



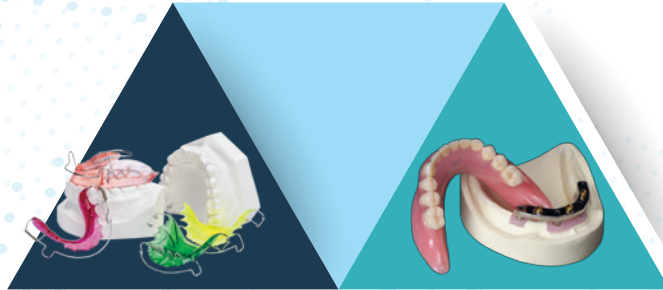
**MODERN**  
Dental Group

# MODERN DENTAL GROUP LIMITED

## 現代牙科集團有限公司

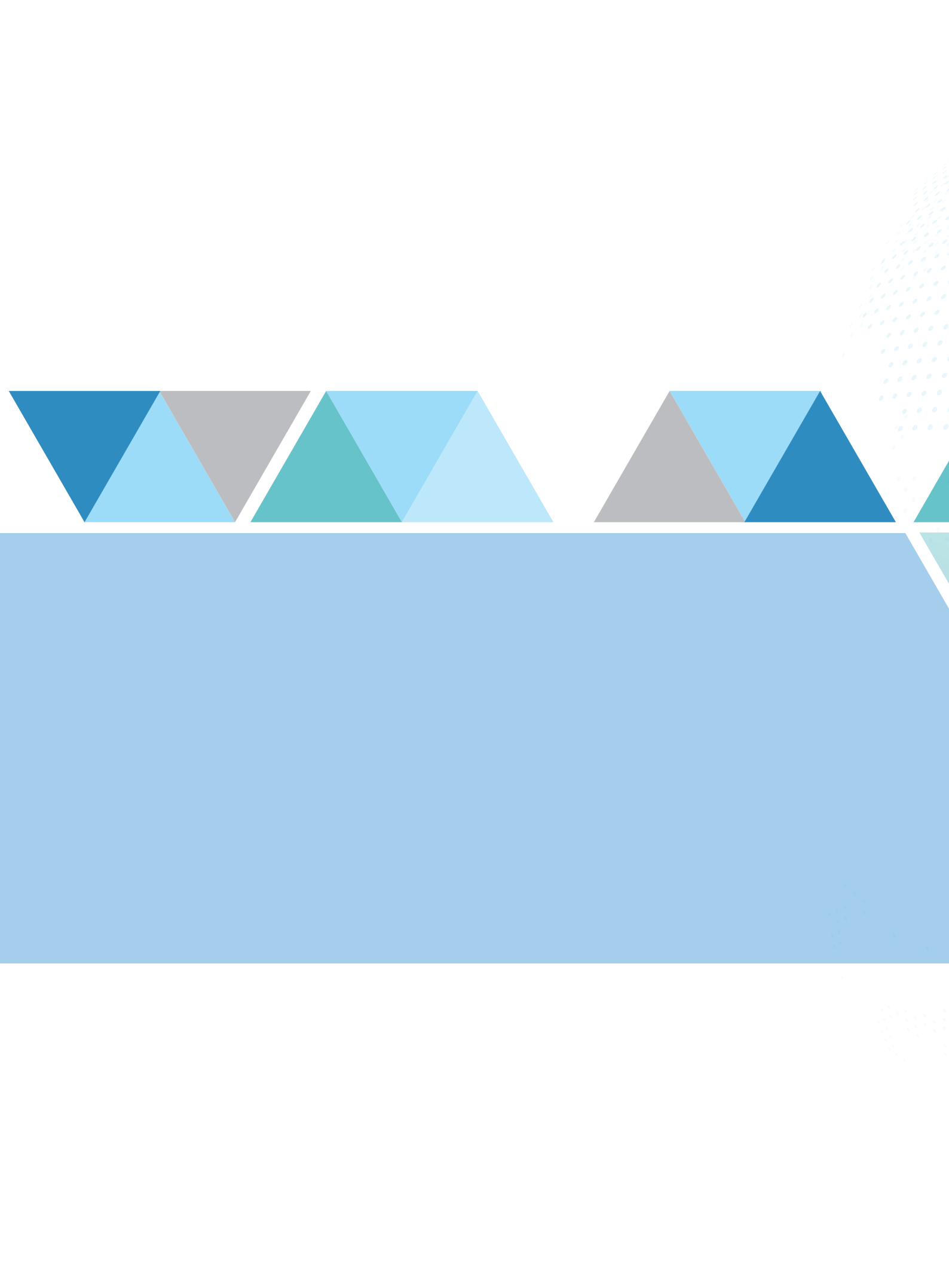
(incorporated in the Cayman Islands with limited liability)

Stock Code :3600



# 2016

Interim Report



# Contents

Chairman's Statement	2
Management Discussion and Analysis	6
Other Information	24
Independent Report on Review of Interim Financial Information	32
Interim Condensed Consolidated Statement of Profit or Loss	34
Interim Condensed Consolidated Statement of Comprehensive Income	35
Interim Condensed Consolidated Statement of Financial Position	36
Interim Condensed Consolidated Statement of Changes in Equity	38
Interim Condensed Consolidated Statement of Cash Flows	40
Notes to the Interim Condensed Consolidated Financial Statements	42
Corporate Information	75

# Chairman's Statement

Modern Dental aims to reinforce its worldwide leading position through business expansion.



## Dear shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Modern Dental Group Limited (the “**Company**”, stock code: 3600), I hereby present the interim results of the Company and its subsidiaries (which are collectively referred to as the “**Group**” or “**Modern Dental**”) for the six months ended 30 June 2016.

Modern Dental is a leading global dental prosthetic device provider with, to the best of our knowledge, the largest share of the dental prosthetics markets in Western Europe, Australia, China and Hong Kong. Our share of the United States market is growing fast in terms of revenue and, after completion of our major acquisition in the United States, we expect to be one of the leading players in that market.

For the six months ended 30 June 2016, we are pleased to announce that our revenue growth in the majority of our markets remains healthy and stable, outperforming our competitors and the industry as a whole. Despite relatively low growth in the North

American, European and Australian economies, demand for our products and services remain strong and resilient in these markets, and reflecting the high and relatively inelastic demand for our products during varying economic environments. The depreciating Renminbi (“RMB”) has partially offset our revenue growth within Greater China, however, in certain specific regions of Greater China, we have experienced pockets of robust growth. Going forward, we expect to see the fruits and results of our recent sales and marketing efforts (in particular, Greater China) reflected in our 2016 full year results. Our Hong Kong market grew at a solid and consistent rate, consolidating our market-dominating position. Looking forward, our 2016 full year results are expected to be bolstered by acquisitions that are completed, and target companies integrated within our global group, prior to this calendar year.

The global dental prosthetics industry has been growing consistently in recent years and is expected to continue the momentum as it is driven by the rising demand for cosmetic dentistry, growing awareness of oral health, rising disposable income and aging population. As a market leader with a global sales and distribution network and strategically-located production facilities, we are well-positioned to capitalize on the consolidation of the fast-growing but fragmented dental prosthetics industry. As a global group within the healthcare industry, our diversified and leading position allows us to take advantage of consolidation opportunities in the fragmented dental prosthetics industry, gaining market share when our competitors are losing ground. This has particularly been the case in our North American, European, Australian and Hong Kong markets where we are currently going from strength-to-strength, effectively creating a difficult environment for our competitors to operate in. Our lower priced-products of the same, or better, quality compared with our competitors in some of these markets give us that competitive edge.

During this period, we have experienced an increase in demand for our more complicated and high priced products, illustrating our status as the global dental laboratory that can process and produce prosthetic devices of high quality, across the full range of our products. Our focused strategy on selling higher average selling-priced products within each of our product categories (in particular, complicated fixed prosthetic devices and removable prosthetic devices) have been effective in strengthening our revenue growth and maintaining our gross profit margin.



## Chairman's Statement

For the six months ended 30 June 2016, the Group recorded a revenue of approximately HK\$774,440,000, representing an increase of approximately HK\$93,150,000 or 13.7% as compared with that of the six months ended 30 June 2015. Gross profit for the six months ended 30 June 2016 was approximately HK\$427,758,000, representing an increase of approximately HK\$60,289,000 or 16.4% as compared with that of the six months ended 30 June 2015. The gross profit margin was approximately 55.2%. Profit for the six months ended 30 June 2016 was approximately HK\$71,134,000, representing an increase of HK\$11,653,000 or 19.6% as compared with that of the six months ended 30 June 2015.

The Company has established its global proprietary sales and distribution network through a series of strategic acquisitions of its former distributors. Our sales and distribution network is expected to be further enlarged if the completion of our US acquisition takes place.

Our well established brands (and newly acquired brands) are keys to our success, namely Labocast, Permidental and Elysee for Western Europe, Yangzhijin (洋紫荆) for Mainland China, Modern Dental Laboratory for Hong Kong, Modern Dental USA for the United States and Southern Cross Dental for Australia, New Zealand and Ireland. We are very excited over the prospect of the addition of the brand to be acquired in the United States which is a highly reputable and long-standing brand.





## Chairman's Statement

In the future, Modern Dental aims to reinforce its worldwide leading position through business expansion. In Mainland China, we will aggressively expand our sales team and network by setting up more points of sales in selected cities. In addition, we look forward to starting construction on our new modernized production facilities in Dongguan and consider possible investment opportunities for the site of our existing production facilities in Xili, Nanshan District, Shenzhen, where we have a right to use the site until 2073. In North America, we will work with our acquired target company to maximize all potential synergies, and enhance customer service through our enlarged sales and distribution network, if the completion of such acquired target company takes place. In Europe and Australia, we will keep replicating our success via ongoing sales and marketing efforts, opportunistic acquisitions, integrating further synergies within our network and enhancing management efficiencies. Across all of our existing markets and potential new markets, we will continue to look for further opportunities that fit in with our growth strategies as well as new products that may be introduced to our clients. In addition, at the same time, we will be more cost effective and prudent with our expenses, without sacrificing efficiencies or productiveness.

