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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019, INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

RESULTS HIGHLIGHTS

- Profit for the six months ended 30 June 2019 was approximately HK$86,960,000, representing an increase of approximately HK$19,496,000 or 28.9% as compared with that of the six months ended 30 June 2018. The MicroDental Group reported a profit of approximately HK$2,498,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: loss of HK$9,045,000).
- The Gross Profit Margin for the six months ended 30 June 2019 was approximately 47.8% (six months ended 30 June 2018: 47.4%). Gross profit for the six months ended 30 June 2019 was approximately HK$570,023,000, representing an increase of approximately HK$8,978,000 or 1.6% as compared with that of the six months ended 30 June 2018.
- The Group's EBITDA for the six months ended 30 June 2019 was approximately HK$194,262,000 (six months ended 30 June 2018: HK$172,189,000).
- The Group's Adjusted EBITDA for the six months ended 30 June 2019 was approximately HK$195,859,000 (six months ended 30 June 2018: HK$175,108,000).
- Basic earnings per share for the six months ended 30 June 2019 amounted to HK8.89 cents (six months ended 30 June 2018: HK6.61 cents), reflecting an increase of approximately 34.5%.

- Net cash flows from operating activities was approximately HK$109,360,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$45,220,000), reflecting an increase of approximately 141.8%.

- The Group's revenue in the six months ended 30 June 2019 was approximately HK$1,191,378,000, representing an increase of approximately HK$6,521,000 or 0.6% as compared with that of the six months ended 30 June 2018, which reflects an overall increase in revenue in original currency but was offset by an material depreciation of (i) Euro against Hong Kong dollars, (ii) Australian dollars against Hong Kong dollars and (iii) Renminbi against Hong Kong dollars, during this period compared with the six months ended 30 June 2018:

	2019 January to June	2018 January to June	Percentage difference
Average EUR/HKD Exchange rate	**8.87**	9.49	-6.5%
Average AUD/HKD Exchange rate	**5.54**	6.05	-8.4%
Average RMB/HKD Exchange rate	**1.16**	1.23	-5.7%

- Given the confidence in our prospect, the Board declared an interim dividend of HK3.1 cents per share for the six months ended 30 June 2019 (six months ended 30 June 2018: HK1.9 cents) representing an increase of 63.2%. The interim dividend will be payable on Thursday, 10 October 2019 to shareholders of the Company whose names appear on the Register of Members of the Company as at the close of business on Thursday, 19 September 2019.

- The Board considers that the current trading price of the ordinary shares of the Company does not reflect their intrinsic value and hereby announces that it intends to continue exercising its powers under the general mandate to buy back (the "**Repurchase Mandate**") the ordinary shares granted by the shareholders of the Company at the annual general meeting (the "**AGM**") held on 23 May 2019, to increase the amount to be used and the frequency to buy back the shares of the Company in the open market at appropriate times. According to the Repurchase Mandate, the Company is allowed to buy back a maximum of 98,674,600 ordinary shares, being 10% of the total number of issued ordinary shares as at the date of the AGM. The Board is of the opinion that the proposed share buy-back and subsequent cancellation of the repurchased ordinary shares could enhance the value of the ordinary shares thereby improving the return to shareholders of the Company.

INTERIM RESULTS

The board of directors (the "**Board**" or the "**Directors**") of Modern Dental Group Limited (the "**Company**") is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2019, together with the comparative figures for the corresponding period in 2018, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	**Six months ended 30 June**	
		2019	2018
		(Unaudited)	(Unaudited)
		HK$'000	*HK$'000*
REVENUE	4	**1,191,378**	1,184,857
Cost of sales		**(621,355)**	(623,812)
Gross profit		**570,023**	561,045
Other income and gains	4	**5,347**	4,529
Selling and distribution expenses		**(132,560)**	(132,353)
Administrative expenses		**(309,996)**	(305,067)
Other operating expenses		**(7,575)**	(2,471)
Finance costs	6	**(17,328)**	(36,936)
Share of losses of associates		**(551)**	(812)
PROFIT BEFORE TAX	5	**107,360**	87,935
Income tax expense	7	**(20,400)**	(20,471)
PROFIT FOR THE PERIOD		**86,960**	67,464
ATTRIBUTABLE TO:			
Owners of the Company		**87,556**	66,081
Non-controlling interests		**(596)**	1,383
		86,960	67,464
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	8	**HK8.89 cents**	HK6.61cents
Diluted	8	**HK8.89 cents**	HK6.61cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**86,960**	67,464
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(13,020)**	(66,356)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(13,020)**	(66,356)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**73,940**	1,108
ATTRIBUTABLE TO:		
Owners of the Company	**74,536**	(155)
Non-controlling interests	**(596)**	1,263
	73,940	1,108

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Notes	**30 June 2019 (Unaudited)** ***HK$'000***	31 December 2018 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	10	**485,004**	433,810
Prepaid land lease payments		**11,623**	11,817
Right-of-use assets	2.2	**181,671**	—
Goodwill		**1,322,294**	1,329,523
Intangible assets		**312,848**	330,561
Investments in associates		**7,845**	8,396
Deferred tax assets		**11,801**	10,814
Long term prepayments and deposits		**21,551**	21,771
Total non-current assets		**2,354,637**	2,146,692
CURRENT ASSETS			
Inventories		**112,938**	110,906
Trade receivables	11	**410,425**	380,443
Prepayments, deposits and other receivables		**82,293**	58,294
Due from an associate		**67**	55
Current tax assets		**33,357**	17,796
Pledged deposits		**5,575**	11,482
Cash and cash equivalents		**332,209**	380,393
Total current assets		**976,864**	959,369
CURRENT LIABILITIES			
Trade payables	12	**61,896**	64,319
Other payables and accruals		**176,999**	170,440
Lease liabilities	2.2	**49,902**	—
Interest-bearing bank and other borrowings	13	**105,956**	30,171
Tax payable		**44,374**	40,152
Total current liabilities		**439,127**	305,082
NET CURRENT ASSETS		**537,737**	654,287
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,892,374**	2,800,979

