2.60	77,500
Current portion of long term bank loans — secured	**LIBOR+2.60/ Euro Interbank Offered Rate ("EURIBOR") +2.35**	**192,374**	LIBOR+2.60	111,477
		270,360		190,746
Non-current				
Finance lease payables	**4.53**	**411**	4.53-8.50	812
Long term bank loans — secured	**LIBOR+2.60/ EURIBOR+2.35**	**446,687**	LIBOR+2.60	429,638
		447,098		430,450
		717,458		621,196

	2017	2016
	HK$'000	*HK$'000*
Analysed into:		
Bank loans and bank overdrafts repayable:		
Within one year or on demand	**269,874**	188,977
In the second year	**216,508**	141,794
In the third to fifth years, inclusive	**230,179**	287,844
	716,561	618,615
Finance lease payables:		
Within one year	**486**	1,769
In the second year	**272**	466
In the third to fifth years, inclusive	**139**	346
	897	2,581
	717,458	621,196

Notes:

(a) On 6 November 2015, the Group drew down an US$75 million 5 year term loan and a US$10 million revolving credit facility, and repaid the majority of its previous bank loan facilities in the same month. The principal and interest payments for exiting loan facilities were repaid according to the loan agreements. During the year ended 31 December 2017, the Group drew down an EUR23 million term loan following the same repayment term as the US$75 million loan. As at 31 December 2017 and 2016, all of the amounts borrowed from these facilities were guaranteed by the Company and its subsidiaries and secured by the shares of the subsidiaries as well as certain trade receivables of approximately HK$94,060,000 (2016: HK$76,348,000), floating charges over cash and cash equivalents of approximately HK$114,722,000 (2016: HK$81,165,000) and equipment of the subsidiaries of approximately HK$8,354,000 (2016: HK$5,643,000).

(b) As at 31 December 2017, the Group's bank borrowings denominated in United States dollars ("**US$**"), EURO ("**EUR**") and Canadian dollars ("**CAD**") amounted to HK$507,026,000, HK$209,413,000 and HK$122,000, respectively. The Group's finance lease payables denominated in HK$, Australian dollars ("**AUD**") and US$ amounted to HK$16,000, HK$659,000 and HK$222,000 respectively.

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

14. BUSINESS COMBINATIONS

*Acquisition of Schmidt Dentalkeramik ApS ("**Schmidt**")*

On 1 January 2017, Modern Dental Europe B.V., a wholly-owned subsidiary of the Group, entered into a share purchase agreement with Mojoe Holding ApS to acquire a 100% equity interest in Schmidt Dentalkeramik ApS ("**Schmidt**") at a cash consideration of EUR1,105,000. Schmidt is principally engaged in the sale of prosthetic devices in Denmark. The acquisition was completed on 1 January 2017. The acquisition was made as part of the Group's strategy to expand its market share of prosthetic devices in the European Union.

The fair values of the identifiable assets and liabilities of Schmidt as at the date of acquisition were as follows:

	Fair value recognised on acquisition
	HK$'000
Property, plant and equipment	631
Inventories	136
Trade receivables	608
Prepayments, deposits and other receivables	191
Cash and cash equivalents	1,527
Trade payables	(129)
Other payables and accruals	(834)
Tax payable	(332)
Deferred tax liabilities	(12)
Total identifiable net assets at fair value	1,786
Goodwill on acquisition	7,345
	9,131
Satisfied by:	
Cash	9,131

The fair value of the trade receivables as at the date of acquisition amounted to HK$608,000. The gross contractual amounts of trade receivables were HK$608,000, none of which is expected to be uncollectible.

The Group incurred transaction costs of HK$520,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

Included in the goodwill of HK$7,345,000 recognised above are mainly distribution channel, assembled workforce, know-how, etc., which are not recognised separately. They are not separable and therefore they do not meet the criteria for recognition as intangible assets under IAS 38 Intangible Assets. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of Schmidt is as follows:

	HK$'000
Total consideration	(9,131)
Prepayment paid in the year ended 31 December 2016	6,950
Cash consideration paid in the year ended 31 December 2017	(2,181)
Cash and bank balances acquired	1,527
Net outflow of cash and cash equivalents included in cash flows from investing activities in 2017	(654)
Transaction costs of the acquisition included in cash flows from operating activities in 2017	(520)
	(1,174)

Since the acquisition, Schmidt contributed HK$8,663,000 to the Group's turnover and HK$868,000 to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been HK$2,181,292,000 and HK$157,363,000, respectively.