Finally, I would like to take this opportunity to thank the Board and all staff members for their dedication, professionalism and determination to succeed. I would like to thank our clients, shareholders and business partners for their enduring support. We will continue to maintain and implement our growth strategies, endeavour to outperform our competitors and create greater value to our shareholders.

**Chan Kwun Fung**

*Chairman*

24 August 2016



# Management Discussion and Analysis







### BUSINESS REVIEW

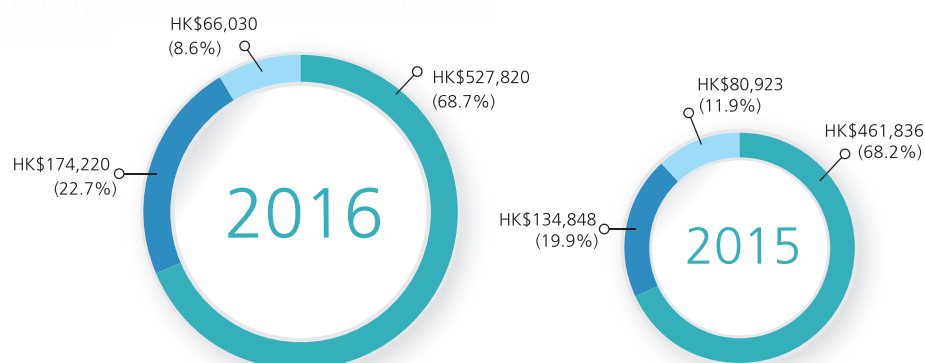
The Group is a leading global dental prosthetic device provider with a focus on providing custom-made prostheses to customers in the growing prosthetics industry. Our product portfolio is broadly categorized into three product categories: (i) fixed prosthetic devices such as crowns and bridges; (ii)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

The figures below set forth the breakdown of revenue (in thousand Hong Kong dollars and percentage) and sales volume (in number of cases and percentage) by product category for the six months ended 30 June 2015 and 2016 respectively:

# Management Discussion and Analysis

## Breakdown of revenue (HK\$'000)

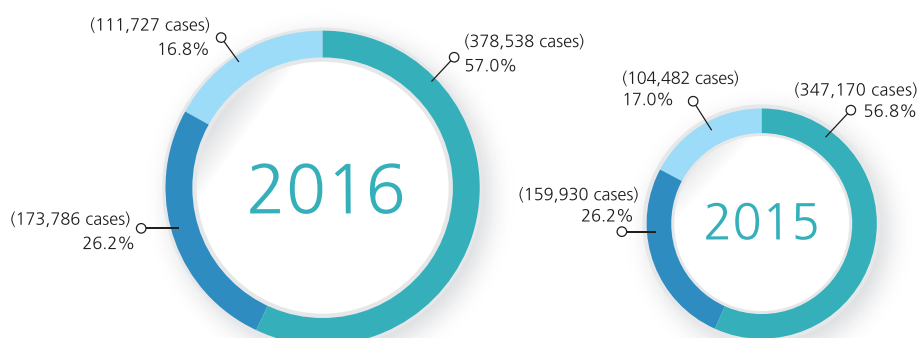
- Fixed prosthetic devices
- Removable prosthetic devices
- Other devices\*



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

## Breakdown of sales volumes

- Fixed prosthetic devices
- Removable prosthetic devices
- Other devices



## Product Category

The following table sets forth the breakdown of revenue, sales volume and average selling price ("ASP") by product category for the six months ended 30 June 2015 and 2016 respectively:

	For the six months ended 30 June					
	2016			2015		
	Number of cases	Revenue HK\$'000	ASP HK\$	Number of cases	Revenue HK\$'000	ASP HK\$
Fixed prosthetic devices	378,538	527,820	1,394	347,170	461,836	1,330
Removable prosthetic devices	173,786	174,220	1,002	159,930	134,848	843
Other devices*	111,727	66,030	591	104,482	80,923	775
<b>Total</b>	<b>664,051</b>	<b>768,070</b>	<b>1,157</b>	<b>611,582</b>	<b>677,607</b>	<b>1,108</b>

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

## **Fixed Prosthetic Devices**

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

During the period under review, fixed prosthetic devices business segment recorded a revenue of approximately HK\$527,820,000, representing an increase of approximately HK\$65,984,000 as compared with that of the six months ended 30 June 2015. This business segment accounted for 68.2% of the Group's total revenue as compared with approximately 67.8% in the six months ended 30 June 2015.

## **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\$174,220,000, representing an increase of approximately HK\$39,372,000 as compared with that of the six months ended 30 June 2015. This business segment accounted for 22.5% of the Group's total revenue as compared with approximately 19.8% in the six months ended 30 June 2015.

## **Other Devices and Services**

Other devices and services include orthodontic devices, anti-snoring devices, sport guards, raw materials, dental equipment, Invisalign™ and the services of educational events and seminars rendered.

During the period under review, the other devices segment recorded a revenue of approximately HK\$66,030,000, representing a decrease of approximately HK\$14,893,000 as compared with that of the six months ended 30 June 2015. Together with the sales of raw materials, dental equipment and other services rendered, the business segment of other devices and services recorded a revenue of approximately HK\$72,400,000, accounted for 9.3% of the Group's total revenue as compared with approximately 12.4% in the six months ended 30 June 2015.

# Management Discussion and Analysis

## Geographic Market

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

For the six months ended 30 June

Market	2016			2015		
	Number of cases	Revenue HK\$'000	ASP HK\$	Number of cases	Revenue HK\$'000	ASP HK\$
Europe*	230,749	383,294	1,661	199,670	339,102	1,698
Greater China**	285,341	193,226	677	278,649	186,010	668
North America	75,237	90,480	1,203	68,917	76,572	1,111
Australia***	54,956	95,206	1,732	49,873	70,672	1,417
Others	17,768	5,861	330	14,473	5,250	363
<b>Total</b>	<b>664,051</b>	<b>768,067</b>	<b>1,157</b>	<b>611,582</b>	<b>677,606</b>	<b>1,108</b>

\* We subtract the raw materials revenue and dental equipment revenue from the European revenue.

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

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



## Europe

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

Our sales and distribution network in Europe is able to reach 13 countries and we offer a portfolio of respected brands. Notwithstanding weakness of the economic environment in Europe, the total dental prosthetics market has grown, albeit slowly and the Group outperformed the overall market. Our co-ordinated European sales and marketing efforts have yielded positive results and this is reflected in the strong growth in our revenue in this market and taking market share away from our competitors. This growth has been product and customer-led, as customers are typically purchasing different products from our broad product line. We offer comparatively lower prices for products of comparable or superior quality in the market.

During the period under review, the European market recorded a revenue of approximately HK\$383,294,000, representing an increase of approximately HK\$44,192,000 as compared with that of the six months ended 30 June 2015. Together with the sales of dental equipment of HK\$2,012,000 (six months ended 30 June 2015: HK\$1,143,000), this geographic market accounted for 49.8% of the Group's total revenue as compared with approximately 49.9% in the six months ended 30 June 2015.

## Greater China

Our Greater China market comprises Mainland China, Hong Kong and Macau. The revenue generated from the sales in the Greater China market accounted for the second 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 been increasingly aware of oral health, which benefits the custom-made dental prosthetics domestic sales market. We offer comparatively higher prices for products of premium quality in Greater China, which appeal to the population which has a strong demand for higher quality products. As such, instead of competing against our competitors on price (which would adversely affect our profit margin) our competitive advantages are in customer service, the quality of our products, our sales points and our sales and marketing team.

During the period under review, the Greater China market recorded a revenue of approximately HK\$193,226,000 representing an increase of approximately HK\$7,216,000 as compared with the six months ended 30 June 2015. Together with the sales of raw materials and dental equipment of HK\$1,533,000 (six months ended 30 June 2015: HK\$992,000), this geographic market accounted for 25.1% of the Group's total revenue as compared with approximately 27.5% in the six months ended 30 June 2015. The increase of revenue from the Greater China market has been partially offset by the depreciating RMB whilst revenue from our Hong Kong market continues to grow at a solid and consistent rate.



# Management Discussion and Analysis

## North America

The revenue generated from the sales in the North American market, including the United States and Canada, represents a significant portion of our revenue. After the completion of our United States acquisition, we expect the revenue contribution from North America to exceed our revenue from Greater China. 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. Furthermore, the United States is experiencing a rapid consolidation and reduction of domestic production capacity, driven by an ageing technician work force and increasing requirements for capital spending. We believe we are in a unique position to take advantage of these factors and as a result, the dental prosthetics market has consistently grown strongly and our revenue growth is an outperformance when compared to the overall market. Revenue has increased in the vast majority of the products in our broad product line with demand for implant-related and Zirconia-based products, and removable prosthetics products growing particularly strongly. We offer comparatively lower prices for products of comparable or superior quality in the market.

During the period under review, the North American market recorded a revenue of approximately HK\$90,480,000, representing an increase of approximately HK\$13,908,000 as compared with that of the six months ended 30 June 2015. This geographic market accounted for 11.7% of the Group's total revenue as compared with approximately 11.2% in the six months ended 30 June 2015. The strong increase of revenue from the North American market is also attributable to our marketing and sales strategy and techniques (in particular, the 30/90 Programme) which have been effective in penetrating the market.