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2019

	Notes	**30 June 2019 (Unaudited) *HK$'000***	31 December 2018 (Audited) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,892,374**	2,800,979
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	13	**694,302**	779,072
Deferred tax liabilities		**17,449**	18,774
Lease liabilities	2.2	**156,757**	—
Other non-current liabilities		**576**	10,931
Total non-current liabilities		**869,084**	808,777
NET ASSETS		**2,023,290**	1,992,202
EQUITY			
Equity attributable to owners of the Company			
Share capital		**76,473**	77,500
Treasury shares		**(6,741)**	(16,459)
Reserves		**1,953,558**	1,935,203
		2,023,290	1,996,244
Non-controlling interests		**—**	(4,042)
TOTAL EQUITY		**2,023,290**	1,992,202

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

Modern Dental Group Limited (the "**Company**") was incorporated as an exempted company with limited liability in the Cayman Islands on 5 July 2012 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised). The Company's registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company and its subsidiaries (collectively referred to as the "**Group**") are principally engaged in the production and distribution of dental prosthetic devices.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited ("**Listing Rules**"), including compliance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

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

2.2 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards and interpretations effective as of 1 January 2019, noted below:

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IFRS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IFRS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 *Leases*, the adoption of these new and revised IFRSs did not have any significant effect on the financial position or performance of the Group. The nature and impact of the new and revised IFRSs are described below:

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single, on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and presented separately as lease liabilities in the statement of financial position.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of HK$1,183,000 that were reclassified from property, plant and equipment.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;

- used hindsight in determining the lease term where the contract contains options to extend/terminate the lease;

- excluded initial direct costs for the measurement of the right-of-use assets at the date of initial application; and

- applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease)
	(Unaudited)
	HK$'000
Assets	
Increase in right-of-use assets	201,985
Decrease in property, plant and equipment	(1,949)
Increase in prepayments, other receivables and other assets	171
Increase in total assets	200,207
Liabilities	
Decrease in other payables and accruals	(10,610)
Increase in lease liabilities	226,313
Decrease in interest-bearing bank and other borrowings	(1,106)
Increase in total liabilities	214,597
Decrease in retained earnings	(14,390)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	(Unaudited)
	HK$'000
Operating lease commitments as at 31 December 2018	176,645
Weighted average incremental borrowing rate as at 1 January 2019	3%
Discounted operating lease commitments as at 1 January 2019	158,722
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(124)
Add: Commitments relating to leases previously classified as finance leases	1,106
Payments for optional extension periods not recognised as at 31 December 2018	66,609
Lease liabilities as at 1 January 2019	226,313

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

	Right-of-use assets *HK$'000*	**Lease liabilities** *HK$'000*
As at 1 January 2019 (unaudited)	**201,985**	**(226,313)**
Additions	**2,368**	**(2,368)**
Depreciation provided during the period	**(22,619)**	**—**
Interest expense	**—**	**(3,655)**
Payments	**—**	**25,608**
Exchange realignment	**(63)**	**69**
As at 30 June 2019 (unaudited)	**181,671**	**(206,659)**

3. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

	Six months ended 30 June					
	2019 (unaudited)			2018 (unaudited)		
	Revenue	**Cost of sales**	**Gross profit**	Revenue	Cost of sales	Gross profit
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Fixed prosthetic devices	**839,917**	**431,489**	**408,428**	854,545	451,971	402,574
Removable prosthetic devices	**223,503**	**114,204**	**109,299**	227,820	121,759	106,061
Others	**127,958**	**75,662**	**52,296**	102,492	50,082	52,410
Total	**1,191,378**	**621,355**	**570,023**	1,184,857	623,812	561,045

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Europe	**480,758**	487,435
North America	**358,651**	350,715
Greater China	**245,264**	225,449
Australia	**97,648**	113,536
Others	**9,057**	7,722
	1,191,378	1,184,857

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

(b) Non-current assets

	30 June 2019 (Unaudited) ***HK$'000***	31 December 2018 (Audited) *HK$'000*
Europe	**749,490**	739,342
North America	**722,176**	630,329
Australia	**442,072**	426,460
Greater China	**357,846**	266,722
Others	**71,252**	73,025
	2,342,836	2,135,878

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Sale of goods transferred at a point in time	**1,191,378**	1,184,857
Other income		
Bank interest income	**703**	204
Government subsidies*	**2,663**	1,428
Others	**1,779**	2,080
	5,145	3,712
Gains		
Gains on disposal of items of property, plant and equipment, net	**202**	44
Remeasurement gain on contingent consideration	**—**	773
	202	817
Other income and gains	**5,347**	4,529

* 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.