*Acquisition of CDI Dental AB and CDI Supply AB ("**CDI**")*

On 7 February 2017, Modern Dental Europe B.V., a wholly-owned subsidiary of the Group, entered into a share purchase agreement with CDI International AB to acquire a 100% equity interest of CDI Dental AB and CDI Supply AB ("**CDI**") at a cash consideration of EUR3,886,000. CDI is principally engaged in the sale of prosthetic devices in Sweden. The acquisition was completed on 7 February 2017. The acquisition was made as part of the Group's strategy to expand its market share of prosthetic devices in the European Union.

The fair values of the identifiable assets and liabilities of CDI as at the date of acquisition were as follows:

	Fair value recognised on acquisition
	HK$'000
Property, plant and equipment	917
Inventories	1,102
Trade receivables	3,199
Prepayments, deposits and other receivables	4,824
Cash and cash equivalents	1,289
Trade payables	(1,524)
Other payables and accruals	(3,250)
Interest-bearing bank and other borrowings	(117)
Tax payable	(1,006)
Total identifiable net assets at fair value	5,434
Goodwill on acquisition	27,715
	33,149
Satisfied by:	
Cash	33,149

The fair value of the trade receivables as at the date of acquisition amounted to HK$3,199,000. The gross contractual amounts of trade receivables were HK$3,199,000, none of which is expected to be uncollectible.

The Group incurred transaction costs of HK$1,176,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

Included in the goodwill of HK$27,715,000 recognised above are mainly distribution channel, assembled workforce, know-how, etc., which are not recognised separately. They are not separable and therefore they do not meet the criteria for recognition as intangible assets under IAS 38 Intangible Assets. None of the goodwill recognized is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of CDI is as follows:

	HK$'000
Total consideration	(33,149)
Prepayment paid in the year ended 31 December 2016	34,077
Cash consideration refunded in the year ended 31 December 2017	928
Cash and bank balances acquired	1,289
Net inflow of cash and cash equivalents included in cash flows from investing activities in 2017	2,217
Transaction costs of the acquisition included in cash flows from operating activities in 2017	(1,176)
	1,041

Since the acquisition, CDI contributed HK$32,801,000 to the Group's turnover and HK$1,168,000 to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the turnover and the profit of the Group for the year would have been HK$2,183,676,000 and HK$157,281,000, respectively.

15. EVENTS AFTER THE REPORTING PERIOD

On 31 January 2018, the Group drew down bank loans of HK$700 million from the banks repayable by instalments over a 5-year period to repay its existing bank loans.

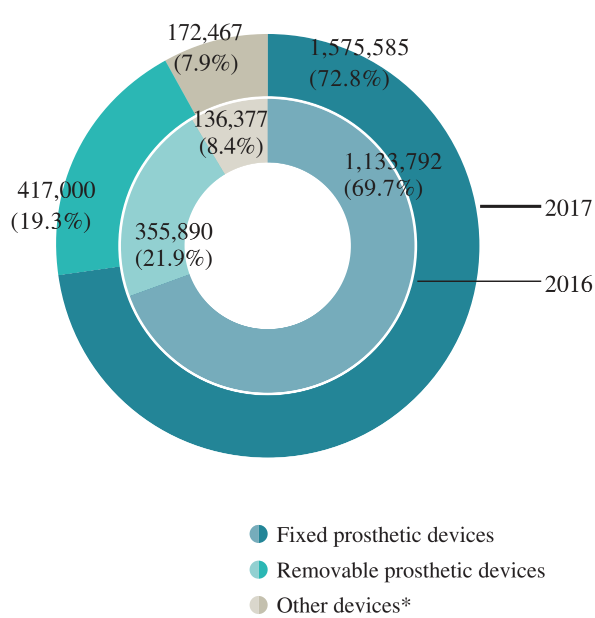
BUSINESS REVIEW

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 and percentage) by product category for the years ended 31 December 2017 and 2016 respectively:

Breakdown of revenue (HK$'000 and %)



* 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 year ended 31 December 2017, fixed prosthetic devices business segment recorded revenue of approximately HK$1,575,585,000, representing an increase of approximately HK$441,793,000 as compared with the year ended 31 December 2016. This business segment accounted for approximately 72.8% of the Group's total revenue as compared with approximately 69.7% in the year ended 31 December 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 year ended 31 December 2017, removable prosthetic devices business segment recorded revenue of approximately HK$417,000,000, representing an increase of approximately HK$61,110,000 as compared with the year ended 31 December 2016. This business segment accounted for approximately 19.3% of the Group's total revenue as compared with approximately 21.9% in the year ended 31 December 2016.

Other Devices

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

During the year ended 31 December 2017, other devices business segment recorded revenue of approximately HK$172,467,000, representing an increase of approximately HK$36,090,000 as compared with the year ended 31 December 2016. This business segment accounting for approximately 7.9% of the Group's total revenue as compared with approximately 8.4% in the year ended 31 December 2016.

Product Category

The following table sets forth the breakdown of sales volume, revenue, and average selling price ("**ASP**") by product category for the years ended 31 December 2017 and 2016 respectively:

	Year ended 31 December					
	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	**1,069,391**	**1,575,585**	**1,473**	803,646	1,133,792	1,411
Removable prosthetic devices	**387,501**	**417,000**	**1,076**	356,368	355,890	999
Other devices*	**282,074**	**172,467**	**611**	233,836	136,377	583
Total	**1,738,966**	**2,165,052**	**1,245**	1,393,850	1,626,059	1,167

* 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, Greater China, North America, Australia, and other countries. The following table sets forth a breakdown of the revenue generated from the aforesaid markets:

	Year ended 31 December	
	2017	2016
	Revenue	Revenue
	(HK$'000)	(HK$'000)
Market		
Europe*	**837,332**	746,393
North America	**687,293**	277,096
Greater China**	**417,017**	394,499
Australia***	**208,930**	195,765
Others	**14,480**	12,306
Total	**2,165,052**	1,626,059

* 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 service revenue from the Australian revenue.

Sales volume and average selling price

For the year ended 31 December 2017, the sales volume and average selling price of the Group's products across its markets were 1,738,966 cases (Year ended 31 December 2016: 1,393,850 cases) and HK$1,245 per case (Year ended 31 December 2016: HK$1,167 per case), representing an increase of 24.8% and 6.7%, 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 for the year ended 31 December 2017.

Our sales and distribution network in Europe is able to reach 13 countries and we offer a portfolio of well-respected, long-established and trusted brands. Generally, 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 ("**Schmidt**"). In February 2017, the Group completed the acquisition of CDI Dental AB and CDI Supply AB ("**CDI**").

One key strategy in Europe is to offer existing clients comprehensive products, including technologically advanced and traditional products, and 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 from local competitors in additional market segments. At the same time, our team and management are working intensively on growth strategies and synergies, on a range of new products (in particular, orthodontic treatments and anti-snoring appliances), on being at the forefront of continuous education and training programs, 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, providing value-added services to our clients and in turn, consolidating our reputation as being a one-stop shop for our customers.

For the year ended 31 December 2017, the European market recorded revenue of approximately HK$837,332,000, representing an increase of approximately HK$90,939,000 as compared with year ended 31 December 2016. Together with the sales of dental equipment of approximately HK$6,266,000, this geographic market accounted for 38.7% of the Group's total revenue as compared with approximately 45.9% for year ended 31 December 2016. The increase of revenue from the European market was largely attributable to (i) the acquisitions completed during the year under review; (ii) the organic growth in sales volume; and (iii) the annual increment of the retail price to the dentists.

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 year under review.