## Australia

The Australian market includes both Australia and New Zealand. In Australia and New Zealand, dental treatment is funded primarily from private individual payments with limited support from private health insurance, and various short-term government funding schemes. Growth of the dental prosthetics industry is supported by an ageing population, growth in disposable income per Capita, and short-term government funding.

During the period under review, the Australian market recorded a revenue of approximately HK\$95,206,000, representing an increase of approximately HK\$24,534,000 as compared with that of the six months ended 30 June 2015. Together with the service revenue generated from rendering educational events and seminars of HK\$2,827,000 (six months ended 30 June 2015: HK\$1,549,000), this geographic market accounted for 12.7% of the Group's total revenue as compared with approximately 10.6% in the six months ended 30 June 2015. The increase in the revenue from the Australian market was largely attributable to the revenue contribution and our sales and marketing strategy that was implemented after our acquisition of our principal Australian distributor, SCDL Holdings Pty Ltd and its subsidiaries ("**SCDL Group**").

## Others

Other markets primarily include Indian Ocean countries and Japan. During the period under review, these markets recorded a revenue of approximately HK\$5,861,000, representing an increase of approximately HK\$611,000 as compared with that of the six months ended 30 June 2015. This geographic market accounted for 0.7% of the Group's total revenue as compared with approximately 0.8% in the six months ended 30 June 2015.

## FINANCIAL REVIEW

### Revenue

During the period under review, the consolidated revenue of the Group amounted to HK\$774,440,000, representing an increase of 13.7% as compared with HK\$681,290,000 in the six months ended 30 June 2015. The increase was mainly attributable to (i) the acquisition of SCDL Group; (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 period under review was approximately HK\$427,758,000, which was approximately 16.4% higher than that of the six months ended 30 June 2015. The gross margin was increased from 53.9% in the six months ended 30 June 2015 to 55.2% in the same period of 2016. The enhancement of the gross margin was primarily attributable to the depreciation of RMB, which was the major currency used in recording the production costs.



## Management Discussion and Analysis

The gross profit margins of the fixed prosthetic devices business segment, the removable prosthetic devices business segment and the other devices and services business segment were approximately 57.0%, 55.3% and 42.1% respectively. The following table sets forth the breakdown of our gross profit and gross profit margin by product category.

	For the six months ended 30 June			
	2016		2015	
	Gross profit <i>HK\$'000</i>	Gross profit margin <i>(%)</i>	Gross profit <i>HK\$'000</i>	Gross profit margin <i>(%)</i>
Product category:				
Fixed prosthetic devices	300,919	57.0	261,852	56.7
Removable prosthetic devices	96,364	55.3	64,413	47.8
Other devices and services	30,475	42.1	41,204	48.7
Total	427,758	55.2	367,469	53.9

### Selling and Distribution Expenses

During the period under review, selling and distribution expenses increased by approximately 19.7% from HK\$68,165,000 for the six months ended 30 June 2015 to HK\$81,596,000 for the six months ended 30 June 2016, accounting for approximately 10.5% of the Group's revenue, as compared with approximately 10.0% for corresponding period in 2015. The increase was primarily attributable to (i) an increase of HK\$ 4.2 million or 14.0%, in salaries, bonuses, commissions and other benefits for sales personnel, largely arising from the headcount increase after our acquisition of SCDL Group; and (ii) an increase of HK\$6.4 million or 28.1% in freight and transportation costs, as a result of an increase in our sales volume during the period under review and the fact that the freight and transportation costs for the finished products were shifted to us after our acquisitions of downstream distributors, such as SCDL Group, partially offset by the depreciation of Euro ("EUR") and Australian dollar ("AUD") in the period under review; and (iii) an increase of HK\$2.5 million or 28.2% in advertising and promotion, for ordinary marketing expenses as a result of acquisition of SCDL Group and large-scale promotion campaigns for the development of sales and marketing channels as well as outlays on brand building.

### Administrative Expenses

During the period under review, administrative expenses increased by approximately 9.4% from HK\$200,690,000 for the six months ended 30 June 2015 to HK\$219,475,000 for the six months ended 30 June 2016, accounting for approximately 28.3% of the Group's revenue, as compared with approximately 29.5% for corresponding period in 2015. The increase was primarily attributable to (i) an increase of HK\$29.9 million, or 30.9%, in salaries, bonuses and other benefits for administrative staff, as a result of the increased headcount of administrative staff arising from our acquisition of SCDL Group, share based payment expenses of HK\$11.8



million pursuant to the Pre-IPO RSU Scheme (as defined below), which was passed on 19 June 2015, and to a lesser extent, an increase in average salaries of our employees; and (ii) an increase of HK\$2.7 million, or 11.4%, in depreciation of office equipment and amortization of intangible assets, which was mainly attributable to the amortization of customer relationship of SCDL Group. The increases in staff costs, depreciation and amortization are offset by a decrease of HK\$20.8 million, or 63.2%, in the professional fees arising from the listing expenses of the Company recorded in the year 2015.

### Other Operating Expenses

During the period under review, other operating expenses increased from HK\$544,000 for the six months ended 30 June 2015 to HK\$15,326,000 for the six months ended 30 June 2016, accounting for approximately 2.0% of the Group's revenue, as compared with approximately 0.08% for corresponding period in 2015. The increase was primarily attributable to (i) realized loss on the forward foreign exchange contract on EUR and AUD of HK\$7,704,000; and (ii) exchange loss of HK\$6,632,000 as a result of depreciation of EUR and AUD in the period under review.

### Finance Costs

During the period under review, finance costs decreased by approximately 22.1% from HK\$18,323,000 for the six months ended 30 June 2015 to HK\$14,265,000 for the six months ended 30 June 2016, accounting for approximately 1.8% of the Group's revenue, as compared with approximately 2.7% for corresponding period in 2015. The decrease was primarily attributable to the lower interest cost as a result of refinance completed in November 2015.

### Income Tax Expense

During the period under review, income tax expense increased by approximately 18.5% from HK\$23,674,000 for the six months ended 30 June 2015 to HK\$28,065,000 for the six months ended 30 June 2016. The effective tax rates of respective periods were 28.3% for the six months ended 30 June 2016 and 28.5% for the corresponding period in 2015. The increase in income tax expense was primarily attributable to (i) the higher income tax rate applicable to us after our acquisition of SCDL Group in 2015; and (ii) the higher profit before tax noted due to the business growth.

### Profit for the Period under Review and Margin

Profit for the period under review increased by approximately 19.6% from approximately HK\$59,481,000 for the six months ended 30 June 2015 to HK\$71,134,000 for the six months ended 30 June 2016, accounting for approximately 9.2% of the Group's revenue, as compared with approximately 8.7% for the six months ended 30 June 2015. The increase was primarily attributable to (i) the organic growth of the business; (ii) the acquisition of SCDL Group in 2015 and (iii) the fact that the listing expenses were one-off expenses incurred in 2015.

## Management Discussion and Analysis



### Profit Attributable to Owners of the Company

Profit attributable to owners of the Company amounted to approximately HK\$70,442,000, representing an increase of approximately HK\$10,884,000, or 18.3%, as compared with approximately HK\$59,558,000 for the six months ended 30 June 2015.

### Non-IFRS Measures

To supplement our consolidated financial statements, which are presented in accordance with the International Financial Reporting Standards (“IFRS”), the Company also assesses the operating performance based on a measure of earnings before interest, tax, depreciation and amortization (“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 performance of their business.

	For the six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
<b>EBITDA</b>		
<b>Net profit</b>	<b>71,134</b>	59,481
Finance costs	<b>14,265</b>	18,323
Tax	<b>28,065</b>	23,674
Depreciation	<b>15,180</b>	15,242
Amortization of intangible assets	<b>18,065</b>	16,176
Less:		
Interest income	<b>(487)</b>	(284)
<b>EBITDA</b>	<b>146,222</b>	132,612

## LIQUIDITY AND FINANCIAL RESOURCES

### Cash Flows

The table below summarizes the Group's cash flows for the six months ended 30 June 2015 and 2016:

	30 June 2015 (audited) <i>HK\$'000</i>	30 June 2016 (unaudited) <i>HK\$'000</i>
Net cash flows from operating activities	60,808	41,571
Net cash flows used in investing activities	(257,589)	(462,161)
Net cash flows from/(used in) financing activities	211,808	(12,955)

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

The Group's balance of cash and cash equivalents was approximately HK\$510,667,000, which was mainly denominated in RMB, Hong Kong dollar ("HKD"), United States dollar ("USD"), Canadian dollar ("CAD"), EUR and AUD as of 30 June 2016, representing a decrease of approximately HK\$435,022,000 as compared with that as of 31 December 2015.

### Operating Activities

Cash inflow from operating activities was mainly generated from cash receipt from revenue generated from sales of our products. Cash outflow from operating activities was mainly due to purchase of raw materials, wages of technicians and employees and tax paid. Net cash generated from operating activities was approximately HK\$41,571,000 for the six months ended 30 June 2016. The amount was primarily attributable to profit before tax of HK\$99.2 million, as adjusted by (i) income tax paid of HK\$26.7 million; (ii) non-cash items affecting net income, including the add-back of depreciation and amortization of HK\$33.2 million, equity settled share option expenses of HK\$11.8 million and finance costs of HK\$14.3 million; and (iii) changes in working capital, which consisted primarily of an increase of trade receivables of HK\$42.6 million, an increase of prepayment, deposits and other receivables of HK\$27.8 million and a decrease of other payables and accruals of HK\$17.6 million.

The amount of trade receivables increased from approximately HK\$288,228,000 as of 31 December 2015 to HK\$329,928,000 as of 30 June 2016. The trade receivable turnover days from approximately 70 days for the year ended 31 December 2015 to approximately 73 days for the six months ended 30 June 2016. The slight increase in the trade receivable turnover days was primarily due to an increase in our trade receivables driven by the growth in our sales.

