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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 2018

RESULTS HIGHLIGHTS

- The Group's revenue in 2018 was approximately HK$2,315,467,000, representing an increase of approximately HK$134,175,000 or 6.2% as compared with the prior year.
- Gross profit for 2018 was approximately HK$1,079,336,000, representing an increase of approximately HK$17,824,000 or 1.7% as compared with the prior year.

- The Group's EBITDA for the year ended 31 December 2018 was approximately HK$265,449,000 (2017: HK$319,919,000), representing a decrease of approximately HK$54,470,000 or 17.0% as compared with the prior year. Profit for 2018 was approximately HK$83,240,000, representing a decrease of approximately HK$74,123,000 or 47.1% as compared with the prior year. The decrease in profit was mainly caused by (i) the re-financing of bank loans of the Group in January 2018 that resulted in the one-off write-off of capitalised interest and fee and related exchange losses of approximately HK$25,463,000 in aggregate; (ii) the turnaround of an unrealised net foreign exchange differences (which had no actual cash impact on the Group's cash flow) arose from certain inter-company balances within the Group denominated in foreign currencies (2018: an unrealised net foreign exchange loss of HK$9,492,000; 2017: an unrealised net foreign exchange gain of HK$23,670,000) as a result of the depreciation of the foreign currencies against Hong Kong Dollars as at 31 December 2018; (iii) the increase in administrative expense mainly arising from the research and development related expenditure of new product under development of HK$13,761,000 in 2018 (2017: Nil).
- The net cash flows from operating activities for the year ended 31 December 2018 were approximately HK$204,893,000 (2017: HK$194,673,000), representing an increase of approximately HK$10,220,000 or 5.2% as compared with the prior year.
- Basic earnings per share for the financial year ended 31 December 2018 amounted to HK8.6 cents (2017: HK15.6 cents).
- The Board recommended a final dividend of HK1.4 cents per ordinary share out of the share premium account for the year ended 31 December 2018 (2017: HK2.1 cents). Subject to the approval of the Company's shareholders at the forthcoming annual general meeting, the final dividend will be payable on 24 June 2019 to shareholders of the Company whose names appear on the Register of Members of the Company on 3 June 2019.

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 2018, together with the comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018**	2017
		HK$'000	*HK$'000*
REVENUE	3	**2,315,467**	2,181,292
Cost of sales		**(1,236,131)**	(1,119,780)
Gross profit		**1,079,336**	1,061,512
Other income and gains	3	**11,344**	23,912
Selling and distribution expenses		**(275,142)**	(265,926)
Administrative expenses		**(630,558)**	(586,525)
Other operating expenses		**(12,533)**	(1,582)
Finance costs	5	**(51,516)**	(28,582)
Share of losses of associates		**(1,929)**	(1,288)
PROFIT BEFORE TAX	4	**119,002**	201,521
Income tax expense	6	**(35,762)**	(44,158)
PROFIT FOR THE YEAR		**83,240**	157,363
ATTRIBUTABLE TO:			
Owners of the Company		**85,391**	155,371
Non-controlling interests		**(2,151)**	1,992
		83,240	157,363
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	8	**HK8.6 cents**	HK15.6 cents
Diluted	8	**HK8.6 cents**	HK15.6 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**83,240**	157,363
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(110,681)**	155,284
Other comprehensive income/(loss) for the year, net of tax	**(110,681)**	155,284
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(27,441)**	312,647
ATTRIBUTABLE TO:		
Owners of the Company	**(25,202)**	310,542
Non-controlling interests	**(2,239)**	2,105
	(27,441)	312,647

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	**2018**	2017
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	10	**433,810**	326,703
Prepaid land lease payments		**11,817**	12,652
Goodwill	9	**1,329,523**	1,389,250
Intangible assets		**330,561**	384,046
Investments in associates		**8,396**	10,325
Deferred tax assets		**10,814**	9,090
Long term prepayments and deposits	10	**21,771**	60,653
Total non-current assets		**2,146,692**	2,192,719
CURRENT ASSETS			
Inventories		**110,906**	81,861
Trade receivables	11	**380,443**	413,682
Prepayments, deposits and other receivables		**58,294**	59,858
Due from an associate		**55**	274
Current tax assets		**17,796**	10,709
Pledged deposits		**11,482**	12,467
Cash and cash equivalents		**380,393**	368,660
Total current assets		**959,369**	947,511
CURRENT LIABILITIES			
Trade payables	12	**64,319**	57,195
Other payables and accruals		**170,440**	179,947
Interest-bearing bank and other borrowings	13	**30,171**	270,360
Tax payable		**40,152**	43,477
Total current liabilities		**305,082**	550,979
NET CURRENT ASSETS		**654,287**	396,532
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,800,979**	2,589,251

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2018

	Notes	**2018**	2017
		HK$'000	*HK$'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	13	**779,072**	447,098
Deferred tax liabilities		**18,774**	23,379
Other non-current liabilities		**10,931**	13,781
Total non-current liabilities		**808,777**	484,258
NET ASSETS		**1,992,202**	2,104,993
EQUITY			
Equity attributable to owners of the Company			
Share capital		**77,500**	77,500
Treasury shares		**(16,459)**	(39)
Reserves		**1,935,203**	2,020,029
		1,996,244	2,097,490
Non-controlling interests		**(4,042)**	7,503
TOTAL EQUITY		**1,992,202**	2,104,993

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The 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 had been measured at fair value. The 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 2018. 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 new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfer of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014 – 2016 Cycle	Amendments to IFRS 1 and IAS 28

Other than as explained below regarding the impact of IFRS 9 and IFRS 15 and its amendments, the adoption of the above new and revised standards has had no significant financial effect on the financial statements.