After the completion of the Group's acquisition of RTFP Dental Inc. and its subsidiaries ("**MicroDental Group**") in late October 2016, MicroDental Group contributed approximately HK$494,137,000 (year ended 31 December 2016: HK$97,707,000) to the Group's revenue, approximately HK$5,054,000 (year ended 31 December 2016: HK$1,062,000) to the Group's adjusted EBITDA and approximately HK$10,130,000 (year ended 31 December 2016: HK$6,120,000) of loss to the Group's profit for the year 2017. The loss of approximately HK$10,130,000 for the year 2017 included (i) non-cash depreciation and amortisation of approximately HK$13,950,000; (ii) non-recurring expenses, such as professional fees in connection with the acquisitions and restructuring of approximately HK$2,634,000; and (iii) one-off audit fee for the overrun in 2016 audit of approximately HK$1,675,000. Our main strategies for MicroDental Group are (i) to increase sales through expanding the products offering and strengthening our investments in training and sales and marketing 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 minimising any overlap of resources.

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 Limited (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 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.

For the year ended 31 December 2017, the North American market recorded revenue of approximately HK$687,293,000, representing an increase of approximately HK$410,197,000 as compared with year ended 31 December 2016. This geographic market accounted for approximately 31.5% of the Group's total revenue as compared with approximately 16.9% last year. The increase of revenue from the North American market was largely attributable to (i) the acquisition of MicroDental Group; and (ii) the increase in 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 year 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 since 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. The Group has been actively looking for acquisitions or strategic co-operations opportunities in Greater China. 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 and it is ready to launch in the market by the end of the first half of 2018.

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 volume.

For the year ended 31 December 2017, the Greater China market recorded revenue of approximately HK$417,017,000, representing an increase of approximately HK$22,518,000 as compared with year ended 31 December 2016. Together with the sales of raw materials and dental equipment of approximately HK$4,348,000, this geographic market accounted for approximately 19.3% of the Group's total revenue as compared with approximately 24.2% last year. 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.

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.

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 and New Zealand markets. Similar to our strategy in Europe, where the Group is focusing on providing better local service, we have invested in local production capacity to provide faster service to our customers, and to provide choices around where the products are made. The Group is one of the largest players in the Australian and New Zealand markets, and has achieved solid revenue growth despite difficult underlying market conditions. The Group continues to grow sales volume, despite increased competition and continual industry pressure on price points and service levels. The Group is a preferred supplier to all the major corporate dental groups in the market.

For the year ended 31 December 2017, the Australian market recorded revenue of approximately HK$208,930,000, representing an increase of approximately HK$13,165,000 as compared with year ended 31 December 2016. Together with the service revenue generated from rendering educational events and seminars of approximately HK$5,626,000, this geographic market accounted for approximately 9.8% of the Group's total revenue as compared with approximately 12.2% last year. The increase in the revenue from the Australian market was largely attributable to volume growth across all brands, and the completion of laboratory acquisitions in 2016.

Others

Other markets primarily include Indian Ocean countries and Japan. For the year ended 31 December 2017, these markets recorded revenue of approximately HK$14,480,000, representing an increase of approximately HK$2,174,000 as compared with year ended 31 December 2016. This geographic market accounted for approximately 0.7% of the Group's total revenue as compared with approximately 0.8% last year.

FUTURE PROSPECTS AND STRATEGIES

The Board expects the global demand for dental prosthetics continues to be stable and increasing due to the growing global population and the aging population.

The Board is of the view that through further acquisitions, continuing organic growth, joint ventures and new products, 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 and continued integration of MicroDental Group and other recent acquisitions; (ii) additional distribution and joint venture arrangements with upstream suppliers, such as Oventus and the Straumann Group, respectively; and (iii) 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

For the year ended 31 December 2017, the consolidated revenue of the Group amounted to approximately HK$2,181,292,000, representing an increase of approximately 32.8% as compared with approximately HK$1,642,176,000 for year ended 31 December 2016. The increase was mainly attributable to (i) the acquisitions of MicroDental Group and CDI 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 year ended 31 December 2017 was approximately HK$1,061,512,000, which was approximately 20.5% higher than that of last year. The drop of the gross profit margin of approximately 4.9 percentage point represented 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 Other Devices business segment were approximately 48.7%, 48.1% and 49.8% respectively. The following table sets forth the breakdown of our gross profit and gross margin by product line.