## Management Discussion and Analysis

The amount of trade payables decreased from approximately HK\$33,542,000 as of 31 December 2015 to HK\$32,280,000 as of 30 June 2016. The trade payable turnover days maintained from approximately 21 days for the year ended 31 December 2015 to approximately 17 days for the six months ended 30 June 2016. The general credit terms granted by suppliers were normally ranged from 30 to 90 days. The decline in trade payable turnover days was primarily due to an increase in our cost of sales as a result of our growth of sales.

The amount of inventories increased from approximately HK\$58,288,000 as of 31 December 2015 to HK\$70,190,000 as of 30 June 2016. The inventory turnover days increased from approximately 32 days for the year ended 31 December 2015 to approximately 34 days for the six months ended 30 June 2016. The increase in inventory turnover days was mainly due to the maintenance of sufficient stock level to meet potential demand as a result of the growth of sale.

### Investing Activities

The Group recorded a net cash outflow used in investing activities of approximately HK\$462,161,000 for the six months ended 30 June 2016, of which HK\$413.7 million was used for the prepayment of the acquisition of RTFP Dental Inc. and acquisitions of Cenetory Pty Limited and Precision Dental Laboratory Limited. An amount of US\$52,250,000 (equivalent to HK\$405,981,000), comprising the deposit and the first milestone payment of the acquisition of RTFP Dental Inc., which was announced in the announcement of the Company dated 7 June 2016. The remaining amount was used for acquisitions of Cenetory Pty Limited and Precision Dental Laboratory Limited. The remaining HK\$47.7 million in expenditures for investing activities primarily comprised purchase of property, plant and equipment, which amounted to HK\$44.1 million, for the expansion of our production facilities and the upgrading of our equipment for computer-aided/manufacturing production. Further details of the acquisitions of RTFP Dental Inc., Cenetory Pty Limited and Precision Dental Laboratory Limited are set out in the paragraph headed "Details of Material Acquisitions" on pages 21 of this Interim Report.

### Financing Activities

The Group recorded a net cash outflow from financing activities of approximately HK\$12,955,000 for the six months ended 30 June 2016. The outflow mainly came from the interest payment.

### Capital Expenditure

During the period under review, the Group's capital expenditure amounted to approximately HK\$457,823,000 which was mainly used for prepayment of acquisition of RTFP Dental Inc. and acquisitions of Cenetory Pty Limited and Precision Dental Laboratory Limited, and expansion of our production facilities and improvement in our production equipments. All of the capital expenditure was financed by internal resources and the net proceeds from the Listing.

### Bank Loans and Other Borrowings

The Board considers that the level of borrowings at the end of the period under review remains healthy and sustainable. As at 30 June 2016, the Group had interest-bearing bank loans and other borrowings which amounted to approximately HK\$648,165,000. The Board considers that our borrowings during the period under review had no seasonality of borrowing requirements.

The Board considers that the maturity profile of borrowings is in line with normal commercial practices. As at 30 June 2016, the Group's bank loans and bank overdrafts which amounted to approximately HK\$159,445,000, approximately HK\$126,611,000 and approximately HK\$358,913,000 are repayable within one year or on demand, in the second year and in the third to fifth years (inclusive), respectively. The Group's finance lease payables as of 30 June 2016 which amounted to approximately HK\$1,172,000, approximately HK\$1,426,000 and approximately HK\$598,000 are repayable within one year, in the second year and in the third to fifth years (inclusive), respectively.

Details of the amount and maturity profile of borrowings and finance lease payables during the period under review are set out in Notes 18 and 19 to the interim condensed consolidated financial statements.

## CAPITAL STRUCTURE

### Funding and Treasury policies

The management of the Group is dedicated to controlling the treasury activities of the Group by seeking opportunities to realize the Group's business strategies with an aim to obtain a higher return for the shareholders of the Company (the "Shareholders") at an appropriate risk exposure.

### Bank Borrowings

Bank loans of the Group as of 30 June 2016 amounted to approximately HK\$644,969,000 as compared to approximately HK\$642,052,000 as of 31 December 2015. Pledged bank deposits of the Group as of 30 June 2016 amounted to approximately HK\$3,541,000 as compared to approximately HK\$3,360,000 as of 31 December 2015. As of 30 June 2016, the bank loans of HK\$644,666,000 and HK\$303,000 were denominated in USD and CAD. As of 30 June 2016, bank borrowings of approximately HK\$303,000 were at fixed interest rates.

### Finance Lease Payables

Finance lease payables of the Group as of 30 June 2016 amounted to approximately HK\$3,196,000 as compared to approximately HK\$3,719,000 as of 31 December 2015. As of 30 June 2016, the finance lease payables of HK\$30,000, HK\$2,533,000 and HK\$633,000 were denominated in HKD, AUD and USD, respectively. As of 30 June 2016, the finance lease payable of approximately HK\$3,196,000 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" on pages 17 of this Interim Report.

# Management Discussion and Analysis

## Gearing Ratio

The gearing ratio of the Group by reference to the net debt to total book capitalization ratio (total book capitalization means the sum of total liabilities and shareholders' equity) as of 30 June 2016 was approximately 13.2%, reflecting that the Group's financial position was at a sound level.

## Hedging

The Group entered into two forward foreign exchange contracts for hedging purposes in November 2015, which were in effect as of 30 June 2016. The table below sets forth the key terms of the two forward foreign exchange contracts entered into by us:

	Contract A	Contract B
<b>Key terms:</b>		
Currency pair	EUR/USD	AUD/USD
Monthly notional amount	EUR2.0 million	AUD1.0 million

Further details of the two forward foreign exchange contracts are set out in the prospectus of the Company dated 3 December 2015 (the "**Prospectus**"). Apart from aforementioned forward foreign exchange contracts, we entered into a forward foreign exchange contract (between AUD and HKD) during the period under review for the purpose of local operation in Australia. The monthly notional amount is HK\$4,400,000 and was still in effect as of 30 June 2016. Save as disclosed above, we did not enter into any new forward foreign exchange contracts or other hedging instruments as of 30 June 2016. As of 30 June 2016, the Group had not made any hedge by currency borrowings or other hedging instruments.

## Debt Securities

As of 30 June 2016, the Group did not have any debt securities.

## Contingent Liabilities

As of 30 June 2016, the Group did not have any material contingent liabilities or guarantees.

## CHARGE OF GROUP ASSETS

In October 2015, Modern Dental Holding Limited, a subsidiary of the Company, entered into a facility agreement (the "**Facility Agreement**") for a term loan amounting to US\$75,000,000 with a term of five years and a revolving credit amounting to US\$10,000,000, secured by certain assets of the Group including certain shares, receivables and accounts of subsidiaries of the Company. Pursuant to the Facility Agreement, if the aggregate shareholding of Mr. Chan Kwun Fung, Mr. Chan Kwun Pan, Dr. Chan Ronald Yik Long, Ms. Chan Yik Yu, Mr. Ngai Chi Ho Alwin and Mr. Ngai Shing Kin, directly or indirectly, in our share capital ceases to be at least 50%, the commitment under the Facility Agreement will be cancelled and all the outstanding amounts under the Facility Agreement will become immediately due and payable. Details of the Facility Agreement and the charge on the Group's assets are set out in the Prospectus and Note 18 to the interim condensed consolidated financial statements, respectively.

## Commitments

The commitments of the Group are primarily related to (i) the investment agreement dated 28 April 2015 entered into between Modern Dental Laboratory Company Limited and Dongguan Songshan Lake High-tech Industrial Development Zone Management Committee regarding investing not less than RMB246,000,000 for the acquisition of land, construction of a new factory and acquisition and installation of equipment in the Songshan Lake High-tech Industrial Development Zone, (ii) the purchase agreement dated 7 June 2016 entered into between Yangzhijin Dental Laboratory (Beijing) Co., Ltd. and Beijing Huiyuan Tongguang Technology Development Co. Ltd. regarding the acquisition of a factory building in a total amount of RMB34,627,000, and (iii) the stock purchase agreement (the “**Stock Purchase Agreement**”) dated 6 June 2016 entered into among RTFP Dental Holdings Inc. (as vendor), MDI Acquisitions Inc. (as purchaser), and Modern Dental America Holding Limited (solely with respect to the guarantee provision) in relation to the acquisition of the 100% of the outstanding shares of RTFP Dental Inc.. For further details of the acquisition of RTFP Dental Inc., please refer to the announcement of the Company dated 7 June 2016.

Save as disclosed above, the Group had no other significant capital commitments as of 30 June 2016.

## DETAILS OF MATERIAL ACQUISITIONS

The Group’s investing activities mainly include three strategic acquisitions, namely (i) the acquisition of RTFP Dental Inc., (ii) the acquisition of Cenetory Pty Limited and (iii) Precision Dental Laboratory Limited.

On 6 June 2016, MDI Acquisitions Inc. (as purchaser), a wholly-owned subsidiary of the Company, and Modern Dental America Holding Limited (solely with respect to the guarantee provision) entered into the Stock Purchase Agreement with RTFP Dental Holdings Inc. (as vendor), pursuant to which MDI Acquisitions Inc. shall purchase 100% of the outstanding shares of RTFP Dental Inc.. RTFP Dental Inc. is principally engaged in dental laboratory services providing customized dental prosthetic restorations in North America. It is expected that the acquisition is able to accelerate the Group’s revenue and profit growth in North America and provide a strategic platform for the Group to further build on its established brand, its existing nationwide sales and distribution network throughout North America. For further details of the acquisition of RTFP Dental Inc., please refer to the announcement of the Company dated 7 June 2016.