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold#	**621,355**	623,812
Depreciation of property, plant and equipment	**29,303**	28,107
Amortisation of intangible assets	**18,205**	19,279
Amortisation of prepaid land lease payments	**150**	136
Depreciation of right-of-use assets	**22,619**	—
Minimum lease payments under operating leases	**8,230**	34,581
Research and development costs##	**4,097**	—
Auditors' remuneration	**4,667**	2,322
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	**514,259**	500,218
Pension scheme contributions	**68,944**	71,084
	583,203	571,302
Bank interest income	**(703)**	(204)
Gains on disposal of items of property, plant and equipment, net	**(202)**	(44)
Remeasurement gain on contingent consideration	**—**	(773)
Write-off of property, plant and equipment*	**136**	226
Allowance for impairment of trade receivables, net	**(346)**	268
Foreign exchange loss, net*	**7,439**	1,884

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

\# Cost of inventories sold includes HK$358,539,000 (unaudited) (six months ended 30 June 2018: HK$382,302,000 (unaudited)) 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$3,794,000 (unaudited) (six months ended 30 June 2018: Nil (unaudited)) 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.

6. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other loans	**13,448**	10,515
Less: amount capitalised on qualifying assets	**(1,896)**	(800)
	11,552	9,715
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	**2,121**	1,744
Interest on lease liabilities	**3,655**	—
Interest on finance leases	**—**	14
	17,328	36,936

7. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong	**3,324**	4,146
Current – Elsewhere	**19,464**	19,633
Deferred	**(2,388)**	(3,308)
Total tax charge for the period	**20,400**	20,471

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 six months ended 30 June 2019 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 985,249,226 (six months ended 30 June 2018: 999,501,955) in issue during the period.

The calculation of the diluted earnings per share amount is based on the profit for the six months ended 30 June 2019 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 period, as used in the basic earnings per share calculation.

The Group had no potentially dilutive ordinary shares in issue during the six months period ended 30 June 2019 and 2018.

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	**87,556**	66,081

	Number of shares	
	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	**985,249,226**	999,501,955

9. DIVIDENDS

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interim dividend	**30,431**	19,000

The Board declared an interim dividend of HK3.1 cents per share for the six months ended 30 June 2019 (six months ended 30 June 2018: HK1.9 cents).

The interim dividend is not recognised as a liability as at 30 June 2019 because it has been declared after the end of reporting period.

10. PROPERTY, PLANT AND EQUIPMENT

	30 June	31 December
	2019	2018
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Carrying amount at 1 January	**433,810**	326,703
Effect of adoption of IFRS 16	**(1,949)**	—
Carrying amount at 1 January (restated)	**431,861**	326,703
Additions	**84,617**	181,231
Disposals	**(431)**	(1,852)
Write-off	**(136)**	(430)
Depreciation provided during the period/year	**(29,303)**	(57,439)
Exchange realignment	**(1,604)**	(14,403)
Carrying amount at 30 June/31 December	**485,004**	433,810

11. TRADE RECEIVABLES

An ageing analysis of the trade receivables as at 30 June 2019 and 31 December 2018, based on the invoice date and net of loss allowance, is as follows:

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	HK$'000	*HK$'000*
Within 1 month	**251,630**	223,184
1 to 2 months	**53,180**	57,242
2 to 3 months	**30,794**	32,149
3 months to 1 year	**63,655**	54,400
Over 1 year	**11,166**	13,468
	410,425	380,443

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 material collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

12. TRADE PAYABLES

An ageing analysis of the trade payables as at 30 June 2019 and 31 December 2018, based on the invoice date, is as follows:

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
	HK$'000	*HK$'000*
Within 1 month	**38,406**	35,890
1 to 2 months	**19,962**	21,334
2 to 3 months	**2,511**	5,047
Over 3 months	**1,017**	2,048
	61,896	64,319

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

	30 June 2019 (Unaudited)			31 December 2018 (Audited)		
	Effective/ contractual interest rate (%)	**Maturity**	***HK$'000***	Effective/ contractual interest rate (%)	Maturity	*HK$'000*
Current						
Finance lease payables	**—**	**—**	**—**	3.69 – 13.70	2019	489
Bank loan – secured	**Hong Kong Interbank Offered Rate ("HIBOR") +1.70**	**On demand**	**19,970**	HIBOR+1.70	On demand	19,970
Current portion of long term bank loans – secured	**HIBOR +1.60**	**2020**	**85,986**	HIBOR+1.60	2019	9,712
			105,956			30,171
Non-current						
Finance lease payables	**—**	**—**	**—**	3.69 – 10.34	2020-2023	617
Long term bank loans - secured	**HIBOR+1.60**	**2021-2023**	**694,302**	HIBOR+1.60	2020-2023	778,455
			694,302			779,072
			800,258			809,243

	30 June 2019	31 December 2018
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**105,956**	29,682
In the second year	**206,844**	82,443
In the third to fifth years, inclusive	**487,458**	696,012
	800,258	808,137
Finance lease payables:		
Within one year	**—**	489
In the second year	**—**	302
In the third to fifth years, inclusive	**—**	315
	—	1,106
	800,258	809,243

Notes:

(a) As at 30 June 2019 (unaudited) and 31 December 2018 (audited), all the amounts borrowed from these facilities are secured by the corporate guarantees of the Company and certain of its subsidiaries.

(b) As at 30 June 2019 (unaudited), the Group's bank borrowings denominated in HK$ amounted to HK$800,258,000.

As at 31 December 2018 (audited), 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 and Canadian dollars amounted to HK$6,000, HK$366,000 and HK$734,000, respectively.

14. EVENTS AFTER THE REPORTING PERIOD

The Company repurchased 6,885,000 of its ordinary shares on the Hong Kong Stock Exchange at an aggregate consideration of HK$9,062,000 (before expenses) during the six months ended 30 June 2019, of which 5,100,000 ordinary shares of HK$6,702,000 (before expenses) were subsequently cancelled on 16 August 2019. Moreover, subsequent to the end of the reporting period, the Company repurchased 2,000,000 of its ordinary shares on the Hong Kong Stock Exchange at an aggregate consideration of HK$2,589,000 (before expenses).