	Year ended 31 December			
	2017		2016	
	Gross profit	**Gross margin**	Gross profit	Gross margin
	HK$'000	***(%)***	*HK$'000*	*(%)*
Product category				
Fixed prosthetic devices	**766,978**	**48.7**	626,356	55.2
Removable prosthetic devices	**200,646**	**48.1**	185,940	52.2
Other devices	**93,888**	**49.8**	68,365	44.8
Total	**1,061,512**		880,661	

Selling and Distribution Expenses

Selling and distribution expenses increased by approximately 43.6% to approximately HK$265,926,000 for the year ended 31 December 2017 from approximately HK$185,222,000 for the year ended 31 December 2016, accounting for approximately 12.2% of the Group's revenue, as compared with approximately 11.3% for last year. The percentage increase was primarily attributable to an increase in salaries, bonuses, commissions and other benefits for sales personnel, which resulted from the increase in headcount after our acquisitions of MicroDental Group in October 2016.

Administrative Expenses

The administrative expenses increased by approximately 17.4% to approximately HK$586,525,000 for the year ended 31 December 2017 from approximately HK$499,549,000 for the year ended 31 December 2016, accounting for approximately 26.9% of the Group's revenue, as compared with approximately 30.4% for last year. The increase in the administrative expenses was primarily attributable to an increase in the administrative labour costs, office expenses and rental expenses primarily arising from an increase in local presence as a result of our acquisitions of MicroDental Group in October 2016.

Other Operating Expenses

Other operating expenses decreased by approximately 91.4% from approximately HK$18,435,000 for the year ended 31 December 2016 to approximately HK$1,582,000 for the year ended 31 December 2017. The decrease in other operating expenses was mainly due to (i) no impairment of goodwill recorded for the year ended 31 December 2017 (2016: approximately HK$9,832,000); (ii) no fair value loss from forward foreign exchange contracts (2016: approximately HK$4,182,000); (iii) the turnaround from foreign exchange difference (2017: gain of approximately HK$14,985,000 included in "other income and gains"; 2016: loss of approximately HK$3,487,000 included in "other operating expenses"). The other operating expenses mainly represented remeasurement loss on contingent consideration of approximately HK$1,096,000 for year ended 31 December 2017 (2016: HK$196,000).

Finance Costs

For the year ended 31 December 2017, the finance costs has remained stable (Year ended 31 December 2017: approximately HK$28,582,000; Year ended 31 December 2016: approximately HK$28,411,000).

Income Tax Expense

For the year ended 31 December 2017, income tax expense decreased by approximately 11.8% from approximately HK$50,048,000 for the year ended 31 December 2016 to approximately HK$44,158,000 for the year ended 31 December 2017. The decrease was primarily attributable to the increase in deferred tax credit (2017: approximately HK$8,930,000; 2016: approximately HK$3,974,000) arising mainly from recognition of deferred tax assets for tax losses.

Profit for the Year

Profit for the year increased by approximately 52.7% from approximately HK$103,068,000 for the year ended 31 December 2016 to approximately HK$157,363,000 for the year ended 31 December 2017.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company for the year ended 31 December 2017 amounted to approximately HK$155,371,000, representing an increase of approximately HK$53,888,000, or approximately 53.1%, as compared with approximately HK$101,483,000 for the year ended 31 December 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**") 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 and Adjusted EBITDA

During the year ended 31 December 2017, the Group incurred some one-off expenses, which are not indicative of the operating performance of the business of the year. Therefore, the Group arrives at an adjusted EBITDA (the "**Adjusted EBITDA**") by eliminating the effects of certain non-cash or non-recurring items, including one-off transaction cost 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 years, reconciling the Adjusted EBITDA for the years presented to the most comparable financial measures calculated in accordance with the IFRSs:

	For the year ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
EBITDA and Adjusted EBITDA		
Net profit	**157,363**	103,068
Finance costs	**28,582**	28,411
Tax	**44,158**	50,048
Depreciation	**53,183**	34,346
Amortisation of intangible assets	**36,820**	36,160
Amortisation of prepaid land lease payments	**256**	86
Impairment of goodwill	**—**	9,832
Less:		
Bank interest income	**(443)**	(701)
EBITDA	**319,919**	261,250
One-off transaction cost in connection with acquisitions and disposals	**18,141**	37,490
Fair value loss on derivate instruments	**—**	4,554
Pre-IPO RSU Scheme related expenses	**5,414**	18,658
Remeasurement loss on contingent consideration	**1,096**	196
Less:		
Write-back of consideration payable	**(3,610)**	—
Adjusted EBITDA	**340,960**	322,148
Adjusted EBITDA Margin	**15.6%**	19.6%