(a) IFRS 9

IFRS 9 Financial Instruments replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the consolidated statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses (**"ECLs"**).

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 measurement				**IFRS 9 measurement**	
	Category	**Amount**	**ECL**	**Other**	**Amount**	**Category**
		HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	
Financial assets						
Trade receivables	L&R[1]	413,682	(7,868)	—	405,814	AC[2]
Financial assets included in deposits and other receivables	L&R	56,278	—	—	56,278	AC
Due from a related party	L&R	103	—	—	103	AC
Due from an associate	L&R	274	—	—	274	AC
Pledged deposits	L&R	12,467	—	—	12,467	AC
Cash and cash equivalents	L&R	368,660	—	—	368,660	AC
		851,464	(7,868)	—	843,596	
Other assets						
Deferred tax assets		9,090	—	177	9,267	

There is no impact on the Group's accounting for financial liabilities. The Group's financial liabilities previously carried at amortised costs remained to be measured at amortised cost under IFRS 9.

1 L&R: Loans and receivables

2 AC: Financial assets at amortised cost

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9.

	Impairment allowances under IAS 39 at 31 December 2017	**Re-measurement**	**ECL allowances under IFRS 9 at 1 January 2018**
	HK$'000	*HK$'000*	***HK$'000***
Trade receivables	18,577	7,868	**26,445**

Impact on reserve and retained profits

The impact of transition to IFRS 9 on reserves and retained profits is as follows:

	Exchange Reserve	**Retained profits**
	HK$'000	***HK$'000***
Balance as at 31 December 2017 under IAS 39	(87,987)	800,715
Recognition of expected credit losses for trade receivables under IFRS 9	(282)	(7,586)
Deferred tax in relation to the above	6	171
Balance as at 1 January 2018 under IFRS 9	**(88,263)**	**793,300**

(b) IFRS 15 and its amendments

IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to the revenue recognition.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. The comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised deposit received from customers as other payables. Under IFRS 15, the amount is classified as contract liabilities which are included in other payables and accruals.

The application of IFRS 15 has had no impact on the financial position or performance of the Group, except for the reclassification of deposit received from customers as other payables to contract liabilities.

Accordingly, upon the adoption of IFRS 15, the Group reclassified HK$2,320,000 from other payables to contract liabilities as at 1 January 2018 in relation to the deposit received from customers as at 1 January 2018.

As at 31 December 2018, had the Group not applied IFRS 15, contract liabilities of HK$4,236,000 in relation to the deposit received from customers for the sale of goods would have been included in other payables.

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.

	2018			2017		
	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	**1,664,457**	**883,531**	**780,926**	1,575,585	808,607	766,978
Removable prosthetic devices	**451,304**	**241,101**	**210,203**	417,000	216,354	200,646
Others	**199,706**	**111,499**	**88,207**	188,707	94,819	93,888
Total	**2,315,467**	**1,236,131**	**1,079,336**	2,181,292	1,119,780	1,061,512

Geographical information

(a) Revenue from external customers

	2018	2017
	HK$'000	*HK$'000*
Europe	**924,601**	843,598
North America	**688,431**	687,293
Greater China	**466,956**	421,365
Australia	**221,615**	214,556
Others	**13,864**	14,480
	2,315,467	2,181,292

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

	2018	2017
	HK$'000	*HK$'000*
Europe	**739,342**	786,535
North America	**630,329**	627,253
Greater China	**266,722**	211,480
Australia	**426,460**	484,947
Others	**73,025**	73,414
	2,135,878	2,183,629

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:

	2018	2017
	HK$'000	*HK$'000*
Revenue		
Sale of goods transferred at a point in time	**2,315,467**	2,181,292
Other income		
Bank interest income	**547**	443
Government subsidies*	**5,545**	3,032
Others	**5,252**	5,357
	11,344	8,832
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	**11,344**	23,912

* 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.

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period:

	2018
	HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods	**2,320**

4. PROFIT BEFORE TAX

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

	2018	2017
	HK$'000	*HK$'000*
Cost of inventories sold#	**1,236,131**	1,119,780
Depreciation	**57,439**	53,183
Amortisation of intangible assets	**37,777**	36,820
Minimum lease payments under operating leases	**64,109**	65,259
Amortisation of prepaid land lease payments	**262**	256
Research and development cost##	**13,761**	—
Auditors' remuneration	**9,880**	12,129
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	**1,007,272**	885,616
Pension scheme contributions	**140,310**	133,736
Equity-settled Pre-IPO RSUs expense	**—**	2,667
	1,147,582	1,022,019
Bank interest income	**(547)**	(443)
Loss/(gain) on disposal of items of property, plant and equipment, net **	**156**	(95)
Write-off of intangible assets*	**86**	—
Remeasurement (gain)/loss on contingent consideration*	**(773)**	1,096
Write-back of consideration payable*	**—**	(3,610)
Write-off of property, plant and equipment*	**430**	895
Allowance for impairment of trade and other receivables, net	**886**	811
Foreign exchange loss/(gain), net**	**12,283**	(14,985)

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

** Loss on disposal of items of property, plant and equipment, net, and foreign exchange loss, net, are included in "other operating expenses" in the consolidated statement of profit or loss. Gain on disposal of items of property, plant and equipment, net, and foreign exchange gain, net, are included in "other income and gains" in the consolidated statement of profit or loss.