As the closing of the acquisition of RTFP Dental Holdings Inc. is subject to the fulfilment (or if applicable, waiver) of the conditions as set out in the Stock Purchase Agreement, the acquisition may or may not proceed. The issue of this Interim Report does not in any way imply that the Stock Purchase Agreement will be implemented or completed. Shareholders and potential investors of the Company should exercise caution when dealing in the shares of the Company.

Further, the acquisition of 100% of the issued share capital of Cenetory Pty Limited took place on 1 June 2016. Cenetory Pty Limited trades as Slater Dental Studio, a dental laboratory based in Gold Coast, Queensland, Australia. By the acquisition, it is expected that the Group is able to expand its local production, service and support capacity as well as to reach a broader customer base especially in the Queensland market. For further details of the acquisition of Cenetory Pty Limited, please refer to the announcement of the Company dated 6 June 2016.

In addition, on 1 April 2016, we completed the acquisition of 100% equity interest of Precision Dental Laboratory Limited, which is a dental laboratory located in Auckland and Wellington, New Zealand. Precision Dental Laboratory Limited specializes in fixed prosthetics, including implants and computer-aided design and computer-aided manufacturing technology.

# Management Discussion and Analysis

## FUTURE PROSPECTS AND STRATEGIES

The Group will continue to (i) further penetrate existing geographic markets; (ii) further realize the synergy effects and operating leverage achieved by further integrating the acquired targets; (iii) optimize the production process and increase the productivity and efficiency; and (iv) broaden product offering with a focus on high-value products to increase the profitability. In particular, the Board will actively seek opportunities to further penetrate the existing geographic markets by means of strategic acquisitions of local dental laboratories and setting up joint ventures in Mainland China and local dental laboratories.

### Long Term Development Plan

In light of the anticipated growth of dental prosthetics market in Greater China, we plan to relocate from our Shenzhen Facilities to a new location with ample room to accommodate the future expansion of our production capacity (the “**Long Term Development Plan**”). In line with our Long Term Development Plan, we entered into an investment agreement with Dongguan Songshan Lake High-tech Industrial Development Zone Management Committee, a governmental body, in April 2015. For details of the Long Term Development Plan, please refer to the Prospectus.

The public tender process completed in July 2016. Pursuant to the Long Term Development Plan, we will commence construction, which is expected to be completed by the end of 2017 or by the beginning of 2018. The expected source of funding of the Long Term Development Plan is the net proceeds from the Listing. Details of the use of net proceeds from the Listing are set out in the section headed “Other Information — Use of Net Proceeds from Listing” on page 24 of this Interim Report.

Going forward, the Group intends to continue to invest in strategic acquisitions and expand its production capacity in order to enhance competitiveness.

## OFF-BALANCE SHEET TRANSACTIONS

As of 30 June 2016, the Group did not enter into any material off-balance sheet transactions.

## QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

### Interest Rate Risk

Our exposure to the interest rate risk relates primarily to our long-term debt obligations with floating interest rates. We manage our interest rate exposure with a focus on reducing our overall cost of debt and exposure to changes in interest rate. Our management continues to monitor the cash flows of our operation and the debt markets, where we would expect to refinance these borrowings with a lower cost of debt when desirable. For the six months ended 30 June 2016, the effective interest rate on fixed-rate bank loans was approximately LIBOR+(2.60–2.85)% per annum. The Group had not entered into any type of interest rate agreements or derivative transactions to hedge against the fluctuations in interest rates.



## Foreign Currency Risk

In light of the nature of our business, we are exposed to various foreign currencies, among which, RMB, EUR and USD are mostly used apart from HKD. We have had relatively larger exposure to AUD since our acquisition of SCDL Group in March 2015. To minimize 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. The Group had entered into foreign exchange contracts to hedge against the foreign currency risk. Details of the foreign exchange contracts are set out in the section headed “Capital Structure — Hedging” on page 20 of this Interim Report.

## Credit Risk

The credit risk of our other financial assets, which comprise trade receivables, financial assets included in prepayments, deposits and other receivables, amounts due from related parties 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 recognized 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 capital contribution, financial support from the Shareholders and bank borrowings.



# Other Information

## INTERIM DIVIDEND

On 24 August 2016, the Board declared an interim dividend of HK2.1 cents per share for the six months ended 30 June 2016 (the six months ended 30 June 2015: Nil), which is approximately HK\$21 million and 29.8% of the profit attributable to the shareholders of the Company. The interim dividend will be payable on Tuesday, 25 October 2016 to the shareholders of the Company whose names appear on the register of members of the Company on Monday, 3 October 2016.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 29 September 2016 to Monday, 3 October 2016, 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 2016, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration, no later than 4:30 p.m. on Wednesday, 28 September 2016.

## USE OF NET PROCEEDS FROM LISTING

The net proceeds from the Listing amount to HK\$647,483,000 and such proceeds were utilized in the manner consistent with that set out in the Prospectus as follows:

	Available to utilize <i>HK\$'000</i>	Utilized as at 30 June 2016 <i>HK\$'000</i>	Unutilized as at 30 June 2016 <i>HK\$'000</i>
Financing the strategic acquisitions and new facilities establishment of the Company in China	125,000	—	125,000
Financing the strategic acquisitions and new facilities establishment of the Company overseas	375,000	375,000	—
Financing marketing and promotion activities to enhance the brand awareness of the Company	41,483	1,273	40,210
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	376,273	271,210

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

## EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

In compliance with the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), the Company has established the remuneration committee of the Company (the “**Remuneration Committee**”) to formulate remuneration policies. The remuneration is determined and recommended based on each Director’s and senior management personnel’s qualifications, position and seniority. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the Remuneration Committee. The Directors and the senior management personnel are eligible participants of the Share Option Scheme and the Pre-IPO RSU Scheme (both as defined below).

## EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 4,685 dedicated full-time employees at our production facilities, service centers, points of sales and other sites as of 30 June 2016, including approximately 3,656 production staff members, 771 general management staff members and 258 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) and may be selected to be granted with the restricted share units under the Pre-IPO RSU Scheme (as defined below). During the period under review, the relationship between the Group and our employees has 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 passed on 25 November 2015 (the “**Share Option Scheme Adoption Date**”).

The purpose of the Share Option Scheme is to enable the Company to grant options to the eligible participants including any employee, non-executive 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.

The maximum number of Shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Group must not exceed 30% of the issued share capital of the Company from time to time. No options may be granted under the Share Option Scheme or any other share option schemes adopted by the Group if the grant of such option exceeds the limit.



## Other Information

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes adopted by the Group as from the Share Option Scheme Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of all issued share capital of the Company upon the Listing Date (i.e. 100,000,000 Shares, representing 10% of the issued share capital of the Company as at the date of this Interim Report). The limit of 10% may be refreshed at any time by approval of the Shareholders in a general meeting provided that the total number of the Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other option schemes of the Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option schemes of our Group) previously granted under the Share Option Scheme and any other share option schemes of our Group will not be counted.

Unless approved by Shareholders in a general meeting, the maximum number of Shares underlying the options granted to each eligible participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue for the time being.

A consideration of HK\$1.0 is payable on acceptance of the grant of an option.

Pursuant to the Share Option Scheme, the participants may subscribe for the Shares on the exercise of an option at the price determined by the Board provided that it shall be at least the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which an option is offered to a participant, which must be a business date (the "Offer Date"); (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the Offer Date; and (c) the nominal value of a Share.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine, which may not expire later than 10 years from the Offer Date of the option subject to the provisions of early termination thereof. The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Share Option Scheme Adoption Date.

As at 30 June 2016, no options had been granted, agreed to be granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme and therefore the total number of Shares available for grant under the Share Option Scheme was 100,000,000 Shares, representing 10% of the issued share capital of the Company as of the date of this Interim Report.

## 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 at 30 June 2016, an aggregate of 8,149,038 restricted share units (“**RSUs**”) were granted to eligible participants pursuant to the Pre-IPO RSU Scheme.

## MANDATORY PROVIDENT FUND RETIREMENT BENEFIT SCHEME

The Group operates a defined contribution mandatory provident fund retirement benefit scheme (the “**MPF Scheme**”) under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries or up to a maximum of HK\$1,500 and they can choose to make additional contributions. The employer’s monthly contributions are calculated at 5% of the employee’s monthly salaries or up to a maximum of HK\$1,500. The employees are entitled to 100% of the employer’s mandatory contributions upon their retirement at the age of 65, death or total incapacity.