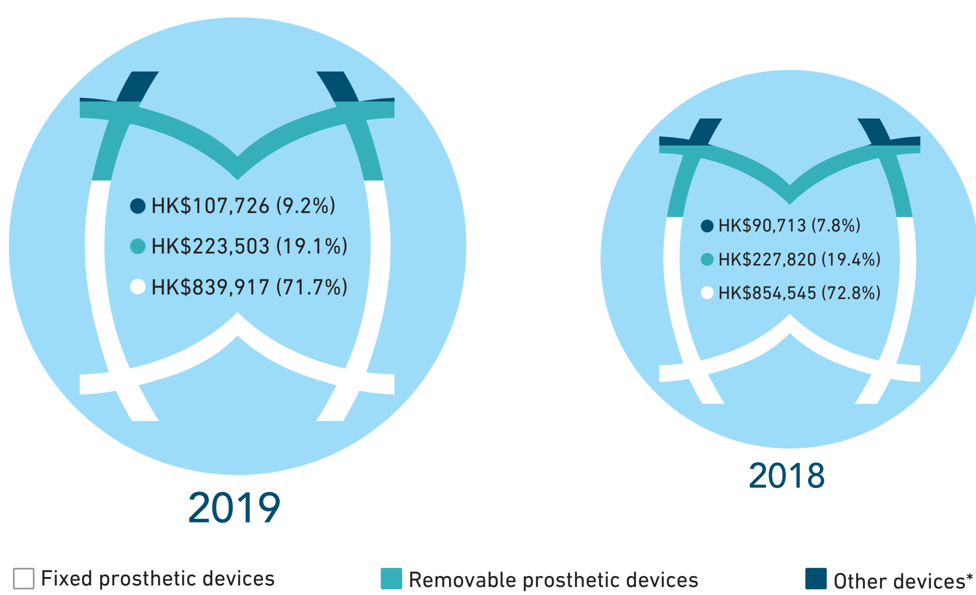
BUSINESS REVIEW

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 six months ended 30 June 2019 and 2018 respectively:

Breakdown of revenue (HK$'000 and %)



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

Fixed Prosthetic Devices

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

During the period under review, the fixed prosthetic devices business segment recorded a revenue of approximately HK$839,917,000, representing a decrease of approximately HK$14,628,000 as compared with the six months ended 30 June 2018. This business segment accounted for approximately 71.7% of the Group's total revenue as compared with approximately 72.8% in the six months ended 30 June 2018.

Removable Prosthetic Devices

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

During the period under review, the removable prosthetic devices business segment recorded a revenue of approximately HK$223,503,000, representing a decrease of approximately HK$4,317,000 as compared with the six months ended 30 June 2018. This business segment accounted for approximately 19.1% of the Group's total revenue as compared with approximately 19.4% in the six months ended 30 June 2018.

Other Devices

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

During the period under review, the other devices business segment recorded a revenue of approximately HK$107,726,000, representing an increase of approximately HK$17,013,000 as compared with the six months ended 30 June 2018. This business segment accounting for approximately 9.2% of the Group's total revenue as compared with approximately 7.8% in the six months ended 30 June 2018.

Product Category

The following table sets forth the breakdown of sales volume, revenue, and average selling price ("**ASP**") by product category for the six months ended 30 June 2019 and 2018 respectively:

	Six months ended 30 June					
	2019			2018		
	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	**513,512**	**839,917**	**1,636**	509,785	854,545	1,676
Removable prosthetic devices	**205,267**	**223,503**	**1,089**	190,742	227,820	1,194
Other devices*	**167,055**	**107,726**	**645**	154,403	90,713	588
Total	**885,834**	**1,171,146**	**1,322**	854,930	1,173,078	1,372

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

Sales volume and average selling price

For the six months ended 30 June 2019, the sales volume and ASP of the Group's products across its markets were 885,834 cases (six months ended 30 June 2018: 854,930 cases) and HK$1,322 per case (six months ended 30 June 2018: HK$1,372 per case), representing an increase of 3.6% and a decrease of 3.6%, respectively.

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 six months ended 30 June 2019 and 2018, respectively:

	Six months ended 30 June	
	2019	2018
	Revenue	Revenue
	(HK$'000)	*(HK$'000)*
Market		
Europe*	**464,258**	480,749
North America	**358,651**	350,715
Greater China**	**241,585**	223,917
Australia***	**97,595**	109,975
Others	**9,057**	7,722
Total	**1,171,146**	1,173,078

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

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

*** Our Australian market includes both Australia and New Zealand. The services 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 in the period under review.

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 (in original currency) 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 and innovative products and services, 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.

During the period under review, the European market recorded a revenue of approximately HK$464,258,000, representing a decrease of approximately HK$16,491,000 as compared with the six months ended 30 June 2018. Together with the sales of dental equipment of approximately HK$16,500,000, this geographic market accounted for 40.4% of the Group's total revenue as compared with approximately 41.1% in the six months ended 30 June 2018. The decrease of revenue from the European market was attributable to the depreciation of Euro against HK$ of 6.5% in the six months ended 30 June 2019 compared with the six months ended 30 June 2018 which offset the annual increment of the retail price to the dentists (in original currency) and increase in sales of dental equipment.