Cost of inventories sold includes HK$762,116,000 (2017: HK$669,391,000) 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.

Research and development costs includes HK$12,717,000 (2017: Nil) 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

	2018	2017
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other loans	**23,925**	24,976
Less: amount capitalised on qualifying assets	**(1,828)**	(2,995)
	22,097	21,981
Write-off of capitalised finance charges upon re-financing of bank loans	**12,333**	—
Foreign exchange loss incurred upon re-financing of bank loans	**13,130**	—
Finance charges on bank loans	**3,919**	6,438
Interest on finance leases	**37**	163
	51,516	28,582

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% (2017: 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 2018 and 2017.

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 flat rate of 21% (2017: 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, 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.

	2018	2017
	HK$'000	*HK$'000*
Current	**42,549**	53,088
Deferred	**(6,787)**	(8,930)
Total tax charge for the year	**35,762**	44,158

7. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Interim — HK1.9 cents (2017: HK2.5 cents) per ordinary share	**19,000**	25,000
Proposed final — HK1.4 cents (2017: HK2.1 cents) per ordinary share	**14,000**	21,000

The interim dividend of HK$19,000,000 has been paid on 8 October 2018.

On 28 March 2019, the Board recommended a final dividend of HK1.4 cents per ordinary share for the year ended 31 December 2018. The proposed final dividend for the year ended 31 December 2018 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 997,150,640 (2017: 996,234,160) 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:

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**85,391**	155,371

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the years used in the basic earnings per share calculation	**997,150,640**	996,234,160
Effect of dilution — weighted average number of ordinary shares:		
Pre-IPO RSU Scheme*	**—**	2,286,048
	997,150,640	998,520,208

* The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2018.

9. GOODWILL

	HK$'000
At 1 January 2017:	
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
Cost at 1 January 2018, net of accumulated impairment	**1,389,250**
Exchange realignment	**(59,727)**
At 31 December 2018	**1,329,523**
At 31 December 2018:	
Cost	**1,339,100**
Accumulated impairment	**(9,577)**
Net carrying amount	**1,329,523**

10. MOVEMENTS IN PROPERTY, PLANT AND EQUPMENT

During the year ended 31 December 2018, there was an addition of HK$181,231,000 (2017: HK$193,687,000) in property, plant and equipment in which HK$62,028,000 and HK$48,767,000 was for construction in progress and building, respectively.

Additions of HK$40,910,000 (2017: Nil) was paid up in advance in prior years, these advances were being recorded as long-term prepayment and deposit in previous years.

11. TRADE RECEIVABLES

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

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**223,184**	230,243
1 to 2 months	**57,242**	68,439
2 to 3 months	**32,149**	31,311
3 months to 1 year	**54,400**	68,662
Over 1 year	**13,468**	15,027
	380,443	413,682

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.

As at 31 December 2018, none of the Group's trade receivables were pledged to secure general banking facilities granted to the Group (2017: trade receivables of HK$94,060,000 were pledged).

12. TRADE PAYABLES

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

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**35,890**	42,862
1 to 2 months	**21,334**	9,285
2 to 3 months	**5,047**	3,146
Over 3 months	**2,048**	1,902
	64,319	57,195

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

	2018 Effective/ contractual interest rate	Maturity		2017 Effective/ contractual interest rate	Maturity	
	(%)		***HK$'000***	*(%)*		*HK$'000*
Current						
Finance lease payables	**3.69–13.70**	**2019**	**489**	4.53	**2018**	486
Bank loans — secured	**Hong Kong Interbank Offered Rate ("HIBOR") +1.70**	**On demand**	**19,970**	London Interbank Offered Rate ("**LIBOR**") +2.60	**On demand**	77,500
Current portion of long term bank loans – secured	**HIBOR+1.60**	**2019**	**9,712**	LIBOR+2.60/ Euro Interbank Offered Rate ("**EURIBOR**") +2.35	**2018**	192,374
			30,171			270,360
Non-current						
Finance lease payables	**3.69–10.34**	**2020-2023**	**617**	4.53	**2019-2020**	411
Long term bank loans – secured	**HIBOR+1.60**	**2020-2023**	**778,455**	LIBOR+2.60/ EURIBOR+2.35	**2019-2020**	446,687
			779,072			447,098
			809,243			717,458

	2018	2017
	HK$'000	*HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**29,682**	269,874
In the second year	**82,443**	216,508
In the third to fifth years, inclusive	**696,012**	230,179
	808,137	716,561
Finance lease payables:		
Within one year	**489**	486
In the second year	**302**	272
In the third to fifth years, inclusive	**315**	139
	1,106	897
	809,243	717,458

Notes:

(a) As at 31 December 2018, all bank loans are secured by the corporate guarantees of the Company and certain of its subsidiaries.