## DIRECTORS’ INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 30 June 2016, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the “**SFO**”), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) were as follows:

## Other Information

### Long Positions in Shares of the Company

Name of Director	Capacity	Number of Shares interested	Total number of Shares interested	Approximate percentage of shareholding
Mr. Chan Kwun Fung	Beneficial owner	208,000 <sup>(Note 1)</sup>	472,243,263	47.22%
	Other	2,787,000 <sup>(Note 1)</sup>		
	Interest of controlled corporation	469,248,263 <sup>(Note 1)</sup>		
Mr. Chan Kwun Pan	Beneficial owner	2,787,000 <sup>(Note 1)</sup>	472,243,263	47.22%
	Other	208,000 <sup>(Note 1)</sup>		
	Interest of controlled corporation	469,248,263 <sup>(Note 1)</sup>		
Mr. Ngai Shing Kin	Beneficiary of a trust	2,779,345 <sup>(Note 2)</sup>	96,628,998	9.66%
	Interest of controlled corporation	93,849,653 <sup>(Note 3)</sup>		
Mr. Ngai Chi Ho Alwin	Beneficiary of a trust	555,869 <sup>(Note 4)</sup>	63,122,304	6.31%
	Interest of controlled corporation	62,566,435 <sup>(Note 5)</sup>		
Mr. Cheung Ting Pong	Beneficiary of a trust	635,279 <sup>(Note 6)</sup>	635,279	0.06%

*Notes:*

1. Mr. Chan Kwun Fung and Mr. Chan Kwun Pan signed a confirmation letter on 10 August 2015 confirming their acting-in-concert arrangement whereby they operate the Group collectively, through discussions, and reach consensus between themselves before making any commercial decisions for the Group on a unanimous basis. As such and by virtue of the SFO, (i) each of Mr. Chan Kwun Fung and Mr. Chan Kwun Pan is deemed to be interested in the 469,248,263 Shares owned by Triaera Holdings Limited, (ii) Mr. Chan Kwun Fung is deemed to be interested in the 2,787,000 Shares owned by Mr. Chan Kwun Pan, and (iii) Mr. Chan Kwun Pan is deemed to be interested in the 208,000 Shares owned by Mr. Chan Kwun Fung.
2. Mr. Ngai Shing Kin is interested in 2,779,345 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 2,779,345 Shares subject to vesting. These Shares were held by MDG Management Corporation as the nominee under the Pre-IPO RSU Scheme.
3. These Shares were held by Prosperity Worldwide Investment Holdings Limited, which is wholly-owned by Mr. Ngai Shing Kin.
4. Mr. Ngai Chi Ho Alwin is interested in 555,869 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 555,869 Shares subject to vesting. These Shares were held by MDG Management Corporation as the nominee under the Pre-IPO RSU Scheme.
5. These Shares were held by NCHA Holdings Limited, which is wholly-owned by Mr. Ngai Chi Ho Alwin.
6. Mr. Cheung Ting Pong is interested in 635,279 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 635,279 Shares subject to vesting. These Shares were held by MDG Management Corporation as the nominee under the Pre-IPO RSU Scheme.

Save as disclosed above, as at 30 June 2016, none of the Directors and chief executives of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations" in this Interim Report, at no time during the six months ended 30 June 2016 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate, or had exercised any such right.

## SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2016, the persons other than the Directors, whose interests have been disclosed in the above section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations", had an interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO, were as follows:

### Long Positions in Shares of the Company

Name of Shareholder	Capacity	Number of Shares interested	Approximate percentage of shareholding
Triera Holdings Limited <sup>(Note 1)</sup>	Beneficial owner	469,248,263	46.92%
Prosperity Worldwide Investment Holdings Limited <sup>(Note 2)</sup>	Beneficial owner	93,849,653	9.38%
NCHA Holdings Limited <sup>(Note 3)</sup>	Beneficial owner	62,566,435	6.26%

Notes:

1. Triera Holdings Limited is a company incorporated in the British Virgin Islands and is owned as to 50%, 20%, 16% and 14% by Mr. Chan Kwun Fung, Mr. Chan Kwun Pan, Dr. Chan Ronald Yik Long and Ms. Chan Yik Yu, respectively.
2. Prosperity Worldwide Investment Holdings Limited is a company incorporated in the British Virgin Islands and is wholly owned by Mr. Ngai Shing Kin.
3. NCHA Holdings Limited is a company incorporated in the British Virgin Islands and is wholly owned by Mr. Ngai Chi Ho Alwin.



## Other Information

Save as disclosed herein, as at 30 June 2016, no person, other than the Directors whose interests are set out in the section headed “Directors’ Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporation” above, had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

## IMPORTANT EVENTS AFTER REPORTING DATE

No important events affecting the Company occurred after 30 June 2016 up to the date of this Interim Report.

## CHANGE OF DIRECTORS’ INFORMATION

During the six months ended 30 June 2016 and up to the date of this Interim Report, changes in information of Directors are as follows:

1. Dr. Chan Yue Kwong Michael (i) has been appointed as an independent non-executive director of Human Health Holdings Limited (a company listed in Hong Kong on 1 April 2016) on 27 January 2016; and (ii) has resigned from the general committee of the Employers’ Federation of Hong Kong.
2. Dr. Cheung Wai Man William has been appointed as the chairman and vice president of humanitarian projects of International College of Dentists (ICD) Asia Union and continuing education programme director in Asia Pacific of the FDI World Dental Federation.

## CORPORATE GOVERNANCE

During the six months ended 30 June 2016, the Company has complied with all the code provisions of the Corporate Governance Code contained in Appendix 14 to 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 as set out in Appendix 10 to the Listing Rules, and after having made specific enquiries 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 2016.

## REVIEW OF INTERIM RESULTS

The Company has established the audit committee with written terms of reference. 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 2016, including the accounting principles and practices adopted by the Group have been reviewed by all the members of the audit committee and the external auditors of the Company, Ernst & Young.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment and giving back to community and achieving sustainable growth.

## MODERN DENTAL AND THE COMMUNITY

As a global company, Modern Dental Group Limited is committed to being a company that cares for the community, through engaging in sponsorships, donations, voluntary dental consultation and social services. We aim to provide services to the public and make positive contribution to the society. We will continue to be actively involved in community activities and dedicate our efforts to the future generation with a view to taking up our social responsibility with proactive efforts.

# Independent Report on Review of Interim Financial Information



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## To the board of directors of Modern Dental Group Limited

(Incorporated in Cayman Islands with limited liability)

## Introduction

We have reviewed the interim financial information set out on pages 34 to 74, which comprises the interim condensed consolidated statement of financial position of Modern Dental Group Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) as of 30 June 2016 and the related interim condensed consolidated statement of profit or loss, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of the interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on the interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



# Independent Report on Review of Interim Financial Information

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

### **Ernst & Young**

*Certified Public Accountants*

Hong Kong

24 August 2016

# Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016	2015
		(Unaudited) HK\$'000	(Audited) HK\$'000
REVENUE	4	774,440	681,290
Cost of sales		(346,682)	(313,821)
Gross profit		427,758	367,469
Other income and gains	4	2,103	3,408
Selling and distribution expenses		(81,596)	(68,165)
Administrative expenses		(219,475)	(200,690)
Other operating expenses		(15,326)	(544)
Finance costs	6	(14,265)	(18,323)
PROFIT BEFORE TAX	5	99,199	83,155
Income tax expense	7	(28,065)	(23,674)
PROFIT FOR THE PERIOD		71,134	59,481
ATTRIBUTABLE TO:			
Owners of the Company		70,442	59,558
Non-controlling interests		692	(77)
		71,134	59,481
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	8	HK7.10 cents	HK7.29 cents
Diluted	8	HK7.10 cents	HK7.29 cents

# Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	(Unaudited) HK\$'000	(Audited) HK\$'000
PROFIT FOR THE PERIOD	<b>71,134</b>	59,481
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<b>11,184</b>	(83,832)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<b>11,184</b>	(83,832)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<b>82,318</b>	(24,351)
ATTRIBUTABLE TO:		
Owners of the Company	<b>81,557</b>	(24,545)
Non-controlling interests	<b>761</b>	194
	<b>82,318</b>	(24,351)

# Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	136,590	138,486
Goodwill	11	874,378	857,592
Intangible assets	12	324,779	338,599
Derivative financial instruments		—	3,635
Deferred tax assets		5,353	5,264
Deposits paid for purchase of property, plant and equipment	14	31,591	—
Prepayments for acquisition of subsidiaries	14	405,981	—
<b>Total non-current assets</b>		<b>1,778,672</b>	1,343,576
<b>CURRENT ASSETS</b>			
Inventories		70,190	58,288
Trade receivables	13	329,928	288,228
Prepayments, deposits and other receivables	14	61,733	31,372
Derivative financial instruments		3,263	—
Current tax assets		5,439	8,939
Pledged deposits	15	3,541	3,360
Cash and cash equivalents	15	510,667	945,689
<b>Total current assets</b>		<b>984,761</b>	1,335,876
<b>CURRENT LIABILITIES</b>			
Trade payables	16	32,280	33,542
Other payables and accruals	17	111,369	121,823
Interest-bearing bank loans and other borrowings	18	160,617	102,182
Derivative financial instruments		16,413	5,030
Tax payable		38,083	37,608
<b>Total current liabilities</b>		<b>358,762</b>	300,185
<b>NET CURRENT ASSETS</b>		<b>625,999</b>	1,035,691
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,404,671</b>	2,379,267

# Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>2,404,671</b>	2,379,267
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	18	<b>487,548</b>	543,589
Derivative financial instruments		—	9,108
Deferred tax liabilities		<b>30,620</b>	33,256
Other non-current liabilities	17	<b>5,970</b>	5,478
Total non-current liabilities		<b>524,138</b>	591,431
Net assets		<b>1,880,533</b>	1,787,836
EQUITY			
Equity attributable to owners of the Company			
Share capital	20	<b>77,500</b>	77,500
Treasury shares		<b>(632)</b>	(632)
Reserves		<b>1,795,642</b>	1,702,670
Non-controlling interests		<b>1,872,510</b>	1,779,538
		<b>8,023</b>	8,298
Total equity		<b>1,880,533</b>	1,787,836

**NGAI Shing Kin**  
Director

**CHEUNG Ting Pong**  
Director

# Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Attributable to owners of the Company									Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Statutory reserve	Capital reserve	Put option reserve	Exchange reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January, 2016	77,500	719,407	(632)	1,932	615,953	(28,140)	(178,378)	571,896	1,779,538	8,298	1,787,836
Profit for the period	–	–	–	–	–	–	–	70,442	70,442	692	71,134
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	11,115	–	11,115	69	11,184
Total comprehensive income for the period	–	–	–	–	–	–	11,115	70,442	81,557	761	82,318
Equity-settled share option expense (note 5, 21)	–	–	–	–	11,796	–	–	–	11,796	–	11,796
Acquisition of non-controlling interests	–	–	–	–	(381)	–	–	–	(381)	33	(348)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(1,069)	(1,069)
At 30 June 2016 (unaudited)	77,500	719,407 <sup>#</sup>	(632)	1,932 <sup>#</sup>	627,368 <sup>#</sup>	(28,140) <sup>#</sup>	(167,263) <sup>#</sup>	642,338 <sup>#</sup>	1,872,510	8,023	1,880,533



# Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Attributable to owners of the Company									Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Statutory reserve	Capital reserve	Put option reserve	Exchange reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2015	39,860	60,692	—	1,849	45,775	(28,140)	(65,929)	490,016	544,123	7,034	551,157
Profit for the period	—	—	—	—	—	—	—	59,558	59,558	(77)	59,481
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(84,103)	—	(84,103)	271	(83,832)
Total comprehensive income for the period	—	—	—	—	—	—	(84,103)	59,558	(24,545)	194	(24,351)
Issue of shares	398	—	(398)	—	—	—	—	—	—	—	—
Equity-settled share option expense (note 5)	—	—	—	—	832	—	—	—	832	—	832
Imputed interest on shareholder's loan	—	—	—	—	9,325	—	—	—	9,325	—	9,325
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	—	120	120
At 30 June 2015 (audited)	40,258	60,692 <sup>#</sup>	(398)	1,849 <sup>#</sup>	55,932 <sup>#</sup>	(28,140) <sup>#</sup>	(150,032) <sup>#</sup>	549,574 <sup>#</sup>	529,735	7,348	537,083

<sup>#</sup> These reserve accounts comprise the consolidated reserves of HK\$1,795,642,000 (unaudited) (2015: HK\$489,875,000 (audited)) in the interim condensed consolidated statements of financial position.

# Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016	2015
		(Unaudited) HK\$'000	(Audited) HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>99,199</b>	83,155
Adjustments for:			
Finance costs	6	<b>14,265</b>	18,323
Bank interest income	4,5	<b>(487)</b>	(284)
Gain on disposal of items of property, plant and equipment, net	4,5	<b>(148)</b>	(101)
Fair value loss/(gain) on forward foreign exchange contracts, net	5	<b>7,704</b>	(1,147)
Remeasurement loss on contingent consideration	5	<b>521</b>	—
Fair value loss/(gain) on call options and put options measured at fair value through profit or loss, net	5	<b>372</b>	(539)
Write-off of property, plant and equipment	5	<b>15</b>	178
Allowance for impairment of trade receivables	5	<b>2,804</b>	2,330
Depreciation and amortization	5	<b>33,245</b>	31,418
Equity-settled share option expense	5	<b>11,796</b>	832
		<b>169,286</b>	134,165
Increase in inventories		<b>(11,902)</b>	(9,362)
Increase in trade receivables		<b>(42,615)</b>	(24,826)
Increase in prepayments, deposits and other receivables		<b>(27,791)</b>	(23,357)
Decrease in trade payables		<b>(1,787)</b>	(8,944)
(Decrease)/increase in other payables and accruals		<b>(17,608)</b>	10,446
Increase in other non-current liabilities		<b>205</b>	—
Cash generated from operations		<b>67,788</b>	78,122
Interest received		<b>487</b>	284
Income tax paid		<b>(26,704)</b>	(17,598)
Net cash flows from operating activities		<b>41,571</b>	60,808

# Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 (Unaudited) HK\$'000	2015 (Audited) HK\$'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment and other intangible assets		(44,137)	(14,281)
(Loss)/proceeds from forward foreign exchange contracts		(5,421)	448
Proceeds from disposal of items of property, plant and equipment		2,039	1,344
Acquisition of subsidiaries	23	(7,705)	(245,100)
Prepayment for acquisition of subsidiaries	14	(405,981)	—
Increase in pledged deposits	15	(181)	—
Settlement of contingent consideration		(775)	—
<b>Net cash flows used in investing activities</b>		<b>(462,161)</b>	<b>(257,589)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		—	61,802
New bank loans and other borrowings		125	125,000
Shareholders' loans		—	182,944
Repayment of bank loans and other borrowings		(584)	(52,164)
Dividend paid		(1,069)	(25,000)
Interest paid		(11,427)	(11,673)
Payment of listing expenses		—	(14,394)
Acquisition of non-controlling interests		—	(54,707)
<b>Net cash flows (used in)/from financing activities</b>		<b>(12,955)</b>	<b>211,808</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(433,545)</b>	<b>15,027</b>
Effect of foreign exchange rate changes, net		(1,477)	(6,771)
Cash and cash equivalents at beginning of period		945,689	128,722
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>510,667</b>	<b>136,978</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	15	502,790	210,249
Non-pledged time deposits with original maturity of less than three months when acquired	15	7,877	4,253
Cash and cash equivalents as stated in the statement of financial position	15	510,667	214,502
Bank overdrafts		—	(77,524)
<b>Cash and cash equivalents as stated in the statement of cash flows</b>		<b>510,667</b>	<b>136,978</b>

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 1. CORPORATE AND GROUP INFORMATION

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

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Triera Holdings Limited, which is incorporated in the British Virgin Islands with limited liability.

## 2.1 BASIS OF PREPARATION

The interim financial report for the six months ended 30 June 2016 has 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 34 Interim Financial Reporting (“IAS 34”).

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Modern Dental Group Limited and its subsidiaries since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”), and should be read in conjunction with the Group’s annual financial statements as at 31 December 2015.

The interim financial report is unaudited, but has 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 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016, noted below.

IFRS 10, IFRS 12 and IAS 28 Amendments	<i>Investment Entities: Applying the Consolidation Exception</i>
IAS 1 Amendments	<i>Disclosure Initiative</i>
IAS 16 and IAS 38 Amendments	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs issued in September 2014

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

## 3. OPERATING SEGMENT INFORMATION

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

- (a) The fixed prosthetic devices segment is a supplier of restorative dental procedures, such as crowns, 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, Invisalign™ 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 resources allocation and performance assessment. Segment performance is evaluated based on reportable segment gross profit/(loss).

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

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

	Six months ended 30 June					
	2016			2015		
	(unaudited)			(audited)		
	Revenue	Cost	Gross	Revenue	Cost of	Gross
HK\$'000	of sales	profit	Revenue	sales	profit	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fixed prosthetic devices	527,820	226,901	300,919	461,836	199,984	261,852
Removable prosthetic devices	174,220	77,856	96,364	134,848	70,435	64,413
Others	72,400	41,925	30,475	84,606	43,402	41,204
<b>Total</b>	<b>774,440</b>	<b>346,682</b>	<b>427,758</b>	<b>681,290</b>	<b>313,821</b>	<b>367,469</b>

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 3. OPERATING SEGMENT INFORMATION (continued)

### Geographical information

#### (a) Revenue from external customers

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Europe	385,306	340,245
Greater China	194,760	187,002
North America	90,480	76,572
Australia	98,033	72,221
Others	5,861	5,250
	<b>774,440</b>	<b>681,290</b>

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

#### (b) Non-current assets

	30 June	31 December
	2016	2015
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Europe	708,556	718,647
Greater China	510,607	76,758
North America	71,160	71,194
Australia	472,009	457,007
Others	10,987	11,071
	<b>1,773,319</b>	<b>1,334,677</b>

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

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 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	
	2016	2015
	(Unaudited) HK\$'000	(Audited) HK\$'000
<u>Revenue</u>		
Sale of goods	774,440	681,290
<u>Other income</u>		
Bank interest income	487	284
Exchange gains, net	—	1,007
Others	1,468	330
	<b>1,955</b>	1,621
<u>Gains</u>		
Fair value gains, net:		
Call options and put options	—	539
Forward foreign exchange contracts	—	1,147
Gain on disposal of items of property, plant and equipment	148	101
	<b>148</b>	1,787
Other income and gains	<b>2,103</b>	3,408

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 5. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2016	2015
		(Unaudited) HK\$'000	(Audited) HK\$'000
Cost of inventories sold		<b>103,866</b>	88,378
Depreciation	10	<b>15,180</b>	15,242
Amortisation of intangible assets	12	<b>18,065</b>	16,176
Minimum lease payments under operating leases		<b>17,168</b>	14,739
Auditors' remuneration		<b>3,346</b>	7,419
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages and salaries		<b>295,434</b>	257,673
Pension scheme contributions		<b>32,362</b>	26,514
Equity-settled share option expenses		<b>11,796</b>	832
		<b>339,592</b>	285,019
Bank interest income	4	<b>(487)</b>	(284)
Gain on disposal of items of property, plant and equipment, net	4	<b>(148)</b>	(101)
Fair value loss/(gains), net:			
Call options and put options	26	<b>372*</b>	(539)
Forward foreign exchange contracts		<b>7,704*</b>	(1,147)
Remeasurement loss on contingent consideration*	26	<b>521</b>	—
Write-off of property, plant and equipment*	10	<b>15</b>	178
Allowance for impairment of trade receivables	13	<b>2,804</b>	2,330
Foreign exchange differences, net		<b>6,632*</b>	(1,007)

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



# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 6. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	(Unaudited) HK\$'000	(Audited) HK\$'000
Interest on bank loans, overdrafts and other loans	11,303	10,914
Finance charges on bank loans	2,875	541
Imputed interest on shareholders' loans	—	6,650
Interest on finance leases	87	218
	<b>14,265</b>	<b>18,323</b>

## 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	
	2016	2015
	(Unaudited) HK\$'000	(Audited) HK\$'000
Current – Hong Kong	2,441	2,009
Current – Mainland China	13,264	8,230
Current – Elsewhere	15,692	16,859
Deferred	(3,332)	(3,424)
Total tax charge for the period	<b>28,065</b>	<b>23,674</b>

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 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 2016 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 991,850,962 (six months ended 30 June 2015 (restated): 816,850,962) in issue during the period, as adjusted to reflect the share sub-division and capitalization issue during the year ended 31 December 2015.