North America

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

MicroDental Laboratories, Inc. and its subsidiaries ("**MicroDental Group**") contributed approximately HK$284,674,000 (six months ended 30 June 2018: HK$249,725,000) to the Group's revenue, approximately HK$19,047,000 (six months ended 30 June 2018: HK$552,000) to the Group's Adjusted EBITDA and approximately HK$2,498,000 of profit (six months ended 30 June 2018: HK$9,045,000 of loss) to the Group's profit for the six months ended 30 June 2019. The profit of approximately HK$2,498,000 for the six months ended 30 June 2019 included (i) non-cash depreciation and amortisation of approximately HK$13,840,000; and (ii) non-recurring expenses, such as one-off costs in connection with the restructuring and reorganisations of approximately HK$1,246,000. With new management team for North America (CEO and CFO), we are confident of effectively implementing our main strategies for MicroDental Group: (i) to increase sales through new products, implementing efficiencies and increasing 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, leverage MicroDental Group's 40 year brand history, its extensive distribution network and its highly trained and experienced workforce 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 the customer's experience and shorten turnaround time. Our expanded North American distribution network is an effective 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 period under review as a result of various factors. The aging population had a direct impact on the demand for dental prosthetic devices. In addition, since the promulgation of the Affordable Care Act in 2010, the coverage of health insurance has expanded. Moreover, the United States government has been funding and promoting oral health awareness. The ongoing Sino-US trade tension imposed uncertainty over the global operation environment. No tariff is being imposed on the Group's products during the period under review. In view of the relatively small portion of products (less than one-fifth of the sales in the US) being manufactured in the PRC and supplied to the United States market and the fact that certain production facilities of the Group are strategically located outside of the PRC, it is considers that the financial performance of the Group will not be materially and adversely affected by any potential import tariffs. And it may be beneficial to our production and sale in the US in the medium to long term on the assumption that the Group would be in an ideal market position to capture the market share lost by its competitors who source their products from the PRC as a result of any potential import tariffs.

During the period under review, the North American market recorded a revenue of approximately HK$358,651,000, representing an increase of approximately HK$7,936,000 as compared with the six months ended 30 June 2018. This geographic market accounted for approximately 30.1% of the Group's total revenue as compared with approximately 29.6% in the six months ended 30 June 2018. The increase of revenue from the North American market was largely attributable to the successful introduction of high-end products, the gradual phase out of lower value products and the annual increment of the retail price to the dentists.

Greater China

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

Given the significant rise in the living standards in Greater China over the years, people have become increasingly aware of the importance of oral health, which benefits the custom-made dental prosthetics domestic sales market. We offer comparatively higher prices for products with premium quality in Greater China, which appeal to the population that has a strong demand for higher quality products. The Greater China market has continued to grow in the period with a low-teens increase in revenue in original currency (Hong Kong dollars and RMB) due to the Group's strategy of expanding the coverage of our products offering and focusing on building better relationships with, and attracting new clients from, private clinics in first tier cities in the 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.

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

During the period under review, the Greater China market recorded a revenue of approximately HK$241,585,000, representing an increase of approximately HK$17,668,000 as compared with the six months ended 30 June 2018. Together with the sales of raw materials and dental equipment of approximately HK$3,679,000, this geographic market accounted for approximately 20.6% of the Group's total revenue as compared with approximately 19.0% in the six months ended 30 June 2018. The increase of revenue from the Greater China market was largely attributable to (i) the increase in sales of higher value products and; (ii) the volume growth during the period, however, offset by the depreciation of RMB against HK$ of 5.7% in the six months ended 30 June 2019 compared with the six months ended 30 June 2018.

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 the major corporate dental groups in the market.

During the period under review, the Australian market recorded a revenue of approximately HK$97,595,000, representing a decrease of approximately HK$12,380,000 as compared with the six months ended 30 June 2018. Together with the service revenue generated from rendering educational events and seminars of approximately HK$53,000, this geographic market accounted for approximately 8.2% of the Group's total revenue as compared with approximately 9.6% in the six months ended 30 June 2018. The decrease in the revenue from the Australian market was largely attributable to the depreciation of AUD against HK$ of 8.4% in the six months ended 30 June 2019 compared with the six months ended 30 June 2018 and the decrease in service revenue during the period under review.

Others

Other markets primarily include Indian Ocean countries, Japan and Singapore. During the period under review, these markets recorded a revenue of approximately HK$9,057,000, representing an increase of approximately HK$1,335,000 as compared with the six months ended 30 June 2018. This geographic market accounted for approximately 0.7% of the Group's total revenue as compared with approximately 0.7% in the six months ended 30 June 2018.

FUTURE PROSPECTS AND STRATEGIES

The Board expects the global demand for dental prosthetics to continue 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 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 Group has delivered a turnaround of MicroDental Group and delivered a profit in the first half of 2019 as we have continued to phase out lower value products and turned our attention to higher value products (such as implants) to improve our margins. The restructuring of MicroDental Group continues and we are optimistic on the future prospects of MicroDental Group.

(ii) The unique global distribution network of the Group brings additional opportunities to the Group, including:

  (a) additional distribution and joint venture arrangements with upstream suppliers;

  (b) joint venture and strategic alliance arrangements in Mainland China with key strategic partners; and

  (c) new products, such as orthodontic devices.

The Board is of the opinion that the financial position of the Group is solid and healthy. The Board believes the proposed share buy-back and subsequent cancellation of the repurchased Shares could enhance the value of the Shares thereby improving the return to shareholders of the Company. In addition, the Board believes that the proposed share buy-back reflects the Group's confidence in its long term business prospects and would ultimately benefit the Company and is in the interests of the Company and the shareholders of the Company as a whole.