(b) As at 31 December 2017, all bank loans were guaranteed by the Company and certain of its subsidiaries and secured by the shares of certain subsidiaries as well as trade receivables of HK$94,060,000, floating charge over cash and cash equivalents of HK$114,722,000 and equipment of HK$8,354,000.

(c) As at 31 December 2018, the Group's bank borrowings denominated in HK$ amounted to HK$808,137,000. The Group's finance lease payables denominated in HK$, Australian dollars ("**AUD**") and Canadian dollars ("**CAD**") amounted to HK$6,000, HK$366,000 and HK$734,000, respectively.

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

14. EVENTS AFTER THE REPORTING PERIOD

The Company repurchased 11,469,000 of its ordinary shares on the Hong Kong Stock Exchange ("**Stock Exchange**") during the year ended 31 December 2018. These shares were subsequently cancelled in January and February 2019. Moreover, subsequent to the end of the reporting period, the Company repurchased 1,785,000 of its ordinary shares on the Stock Exchange at an aggregate consideration of HK$2,360,000 (before expenses).

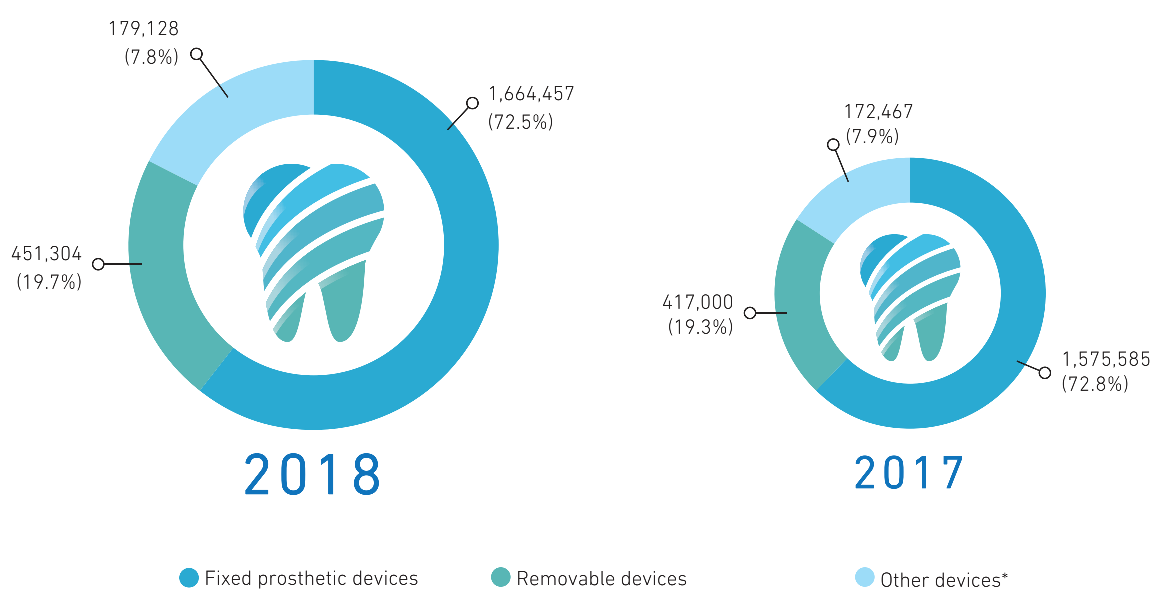
BUSINESS REVIEW

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: (i) fixed prosthetic devices such as crowns and bridges; (ii) removable prosthetic devices such as removable dentures; and (iii) others 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 2018 and 2017 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 2018, fixed prosthetic devices business segment recorded a revenue of approximately HK$1,664,457,000 representing an increase of approximately HK$88,872,000 as compared with the year ended 31 December 2017. This business segment accounted for approximately 72.5% of the Group's total revenue as compared with approximately 72.8% in the year ended 31 December 2017.

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 2018, removable prosthetic devices business segment recorded a revenue of approximately HK$451,304,000, representing an increase of approximately HK$34,304,000 as compared with the year ended 31 December 2017. This business segment accounted for approximately 19.7% of the Group's total revenue as compared with approximately 19.3% in the year ended 31 December 2017.

Other Devices

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

During the year ended 31 December 2018, other devices business segment recorded a revenue of approximately HK$179,128,000, representing an increase of approximately HK$6,661,000 as compared with the year ended 31 December 2017. This business segment accounted for approximately 7.8% of the Group's total revenue as compared with approximately 7.9% in the year ended 31 December 2017.