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the years ended 31 December 2016 and 31 December 2017:

	For the year ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Net cash flows from operating activities	**194,673**	181,696
Net cash flows used in investing activities	**(211,767)**	(681,217)
Net cash flows from/(used in) financing activities	**28,061**	(81,137)

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 banking 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**"). 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$368,660,000 as of 31 December 2017, which was mainly denominated in Hong Kong dollar, Renminbi, United States dollar, Euro and Australian dollar.

Operating Activities

For the year ended 31 December 2017, the net cash flows from operating activities has increased to HK$194,673,000 (Year ended 31 December 2016: approximately HK$181,696,000). The increase in net cash flows from operating activities was primarily attributable to increase in cash generated from operations as a result of the continued growth in sales of the Group and the additional contributions from acquisitions made during the year.

Investing Activities

The net cash used in investing activities for the year ended 31 December 2017 of approximately HK$211,767,000 were mainly represented payment for expansion of our production facilities in the Mainland China, expansion of the office facilities in the United States, the Netherlands and Germany and upgrade of our computer-aided/manufacturing production equipment.

Financing Activities

The net cash flows from the financing activities for the year ended 31 December 2017 were mainly represented advancement of bank loans of approximately HK$206,895,000 net of repayment of bank loans of approximately HK$118,602,000; dividends paid of approximately HK$34,000,000 and interest paid of approximately HK$25,139,000.

Capital Expenditure

During the year under review, the Group's capital expenditure amounted to approximately HK$192,144,000 which was mainly used for acquisitions of subsidiaries and expansion of our production facilities and improvement in 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 31 December 2017 amounted to approximately HK$716,561,000 as compared to approximately HK$618,615,000 as of 31 December 2016. Pledged bank deposits of the Group as of 31 December 2017 amounted to approximately HK$12,467,000 as compared to approximately HK$3,726,000 as of 31 December 2016. As of 31 December 2017, the bank loans of approximately HK$507,026,000, approximately HK$209,413,000 and approximately HK$122,000 were denominated in US$, EUR and CAD, respectively. As of 31 December 2017, all bank borrowings were at floating interest rates.

Finance lease payables

Finance lease payables of the Group as of 31 December 2017 amounted to approximately HK$897,000 as compared to approximately HK$2,581,000 as of 31 December 2016. As of 31 December 2017, the finance lease payables of approximately HK$16,000, approximately HK$659,000 and approximately HK$222,000 were denominated in HK$, AUD and US$, respectively. As of 31 December 2017, all finance lease payables were at fixed 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 Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital (equity attributable to owners of the parent) plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, other payables and accruals, other non-current liabilities, less cash and cash equivalents and pledged deposits. As of 31 December 2017, the gearing ratio of the Group was approximately 21.8%, reflecting that the Group's financial position was at a sound level.

Debt securities

As of 31 December 2017, the Group did not have any debt securities.

Contingent liabilities

As of 31 December 2017, the Group did not have any material contingent liabilities or guarantees.

CHARGE OF GROUP ASSETS

Modern Dental Holding Limited, a subsidiary of the Company, entered into facility agreements (the "**Facility Agreements**") for certain term loans and a revolving credit, secured by certain assets of the Group including certain shares, receivables and bank accounts of subsidiaries of the Company. Pursuant to the Facility Agreements, 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 Agreements will be cancelled and all the outstanding amounts under the Facility Agreements will become immediately due and payable. Details of the Facility Agreements and the charge on the Group's assets are set out in the prospectus of the Company dated 3 December 2015 (the "**Prospectus**") and Note 13 of the financial results section of this announcement, respectively.

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 31 December 2017, the Group has paid approximately RMB39,677,000 and RMB11,094,000 for the construction in progress and acquisition of land, respectively, and the remaining commitments was approximately RMB195,229,000.