In addition, the Board is of the view that the financial position of the Group is strong and healthy and has adequate financial resources to the developments of the Group, including business expansions and acquisitions to further enhance value of the Group to the shareholders.

FINANCIAL REVIEW

Revenue

During the period under review, the revenue of the Group amounted to approximately HK$1,191,378,000 representing an increase of approximately 0.6% as compared with approximately HK$1,184,857,000 in the six months ended 30 June 2018. The increase was largely attributable to (i) the annual increment of retail prices to the dentists; and (ii) the organic growth in the sales, offset by depreciation of foreign currencies against HK$ during the period.

Gross Profit and Gross Profit Margin

The gross profit for the six months ended 30 June 2019 was approximately HK$570,023,000, which was approximately 1.6% higher than that of the six months ended 30 June 2018. The increase of the gross profit margin of approximately 0.4% compared with the corresponding period in 2018 was mainly attributable to the increase in sales of high-value products and strengthened control in production costs offset by the increase in sales of dental equipment, such as intra-oral scanners, with lower gross margin in the current period under review.

The gross profit margins of Fixed Prosthetic Devices business segment, Removable Prosthetic Devices business segment and Others business segment were approximately 48.6%, 48.9% and 40.9% respectively. The following table sets forth the breakdown of our gross profit and gross profit margin by product category.

	Six months ended 30 June			
	2019		2018	
	Gross profit *(HK$'000)*	**Gross profit margin** *(%)*	Gross profit *(HK$'000)*	Gross profit margin *(%)*
Product category				
Fixed prosthetic devices	**408,428**	**48.6**	402,574	47.1
Removable prosthetic devices	**109,299**	**48.9**	106,061	46.6
Others	**52,296**	**40.9**	52,410	51.1
Total	**570,023**	**47.8**	561,045	47.4

Selling and Distribution Expenses

During the period under review, the selling and distribution expenses increased slightly by approximately 0.2% from approximately HK$132,353,000 for the six months ended 30 June 2018 to approximately HK$132,560,000 for the six months ended 30 June 2019, accounting for approximately 11.1% of the Group's revenue, as compared with approximately 11.2% for the corresponding period in 2018. The slight 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, offset by depreciation of the EUR, RMB and AUD during the period under review.

Administrative Expenses

During the period under review, the administrative expenses increased by approximately 1.6% from approximately HK$305,067,000 for the six months ended 30 June 2018 to approximately HK$309,996,000 for the six months ended 30 June 2019, accounting for approximately 26.0% of the Group's revenue, as compared with approximately 25.7% for the corresponding period in 2018. The increase in the administrative expenses was primarily attributable to an increase in the average salaries of our employees, offset by depreciation of the EUR, RMB and AUD during the period under review.

Other Operating Expenses

During the period under review, the other operating expenses increased by approximately 206.6% from approximately HK$2,471,000 for the six months ended 30 June 2018 to approximately HK$7,575,000 for the six months ended 30 June 2019, accounting for approximately 0.6% of the Group's revenue, as compared with approximately 0.2% for the corresponding period in 2018. Other operating expenses mainly represented (i) exchange losses, net, incurred of approximately HK$7,439,000 (six months ended 30 June 2018: HK$1,884,000) as a result of depreciation of EUR, RMB and AUD; and (ii) write-off of property, plant and equipment of approximately HK$136,000 (six months ended 30 June 2018: HK$226,000).

Finance Costs

During the period under review, the finance costs decreased by approximately 53.1% from approximately HK$36,936,000 for the six months ended 30 June 2018 to approximately HK$17,328,000 for the six months ended 30 June 2019, accounting for approximately 1.5% of the Group's revenue, as compared with approximately 3.1% for the corresponding period in 2018. The decrease was primarily attributable to no one-off write-off of capitalised interest and fee and related exchange losses incurred during the period under review following the completion of the re-financing of bank loans of the Group in January 2018 (six months ended 30 June 2018: approximately HK$25,463,000 in aggregate).

Income Tax Expense

During the period under review, the income tax expense decreased by approximately 0.3% from approximately HK$20,471,000 for the six months ended 30 June 2018 to approximately HK$20,400,000 for the six months ended 30 June 2019.

Profit for the Period

Profit for the period increased by approximately 28.9% from approximately HK$67,464,000 for the six months ended 30 June 2018 to approximately HK$86,960,000 for the six months ended 30 June 2019, accounting for approximately 7.3% of the Group's revenue, as compared with approximately 5.7% for the corresponding period in 2018. The increase in profit was mainly attributed to the turnaround of MicroDental Group (six months ended 30 June 2019: profit of approximately HK$2,498,000; six months ended 30 June 2018: loss of approximately HK$9,045,000), no one-off write-off of capitalised interest and fee and related exchange losses incurred during the period under review following the completion of the re-financing of bank loans of the Group in January 2018 (six months ended 30 June 2018: approximately HK$25,463,000 in aggregate) and offset by research and development related expenditure of new product of approximately HK$4,097,000 during the period under review (six months ended 30 June 2018: Nil).

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company amounted to approximately HK$87,556,000, representing an increase of approximately HK$21,475,000, or approximately 32.5%, as compared with approximately HK$66,081,000 for the corresponding period in 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 period under review, the Group incurred some one-off expenses, which are not indicative of the operating performance of the business of the period. Therefore, the Group arrived 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, and remeasurement gain on contingent consideration.