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 2018 and 2017 respectively:

	Year ended 31 December					
	2018			2017		
	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	**1,033,151**	**1,664,457**	**1,611**	1,069,391	1,575,585	1,473
Removable prosthetic devices	**401,232**	**451,304**	**1,125**	387,501	417,000	1,076
Other devices*	**318,108**	**179,128**	**563**	282,074	172,467	611
Total	**1,752,491**	**2,294,889**	**1,310**	1,738,966	2,165,052	1,245

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

Sales volume and average selling price

For the year ended 31 December 2018, the sales volume and ASP of the Group's products across its markets were 1,752,491 cases (Year ended 31 December 2017: 1,738,966 cases) and HK$1,310 per case (Year ended 31 December 2017: HK$1,245 per case), representing an increase of 0.8% and 5.2%, respectively. Our strategy to shift our promotion focus on high value products, such as implant cases, and gradually phase out low value products, has delivered promising results in the current year and, accordingly, has driven up our average selling price with slight growth in sales volume.

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 for the years ended 31 December 2018 and 2017 respectively:

	Year ended 31 December	
	2018	2017
	Revenue	Revenue
	HK$'000	*HK$'000*
Market		
Europe*	**912,172**	837,332
North America	**688,431**	687,293
Greater China**	**464,136**	417,017
Australia***	**216,286**	208,930
Others	**13,864**	14,480
Total	**2,294,889**	2,165,052

* The dental equipment revenue is subtracted from the European revenue.

** The raw materials and dental equipment revenue are subtracted from the Greater China revenue.

*** Our Australian market includes both Australia and New Zealand. The service revenue is subtracted from the Australian revenue.

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 2018.

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 performed well in Europe, 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 lines. We offer comparatively more competitive prices for products of comparable quality in the market with high quality customer services.

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, implant solutions, orthodontic treatments and anti-snoring appliances), on being at the forefront of continuous education and training programs, and innovations to stimulate further growth. 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 2018, the European market recorded a revenue of approximately HK$912,172,000, representing an increase of approximately HK$74,840,000 as compared with year ended 31 December 2017. Together with the sales of dental equipment of approximately HK$12,429,000, this geographic market accounted for 39.9% of the Group's total revenue as compared with approximately 38.7% for the year ended 31 December 2017. The increase in revenue from the European market was largely attributable to (i) appreciation of average rate of EUR against HK$ and (ii) 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 for the year ended 31 December 2018.

MicroDental Laboratories, Inc. (formerly known as RTFP Dental Inc.) and its subsidiaries ("**MicroDental Group**") contributed approximately HK$500,601,000 (year ended 31 December 2017: HK$494,137,000) to the Group's revenue, approximately HK$5,029,000 (year ended 31 December 2017: HK$5,054,000) to the Group's Adjusted EBITDA and approximately HK$17,320,000 (year ended 31 December 2017: HK$10,130,000) of loss to the Group's profit for the year ended 31 December 2018. The loss of approximately HK$17,320,000 for the year ended 31 December 2018 included (i) non-cash depreciation and amortisation of approximately HK$13,594,000; and (ii) non-recurring expenses, such as one-off costs in connection with the restructuring and reorganisations of approximately HK$8,250,000. With new management team for North America (CFO and CEO), we are confident of effectively implementing our main strategies for MicroDental Group: (i) to increase sales through new products and strengthen our sales and marketing team and strategies; (ii) to strategically place 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.

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. 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 year 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 year ended 31 December 2018, the North American market recorded a revenue of approximately HK$688,431,000, representing an increase of approximately HK$1,138,000 as compared with the year ended 31 December 2017. This geographic market accounted for approximately 29.7% of the Group's total revenue as compared with approximately 31.5% in the year ended 31 December 2017. The increase in revenue from the North American market was attributable to increase in ASP of the products from high value products and its effect was partially offset by decrease in sales volume at MicroDental Group as a result of (i) phasing out of lower end products and (ii) the temporary distortions arose from restructuring and reorganisations, such as relocation of the major production facilities and closure of inefficient locations, in the current year.

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 for the year ended 31 December 2018.

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 with premium quality in Greater China, which appeal to the population that has a strong demand for higher quality products. The Greater China market positively rebounded in the period with a low-teens increase in revenue in Hong Kong dollars 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-operation 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.

With our new production facilities in Dongguan, we expect to further consolidate our status in the Mainland China market as we would have sufficient room to expand our production capacity significantly.

For the year ended 31 December 2018, the Greater China market recorded a revenue of approximately HK$464,136,000, representing an increase of approximately HK$47,119,000 as compared with year ended 31 December 2017. Together with the sales of raw materials and dental equipment of approximately HK$2,820,000, this geographic market accounted for approximately 20.2% of the Group's total revenue as compared with approximately 19.3% last year. The increase in revenue from the Greater China market was largely attributable to (i) the increase in sales of higher value products and (ii) volume growth during the year.

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 market. 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 market, 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 2018, the Australian market recorded a revenue of approximately HK$216,286,000, representing an increase of approximately HK$7,356,000 as compared with the year ended 31 December 2017. Together with the service revenue generated from rendering educational events and seminars of approximately HK$5,329,000, this geographic market accounted for approximately 9.6% of the Group's total revenue as compared with approximately 9.8% last year. The increase in revenue from the Australian market was largely attributable to volume growth across all brands offset by the depreciation of Australian dollars for the year.