Save as disclosed above, the Group had no other significant capital commitments as of 31 December 2017.

DETAILS OF MATERIAL ACQUISITIONS

The Group has completed a number of acquisitions of subsidiaries, including (i) CDI in February 2017 and (ii) Schmidt in January 2017. For details of CDI, please refer to the Company's announcements dated 13 February 2017, and Note 14 of the financial results section of this announcement. For details of Schmidt, please refer to the Company's announcements dated 5 January 2017, and Note 14 of the financial results section of this announcement respectively.

Save as disclosed above, the Group had no material acquisitions for the year ended 31 December 2017.

OFF-BALANCE SHEET TRANSACTIONS

As of 31 December 2017, the Group did not enter into any material off-balance sheet transactions.

EVENTS AFTER THE YEAR UNDER REVIEW

On 31 January 2018, the Group drew down bank loans of HK$700 million from the banks repayable by instalments over a 5-year period to repay its existing bank loans.

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 year ended 31 December 2017, the interest rates on floating-rate bank loans were approximately US$ LIBOR+2.60% per annum for US$ denominated loans and EURIBOR +2.35% per annum for Euro denominated loans. 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 an associate, 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 6,130 dedicated full-time employees at our production facilities, service centers, points of sales and other sites as of 31 December 2017, mainly including 4,819 production staff members, 464 general management staff members and 294 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 year under review, the relationship between the Group and our employees have 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, Directors, 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 31 December 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 1 January 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 3,598,108 RSUs were outstanding and had not been vested. On 15 December 2017, 3,417,608 RSUs were vested and 180,500 RSUs were forfeited. As at 31 December 2017, no outstanding RSUs were granted or vested pursuant to the Pre-IPO RSU Scheme.

FINAL DIVIDEND

The Board recommended a final dividend of HK2.1 cents (2016: HK0.9 cents) per ordinary share for the year ended 31 December 2017 (the "**Proposed Final Dividend**"). Subject to the approval by the Shareholders in the forthcoming annual general meeting of the Company (the "**AGM**") to be held on 24 May 2018, the Proposed Final Dividend will be paid on 25 June 2018 to Shareholders whose names appear on the Register of Members of the Company as at the close of business on 4 June 2018.

CLOSURE OF REGISTER OF MEMBERS

To determine the entitlement to attend and vote at the AGM to be held on 24 May 2018, the Register of Members of the Company will be closed from Friday, 18 May 2018 to Thursday, 24 May 2018, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify to attend and vote at the forthcoming AGM, unregistered holders of shares of the Company shall ensure that, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, 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 Thursday, 17 May 2018 for the purpose of effecting the share transfers.

To determine the entitlement to the Proposed Final Dividend (subject to approval by the shareholders at the AGM), the Register of Members of the Company will be closed from Thursday, 31 May 2018 to Monday, 4 June 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the Proposed Final Dividend, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 30 May 2018.

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 31 December 2017	Unutilised as at 31 December 2017
	HK'000	*HK'000*	*HK'000*
Financing the strategic acquisitions and new facilities establishment of the Company in Mainland China	125,000	101,895	23,105
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	100,000	—
Replenishing the working capital of the Company and other general corporate purpose	6,000	6,000	—
	647,483	**624,378**	**23,105**

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

CORPORATE GOVERNANCE

Throughout the year, the Company has complied with the applicable code provisions of the Corporate Governance Code ("**CG 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 Company 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 throughout the year.

AUDIT COMMITTEE

The audit committee consists of three independent non-executive Directors, namely Dr. Cheung Wai Bun Charles J.P., Dr. Chan Yue Kwong Michael and Dr. Wong Ho Ching. Dr. Cheung Wai Bun Charles J.P. is the Chairman of the Audit Committee. The Group's final results for the year ended 31 December 2017, including the accounting principles and practices adopted by the Group have been reviewed by all the members of the audit committee.

SCOPE OF WORK OF THE COMPANY'S AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Company's auditor to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Company's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditor on the preliminary announcement.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The final 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 annual report of the Company for the year ended 31 December 2017 will be despatched to 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, 29 March 2018

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.