The table below indicates the profit for the six months ended 30 June 2019 and 2018, reconciling the Adjusted EBITDA for the periods presented to the most comparable financial measures calculated in accordance with the IFRS:

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
EBITDA and Adjusted EBITDA		
Net profit	**86,960**	67,464
Finance costs	**17,328**	36,936
Depreciation of right-of-use assets	**22,619**	—
Depreciation of property, plant and equipment	**29,303**	28,107
Tax	**20,400**	20,471
Amortisation of intangible assets	**18,205**	19,279
Amortisation of prepaid land lease payments	**150**	136
Less:		
Bank interest income	**(703)**	(204)
EBITDA	**194,262**	172,189
One-off cost in connection with restructuring and reorganisation	**1,597**	3,600
One-off transaction cost in connection with acquisitions and disposals	**—**	92
Less:		
Remeasurement gain on contingent consideration	**—**	(773)
Adjusted EBITDA*	**195,859**	175,108
Adjusted EBITDA Margin	**16.4%**	14.8%

* Following the adoption of IFRS 16 on 1 January 2019, the Group's statutory results for six months ended 30 June 2019 are on a IFRS 16 basis, whereas the statutory results for the six months ended 30 June 2018 are on a IAS 17 basis as previously reported. Hence, any comparison between the two different reporting basis would not be meaningful. The Group believes that the IAS 17 basis metrics, which are not intended to be a substitute for, or superior to, the reported metrics on a IFRS 16 basis, allows a like-with-like comparison with the prior period results, and to better reflect management's view of the Group's underlying operational performance. Adjusted EBITDA before adoption of IFRS 16 is approximately HK$170,980,000, which is comparable to Adjusted EBITDA of previous years.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the six months ended 30 June 2019 and 2018:

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Net cash flows from operating activities	**109,360**	45,220
Net cash flows used in investing activities	**(78,352)**	(85,737)
Net cash flows used in financing activities	**(77,518)**	(1,704)

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 and the available bank 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$332,209,000 as of 30 June 2019 (31 December 2018: approximately HK$380,393,000), which was mainly denominated in HK$, RMB, US$, EUR and AUD.

Operating Activities

Net cash flows from operating activities was approximately HK$109,360,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$45,220,000). The increase in net cash flows from operating activities was primarily attributable to increase in cash generated from operations.

Investing Activities

The Group recorded a net cash outflow used in investing activities of approximately HK$78,352,000 for the six months ended 30 June 2019, of which approximately HK$84,892,000 was used primarily for the expansion of our production facilities and upgrade of our computer-aided/manufacturing production equipment.

Financing Activities

The Group recorded a net cash outflow used in financing activities of approximately HK$77,518,000 for the six months ended 30 June 2019. The outflow was mainly attributable to (i) repayment of bank loans of approximately HK$10,000,000; (ii) payment of dividend of approximately HK$13,814,000; (iii) repurchase of the Company's ordinary shares of approximately HK$9,062,000; (iv) payment for the principal portion of lease liabilities of approximately HK$21,953,000; and (v) payment of interest expenses of approximately HK$17,103,000.

Capital Expenditure

During the period under review, the Group's capital expenditure amounted to approximately HK$84,892,000 of which approximately HK$51,912,000 was used for expansion of our new production facilities in Dongguan and the remaining was used for improvement on our production equipment. All of the capital expenditure was financed by internal resources and bank borrowings.

CAPITAL STRUCTURE

Bank borrowings

Bank loans of the Group as of 30 June 2019 amounted to approximately HK$800,258,000 as compared to approximately HK$808,137,000 as of 31 December 2018. Pledged bank deposits of the Group as of 30 June 2019 amounted to approximately HK$5,575,000 as compared to approximately HK$11,482,000 as of 31 December 2018. As of 30 June 2019, the bank loans of approximately HK$800,258,000 were denominated in HK$. As of 30 June 2019, all bank borrowings were at floating interest rates.

Cash and cash equivalents

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

Gearing ratio

The 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, lease liabilities, other non-current liabilities, less cash and cash equivalents and pledged deposits. As of 30 June 2019, the gearing ratio of the Group was approximately 31% (31 December 2018: 25%), reflecting that the Group's financial position was at a sound level. The increase was due to initial application of IFRS 16 in 1 January 2019, lead to increase in the lease liabilities and net debt.

Debt securities

As of 30 June 2019, the Group did not have any debt securities.

Contingent liabilities

As of 30 June 2019, the Group did not have any material contingent liabilities or guarantees.

CHARGE OF GROUP ASSETS

During the period under review, Modern Dental Holding Limited, a subsidiary of the Company, entered into three bank loans facility agreements (the "**Facility Agreements**") 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 30 June 2019, the Group has paid approximately RMB116,390,000 and RMB11,094,000 for the construction in progress and acquisition of land, respectively, and the remaining commitment was approximately RMB118,516,000.

Save as disclosed above, the Group had no significant capital commitments as of 30 June 2019.

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

The Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2019.

OFF-BALANCE SHEET TRANSACTIONS

As of 30 June 2019, the Group did not enter into any material off-balance sheet transactions.

IMPORTANT EVENTS AFTER THE PERIOD UNDER REVIEW

The Company repurchased 6,885,000 of its ordinary shares on the Hong Kong Stock Exchange ("**Stock Exchange**") during the six months ended 30 June 2019 of which 5,100,000 ordinary shares of approximately HK$6,702,000 (before expenses) were subsequently cancelled on 16 August 2019. Moreover, subsequent to the end of the reporting period, the Company repurchased 2,000,000 of its ordinary shares on the Stock Exchange at an aggregate consideration of approximately HK$2,589,000 (before expenses).