Others

Other markets primarily include Indian Ocean countries, Japan and Singapore. For the year ended 31 December 2018, these markets recorded a revenue of approximately HK$13,864,000, representing a decrease of approximately HK$616,000 as compared with the year ended 31 December 2017. This geographic market accounted for approximately 0.6% of the Group's total revenue as compared with approximately 0.7% 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 following strategies, the group is expected to outperform its competitors in the industry:

(i) The continued integration of MicroDental Group under the new leadership: the new CEO of North America has accumulated over 20 years of experience in our industry (with a particular focus on dental laboratories). The restructuring of MicroDental Group continues and we have made some positive progress in 1st quarter of 2019; as we have begun to phase out lower value products and turned our attention to higher value products (such as implants) to improve our margins.

(ii) The continued integration of our other recent acquisitions: as our management's attention is focused on integrating recent acquisitions, the Group has been less active in acquisition activities in 2018. Market valuation within the dental laboratories industry and other businesses within the dental industry have surged, off the back of increased demand and interest from private equity firms.

(iii) Additional distribution and joint venture arrangements with upstream suppliers.

(iv) Joint venture and strategic alliance arrangements in Mainland China with key strategic investors/potential strategic shareholders.

(v) New products, such as orthodontic devices.

The construction of phase 1 of our new production facilities in Dongguan was substantially completed in 1st quarter of 2019 and we are currently in the initial stages for planning phase 2. Given phase 1 has been substantially completed (and upon completion, the Group's capacity would be increased considerably), the Group expects progress for phase 2 to be slower and in line with the Group's capacity needs in the medium term. The Group is in a position to utilize more of its cash to implement plans to improve shareholder value in the short term (via buy-back and potentially increasing the Group's dividend payout ratio).

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the revenue of the Group amounted to approximately HK$2,315,467,000 representing an increase of approximately 6.2% as compared with approximately HK$2,181,292,000 for the year ended 31 December 2017. The increase was mainly attributable to (i) appreciation of average rate of foreign currencies; (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 2018 was approximately HK$1,079,336,000, which was approximately 1.7% higher than that of last year. The decrease of the gross profit margin of approximately 2.1% compared with last year was mainly attributable to (i) the increased labor costs in Mainland China; (ii) the lower utilisation of production capacity as a result of restructuring and reorganisations activities carried out in current year; and (iii) the appreciation of average rate of RMB against HK$ in the current year.

The gross profit margins of Fixed Prosthetic Devices business segment, Removable Prosthetic Devices business segment and Others business segment were approximately 46.9%, 46.6% and 44.2% respectively. The following table sets forth the breakdown of our gross profit and gross margin by product category.

	Year ended 31 December			
	2018		2017	
	Gross profit	**Gross margin**	Gross profit	Gross margin
	HK$'000	***(%)***	*HK$'000*	*(%)*
Product category				
Fixed prosthetic devices	**780,926**	**46.9**	766,978	48.7
Removable prosthetic devices	**210,203**	**46.6**	200,646	48.1
Others	**88,207**	**44.2**	93,888	49.8
Total	**1,079,336**		1,061,512	

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 3.5% from approximately HK$265,926,000 for the year ended 31 December 2017 to approximately HK$275,142,000 for the year ended 31 December 2018, accounting for approximately 11.9% of the Group's revenue, as compared with approximately 12.2% for last year. The increase in the selling and distribution expenses was primarily attributable to the increase in freight and transportation cost, salaries, bonuses, commissions and other benefits for sales personnel, which resulted from the increase in the Group's sales volume and appreciation of average rate of the EUR and RMB against HK$ during the year.

Administrative Expenses

The administrative expenses increased by approximately 7.5% to approximately HK$630,558,000 for the year ended 31 December 2018 from approximately HK$586,525,000 for the year ended 31 December 2017, accounting for approximately 27.2% of the Group's revenue, as compared with approximately 26.9% for last year. The increase in the administrative expenses was primarily attributable to (i) an increase in the average salaries of our employees; (ii) appreciation of average rate of the EUR and RMB against HK$ during the year; and (iii) research and development related expenditure of new product under development of approximately HK$13,761,000 incurred during the year.

Other Operating Expenses

The other operating expenses increased by approximately 692.2% from approximately HK$1,582,000 for the year ended 31 December 2017 to approximately HK$12,533,000 for the year ended 31 December 2018, accounting for approximately 0.5% of the Group's revenue, as compared with approximately 0.1% for last year. Other operating expenses mainly represented foreign exchange loss, net, of approximately HK$12,283,000 which included foreign exchange loss of approximately HK$9,492,000 arose from translation of certain inter-company balances within the Group denominated in foreign currencies as a result of the depreciation of the foreign currencies against HK$ as at 31 December 2018.

Finance Costs

The finance costs increased by approximately 80.2% from approximately HK$28,582,000 for the year ended 31 December 2017 to approximately HK$51,516,000 for the year ended 31 December 2018, accounting for approximately 2.2% of the Group's revenue, as compared with approximately 1.3% for last year. The increase was primarily attributable to re-financing of the bank loans of the Group in January 2018 that resulted in the one-off write-off of capitalised interest and fee and related exchange losses of approximately HK$25,463,000 in aggregate.

Income Tax Expense

Income tax expense decreased by approximately 19.0% from approximately HK$44,158,000 for the year ended 31 December 2017 to approximately HK$35,762,000 for the year ended 31 December 2018. The decrease was primarily attributable to the decrease in the profit before tax.