Saved as disclosed above, the Group has no important events after the period under review up to the date of this Interim Announcement.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Group's business, financial condition and results of operations are subject to various business risks and uncertainties. The factors set out below are those that the Group believes could result in the Group's financial condition or results of operations differing materially from expected or historical results. There may be other risks in addition to those set out below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Global Economy and Cross Countries Operations

As a global business, the Group is exposed to the development of the global economy and continued changes in government policies, political, social, legal and regulatory requirements as well as the industries and geographical markets in which it operates. As a result, the Group's financial condition and results of operations may be influenced by the general state of the economy and operating environment of markets in which it operates. Any significant decrease in the level of economic growth in the global or regional or a specific economy could adversely affect the Group's financial condition or results of operations. For instance, the ongoing Sino-US trade tension imposed uncertainty over the global operation environment. No tariff is being imposed on the Group's products during the period under review. In view of the small portion of products being manufactured in the PRC and supplied to the United States market and the fact that certain production facilities of the Group are strategically located outside of the PRC, it is considers that the financial performance of the Group will not be materially and adversely affected by the potential import tariffs. And it may be beneficial to our production and sale in the US in the medium to long term on the assumption that the Group would be in an ideal market position to capture the market share lost by its competitors who source their products from the PRC as a result of any potential import tariffs applied to the industry.

Mergers and Acquisitions Risk

Goodwill and intangible assets arising from mergers and acquisitions accounted for significant portion in the Group's total assets. If there is any impairment on the goodwill and intangible assets, it will affect the profit of the Group. The Group mitigates such risk by engagement of legal and financial advisers to carry out due diligence of material acquisitions. The Group has also annually engaged external valuer to assess the impairment of material goodwill and intangible assets.

Centralisation of Production Facilities

The production of the Group relies heavily on its existing production facilities in Shenzhen, Mainland China. If there are disruptions to the production sites in Shenzhen, the Group may suffer from interruptions to its business. The management has invested in and started a new production site in Dongguan, to gradually share the production of the Group. As such, the risk arising from centralised production facilities in Shenzhen can be mitigated. Apart from this, the Group has already had various smaller scale production sites in different parts of the world, such as the United States, Europe and Australia, etc.

Interest Rate Risk

Our exposure to the interest rate risk relates primarily to our long-term debt obligations with floating interest rates. We manage our interest rate exposure with a focus on reducing our overall cost of debt and exposure to changes in interest rate. Our management continues to monitor the cash flows of our operation and the debt markets, where we would expect to refinance these borrowings with a lower cost of debt when desirable. For the six months ended 30 June 2019, the interest rate 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 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.

Liquidity Risk

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

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 5,804 full-time employees at our production facilities, service centers, points of sales and other sites as of 30 June 2019, mainly including 4,168 production staff members, 575 general management staff members and 367 customer service staff members.

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

SHARE OPTION SCHEME

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

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

As at 30 June 2019, no options had been granted, agreed to be granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme.

PRE-IPO RESTRICTED SHARE UNIT SCHEME

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

As at 30 June 2019, no outstanding restricted share units were granted or vested pursuant to the Pre-IPO RSU Scheme.

DIVIDENDS

The Board declared an interim dividend of HK3.1 cents per ordinary share for the six months ended 30 June 2019 (six months ended 30 June 2018: HK1.9 cents). The interim dividend will be paid on Thursday, 10 October 2019 to the shareholders whose names appear on the Register of Members of the Company as at the close of business on Thursday, 19 September 2019.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 17 September 2019 to Thursday, 19 September 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for entitlement to the interim dividend for the six months ended 30 June 2019, unregistered holders of the shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 16 September 2019.

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

During the six months period ended 30 June 2019, the Company repurchased 6,885,000 of its ordinary shares on the Stock Exchange at an aggregate consideration of approximately HK$9,062,000 (before expenses), details of the repurchase are summarised as follows:

Month	Number of ordinary share repurchased	Price per ordinary share		Aggregate consideration paid (before expenses)
		Highest	**Lowest**	
		HK$	*HK$*	*HK$'000*
January 2019	1,785,000	1.36	1.24	2,360
March 2019	100,000	1.34	1.33	133
April 2019	1,000,000	1.39	1.33	1,352
May 2019	2,100,000	1.38	1.29	2,801
June 2019	1,900,000	1.30	1.24	2,416
	6,885,000			9,062

Out of 6,885,000 repurchased ordinary share, 1,785,000 ordinary share of approximately HK$2,360,000 (before expenses) were cancelled during the six months period ended 30 June 2019, while the remaining 5,100,000 ordinary share of approximately HK$6,702,000 (before expenses) were subsequently cancelled in August 2019 and were recognised as treasury shares as at 30 June 2019.

The repurchase of the Company's ordinary shares were effected by the directors, pursuant to the mandate from shareholders received at the annual general meeting on 23 May 2019, with a view to be 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 six months period ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the six months ended 30 June 2019, 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 during the six months ended 30 June 2019.

REVIEW OF INTERIM RESULTS

The audit committee of the Company consists of Dr. Cheung Wai Bun Charles J.P., Dr. Chan Yue Kwong Michael and Dr. Wong Ho Ching, who are independent non-executive Directors. The Group's interim results for the six months ended 30 June 2019, including the accounting principles and practices adopted by the Group have been reviewed by the audit committee of the Company.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and on the website of the Company (www.moderndentalgp.com). The interim report of the Company for the six months ended 30 June 2019 will be despatched to the shareholders of the Company and will be published on the same websites in due course.

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

Hong Kong, 29 August 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.