Profit for the Year

Profit for the year decreased by approximately 47.1% from approximately HK$157,363,000 for the year ended 31 December 2017 to approximately HK$83,240,000 for the year ended 31 December 2018. The decrease in profit for the year was mainly caused by (i) re-financing of the bank loans of the Group in January 2018 that resulted in the one-off write-off of capitalised interest and fee and related exchange losses of approximately HK$25,463,000 in aggregate; (ii) research and development related expenditure of new product under development of approximately HK$13,761,000 incurred during the year; and (iii) foreign exchange loss of approximately HK$9,492,000 arose from translation of certain inter-company balances within the Group denominated in foreign currencies as a result of the depreciation of the foreign currencies against HK$ as at 31 December 2018.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company for the year ended 31 December 2018 amounted to approximately HK$85,391,000, representing a decrease of approximately HK$69,980,000, or approximately 45.0%, as compared with approximately HK$155,371,000 for last year. The decrease in profit attributable to owners of the Company was mainly caused by (i) re-financing of the bank loans of the Group in January 2018 that resulted in the one-off write-off of capitalised interest and fee and related exchange losses of approximately HK$25,463,000 in aggregate; (ii) research and development related expenditure of new product under development of approximately HK$13,761,000 incurred during the year; and (iii) foreign exchange loss of approximately HK$9,492,000 arose from translation of certain inter-company balances within the Group denominated in foreign currencies as a result of the depreciation of the foreign currencies against HK$ as at 31 December 2018.

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 2018, 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, one-off cost in connection with restructuring and reorganisation, the Pre-IPO RSU Scheme (as defined below) related expenses, remeasurement gain/loss on contingent consideration and write-back of consideration payable.

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	
	2018	2017
	HK$'000	*HK$'000*
EBITDA and Adjusted EBITDA		
Net profit	**83,240**	157,363
Finance costs	**51,516**	28,582
Tax	**35,762**	44,158
Depreciation	**57,439**	53,183
Amortisation of intangible assets	**37,777**	36,820
Amortisation of prepaid land lease payments	**262**	256
Less:		
Bank interest income	**(547)**	(443)
EBITDA	**265,449**	319,919
Add:		
One-off transaction cost in connection with acquisitions and disposals	**1,469**	18,141
One-off cost in connection with restructuring and reorganisation	**10,864**	—
Pre-IPO RSU Scheme related expenses	**—**	5,414
Remeasurement loss on contingent consideration	**—**	1,096
Less:		
Remeasurement gain on contingent consideration	**(773)**	—
Write-back of consideration payable	**—**	(3,610)
Adjusted EBITDA	**277,009**	340,960
Adjusted EBITDA Margin	**12.0%**	15.6%

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the years ended 31 December 2018 and 31 December 2017 respectively:

	For the year ended 31 December	
	2018	2017
	HK$'000	*HK$'000*
Net cash flows from operating activities	**204,893**	194,673
Net cash flows used in investing activities	**(142,602)**	(211,767)
Net cash flows (used in)/from financing activities	**(39,128)**	28,061

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 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$380,393,000 as of 31 December 2018, which was mainly denominated in HK$, RMB, US$, EUR and AUD.

Operating Activities

For the year ended 31 December 2018, the net cash flows from operating activities has increased to approximately HK$204,893,000 (Year ended 31 December 2017: approximately HK$194,673,000). The increase in net cash flows from operating activities was primarily attributable to increase in cash generated from operations as a result of the continual growth in sales of the Group.

Investing Activities

The net cash flows used in investing activities for the year ended 31 December 2018 of approximately HK$142,602,000, of which approximately HK$141,725,000 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 flows used in financing activities of approximately HK$39,128,000 for the year ended 31 December 2018. The outflow was mainly attributable to payment of (i) dividend of approximately HK$40,000,000; (ii) interest expenses of approximately HK$23,962,000; (iii) repurchase of the Company's ordinary shares of approximately HK$16,420,000; and (iv) acquisition of non-controlling interest of approximately HK$20,591,000. The outflow was partially offset by net advancement of bank loans of approximately HK$62,493,000 during the year.

Capital Expenditure

During the year ended 31 December 2018, the Group's capital expenditure amounted to approximately HK$141,725,000 which was mainly used for expansion of our production facilities and improvement in our production equipment. All of the capital expenditure was financed by internal resources, bank borrowings and previously 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**").

CAPITAL STRUCTURE

Bank borrowings

Bank borrowings of the Group as of 31 December 2018 amounted to approximately HK$808,137,000 as compared to approximately HK$716,561,000 as of 31 December 2017. Pledged bank deposits of the Group as of 31 December 2018 amounted to approximately HK$11,482,000 as compared to approximately HK$12,467,000 as of 31 December 2017. As of 31 December 2018, the bank borrowings of approximately HK$808,137,000 were denominated in HK$. As of 31 December 2018, all bank borrowings were at floating interest rates.

Finance lease payables

Finance lease payables of the Group as of 31 December 2018 amounted to approximately HK$1,106,000 as compared to approximately HK$897,000 as of 31 December 2017. As of 31 December 2018, the finance lease payables of approximately HK$6,000, approximately HK$366,000 and approximately HK$734,000 were denominated in HK$, AUD and CAD, respectively. As of 31 December 2018, 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 Company) 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 2018, the gearing ratio of the Group was approximately 25%, reflecting that the Group's financial position was at a sound level.

Debt securities

As of 31 December 2018, the Group did not have any debt securities.

Contingent liabilities

The Group has a contingent liability in respect of potential claims of US$1 million (equivalent to HK$7.8 million) by an employee, who is also a non-controlling shareholder of a subsidiary of the Group. Subsequent to the year ended 31 December 2018, the employee filed a case to the labour tribunal for the claim. The Group denied the liability in respect of the non-performance of the terms of the contract, based on legal advice, the directors of the Company consider that the risk of the claim at the labour tribunal is reasonably low. No provision has therefore been made in respect of this claim.

The Group has no significant contingent liabilities as at 31 December 2017.

CHARGE OF GROUP ASSETS

During the year ended 31 December 2018, Modern Dental Holding Limited, a subsidiary of the Company, entered into three bank loans facility agreements (the "**Facility Agreements**") for certain term loans and a revolving credit, secured by corporate guarantees of the Company and certain of its subsidiaries. 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.

Commitments

The investment agreement 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 2018, the Group has paid approximately RMB11,094,000 and approximately RMB90,630,000 for the acquisition of land and construction in progress, respectively, and the remaining commitments was approximately RMB144,276,000.

Save as disclosed above, the Group had no other significant capital commitments as of 31 December 2018.

DETAILS OF MATERIAL ACQUISITIONS, DISPOSALS OF SUBSIDIARIES, ASSOICATES AND JOINT VENTURES

The Group had no material acquisitions, disposal of subsidiaries, associates and joint ventures for the year ended 31 December 2018.

OFF-BALANCE SHEET TRANSACTIONS

As of 31 December 2018, the Group did not enter into any material off-balance sheet transactions.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

The Company repurchased 11,469,000 of its ordinary shares on the Stock Exchange during the year ended 31 December 2018. These shares were subsequently cancelled in January and February 2019. Moreover, subsequent to the end of the reporting period, the Company repurchased 1,785,000 of its ordinary shares on the Stock Exchange at an aggregate consideration of approximately HK$2,360,000 (before expenses).

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 2018, the interest rates on floating-rate bank loans were approximately HIBOR+1.60% per annum for term loans and HIBOR+1.70% per annum for a revolving credit. 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, amount due from an associate, pledged deposits 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 6,432 dedicated full-time employees at our production facilities, service centers, points of sales and other sites as of 31 December 2018, mainly including 4,902 production staff members, 557 general management staff members and 359 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 (the "**Shareholders**") passed on 25 November 2015.

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 of 31 December 2018, 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 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 of 31 December 2018, no outstanding restricted share units were granted or vested pursuant to the Pre-IPO RSU Scheme.

DIVIDENDS

An interim dividend of HK1.9 cents per ordinary share was paid to the Shareholders on 8 October 2018. The Board recommended a final dividend of HK1.4 cents (2017: HK2.1 cents) per ordinary share out of the share premium account for the year ended 31 December 2018 (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 23 May 2019, the Proposed Final Dividend will be paid on 24 June 2019 to Shareholders whose names appear on the Register of Members of the Company as at the close of business on 3 June 2019.

CLOSURE OF REGISTER OF MEMBERS

To determine the entitlement to attend and vote at the AGM to be held on 23 May 2019, the Register of Members of the Company will be closed from Monday, 20 May 2019 to Thursday, 23 May 2019, 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 Friday, 17 May 2019, 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, 30 May 2019 to Monday, 3 June 2019, 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, 29 May 2019.

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 of the Company dated 3 December 2015 as follows:

	Available to utilise *HK$'000*	**Utilised as at 31 December 2018** *HK$'000*	**Unutilised as at 31 December 2018** *HK$'000*
Financing the strategic acquisitions and new facilities establishment of the Company in Mainland China	125,000	125,000	—
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	**647,483**	**—**

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

During the year ended 31 December 2018, the Company repurchased 11,469,000 of its ordinary shares on the Stock Exchange at an aggregate consideration of approximately HK$16,420,000 (before expenses), details of the repurchase are summarised as follows:

Month	Number of shares repurchased	Price per share Highest	Price per share Lowest	Aggregate consideration paid (before expenses)
		HK$	*HK$*	*HK$'000*
September 2018	4,444,000	1.75	1.37	6,853
October 2018	3,516,000	1.42	1.28	4,733
November 2018	1,763,000	1.48	1.37	2,515
December 2018	1,746,000	1.38	1.28	2,319
	11,469,000			16,420

The repurchased shares were cancelled subsequently in January and February 2019 and were recognised as treasury shares as at 31 December 2018.

The repurchase of the Company's ordinary shares was effected by the directors, pursuant to the mandate from Shareholders received at the annual general meeting on 24 May 2018, with a view to benefiting Shareholders as a whole by enhancing the net assets value per share and earnings per share of the Group.

Saved as disclosed above, during the year ended 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the year ended 31 December 2018, 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**").

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 2018, 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 2018 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 2018 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, 28 March 2019

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.