The calculation of the diluted earnings per share amount is based on the profit for the six months ended 30 June 2016 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, 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 effect of dilution is nil and no adjustment has been made for the six months ended 30 June 2015 because not all necessary vesting conditions of the pre-IPO restricted share unit scheme (the "Pre-IPO RSU Scheme") have been satisfied as at 30 June 2015. Details of the Pre-IPO RSU Scheme are set out in note 21 to the interim condensed consolidated financial statements.

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation:	70,442	59,558

## 8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (continued)

	Number of shares	
	Six months ended 30 June	
	2016 (Unaudited)	2015 (Audited)
<u>Shares</u>		Restated
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	991,850,962	816,850,962
Effect of dilution – weighted average number of ordinary shares:		
The Pre-IPO RSU Scheme	236,372	—
	992,087,334	816,850,962

## 9. DIVIDENDS

	Six months ended 30 June	
	2016 (Unaudited)	2015 (Audited)
	HK\$'000	HK\$'000
Interim dividend	21,000	—
Total:	21,000	—

On 24 August 2016, the Board declared an interim dividend of HK2.1 cents per share for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 10. PROPERTY, PLANT AND EQUIPMENT

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Carrying amount at 1 January	138,486	138,085
Additions	12,271	29,256
Acquisition of subsidiaries (note 23)	2,345	11,125
Disposals	(1,891)	(2,398)
Write-off	(15)	(235)
Depreciation provided during the period/year	(15,180)	(30,303)
Exchange realignment	574	(7,044)
Carrying amount at 30 June/31 December	<b>136,590</b>	138,486

At 30 June 2016, certain of the Group's equipment with a net carrying amount of approximately HK\$6,201,000 (unaudited) (2015: HK\$6,311,000 (audited)) were pledged to secure general banking facilities granted to the Group (note 18).

## 11. GOODWILL

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Carrying amount at 1 January	857,592	596,480
Acquisition of subsidiaries (note 23)	8,998	325,227
Exchange realignment	7,788	(64,115)
Carrying amount at 30 June/31 December	<b>874,378</b>	857,592

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 12. INTANGIBLE ASSETS

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Carrying amount at 1 January	<b>338,599</b>	267,508
Addition	<b>275</b>	491
Acquisition of subsidiaries	—	142,499
Disposal	—	(7)
Amortisation provided during the period/year	<b>(18,065)</b>	(34,411)
Exchange realignment	<b>3,970</b>	(37,481)
Carrying amount at 30 June/31 December	<b>324,779</b>	338,599

## 13. TRADE RECEIVABLES

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Trade receivables	<b>345,463</b>	301,040
Impairment	<b>(15,535)</b>	(12,812)
	<b>329,928</b>	288,228

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.

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 13. TRADE RECEIVABLES (continued)

An aging analysis of the trade receivables as at 30 June 2016 and 31 December 2015, based on the invoice date and net of provision, is as follows:

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Within 1 month	199,926	170,292
1 to 2 months	41,203	43,032
2 to 3 months	20,781	19,988
3 months to 1 year	54,818	46,103
Over 1 year	13,200	8,813
	<b>329,928</b>	288,228

The movements in provision for impairment of trade receivables are as follows:

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
At 1 January	(12,812)	(9,009)
Acquisition of subsidiary	—	(1,600)
Impairment loss recognized (note 5)	(2,804)	(2,930)
Amount written off as uncollectible	93	14
Exchange difference	(12)	713
At 30 June/31 December	<b>(15,535)</b>	(12,812)

Certain of the Group's trade receivables of approximately HK\$85,697,000 (unaudited) (2015: HK\$72,409,000 (audited)) were pledged to secure general banking facilities granted to the Group (note 18).

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
<b>Current</b>		
Prepayments	20,612	6,739
Deposits and other receivables	41,112	24,631
Due from a related party (note 25(2))	9	2
	<b>61,733</b>	31,372
<b>Non-current</b>		
Prepayments for acquisition of subsidiaries (note 24(2))	405,981	—
Deposits paid for purchase of property, plant and equipment (note 24(1))	31,591	—
	<b>437,572</b>	—

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 15. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Cash and bank balances	502,790	940,439
Time deposits	11,418	8,610
	514,208	949,049
Less: Pledged deposits	(3,541)	(3,360)
Cash and cash equivalents	510,667	945,689

## 16. TRADE PAYABLES

An aging analysis of the trade payables as at 30 June 2016 and 31 December 2015, based on the invoice date, is as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within 1 month	26,257	25,199
1 to 2 months	4,484	5,662
2 to 3 months	1,229	842
Over 3 months	310	1,839
	32,280	33,542

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.



# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 17. OTHER PAYABLES AND ACCRUALS

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
<b>Current</b>		
Deferred rent	262	150
Deferred income	882	662
Consideration payable	4,226	4,226
Contingent consideration (note 26)	2,647	—
Deposits received from customers	1,892	943
Accruals	74,334	89,879
Due to related parties (note 25(2))	2,022	1,050
Other payables	25,104	24,913
	<b>111,369</b>	121,823
<b>Other non-current liability</b>		
Deferred rent	3,090	2,687
Deferred income	1,342	1,429
Contingent consideration (note 26)	1,538	1,362
	<b>5,970</b>	5,478

The above balances are unsecured and non-interest-bearing. The carrying amounts of other payables and accruals approximate to their fair values.

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 18. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	30 June 2016 (Unaudited)		31 December 2015 (Audited)	
	Effective/ contractual interest rate (%)	HK\$'000	Effective/ contractual interest rate (%)	HK\$'000
<b>Current</b>				
Finance lease payables (note 19)	4.53-8.50	1,172	4.53-8.50	1,146
Bank loans – secured	LIBOR+(2.60-2.85)	77,500	LIBOR+(2.60-2.85)	77,500
Current portion of long term bank loans – secured	LIBOR+(2.60-2.85)	81,945	LIBOR+(2.60-2.85)	23,536
		<b>160,617</b>		102,182
<b>Non-current</b>				
Finance lease payables (note 19)	4.53-8.50	2,024	4.53-8.50	2,573
Long term bank loans - secured	LIBOR+(2.60-2.85)	485,524	LIBOR+(2.60-2.85)	541,016
		<b>487,548</b>		543,589
		<b>648,165</b>		645,771

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 18. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (continued)

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Analysed into:		
Bank loans and bank overdrafts repayable:		
Within one year or on demand	159,445	101,036
In the second year	126,611	111,446
In the third to fifth years, inclusive	358,913	429,570
	<b>644,969</b>	642,052
Finance lease payables (note 19):		
Within one year	1,172	1,146
In the second year	1,426	1,727
In the third to fifth years, inclusive	598	846
	<b>3,196</b>	3,719
	<b>648,165</b>	645,771

Notes:

- (a) On 6 November 2015, the Group has drawn down a US\$75 million 5 year term loan and a US\$10 million revolving loan, and has repaid the majority of its existing bank loan facilities in the same month. The principal and interest payments for existing loan facilities will be repaid according to the loan agreements. As at 30 June 2016, all of the amounts borrowed from these facilities are guaranteed by the Company and its subsidiaries and secured by the shares of the subsidiaries as well as certain trade receivables, bank deposits and equipment of the subsidiaries.
- (b) As at 30 June 2016 (unaudited), the Group's bank borrowings denominated in United States Dollar ("USD") and Canadian Dollar ("CAD") amounted to HK\$644,666,000 and HK\$303,000 respectively. The Group's finance lease payables denominated in Hong Kong Dollar ("HKD"), Australia Dollar ("AUD") and USD amounted to HK\$30,000, HK\$2,533,000 and HK\$633,000 respectively.

As at 31 December 2015 (audited), the Group's bank borrowings denominated in USD and CAD amounted to HK\$641,828,000 and HK\$224,000 respectively. The Group's finance lease payables denominated in HKD, Euro ("EUR"), AUD and USD amounted to HK\$35,000, HK\$22,000, HK\$2,892,000 and HK\$770,000 respectively.

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 19. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery and motor vehicles for its denture business. These leases are classified as finance leases and have remaining lease terms within five years.

At 30 June 2016 and 31 December 2015, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Amounts payable:				
Within one year	1,304	1,304	1,172	1,146
In the second year	1,475	1,819	1,426	1,727
In the third to fifth years, inclusive	622	886	598	846
Total minimum finance lease payments	3,401	4,009	3,196	3,719
Future finance charges	(205)	(290)		
Total net finance lease payables	3,196	3,719		
Portion classified as current liabilities (note 18)	(1,172)	(1,146)		
Non-current portion (note 18)	2,024	2,573		

## 20. SHARE CAPITAL

	<b>30 June 2016 (Unaudited) US'000</b>	31 December 2015 (Audited) US'000
<u>Shares</u>		
Issued and fully paid:		
1,000,000,000 (31 December 2015: 1,000,000,000) ordinary shares of US\$0.01 each	<b>10,000</b>	10,000
Equivalent to HK\$'000	<b>77,500</b>	77,500

There is no movement in the Company's share capital during the six months ended 30 June 2016.

## 21. PRE-IPO RESTRICTED SHARE UNIT SCHEME

The Company operates a pre-IPO restricted share unit scheme (the "Pre-IPO RSU Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Pre-IPO RSU Scheme shall be subject to the administration of the board of directors (the "Board") and the Board may delegate the authority to an award committee (the "Award Committee"). Eligible participants of the Pre-IPO RSU Scheme include the Company's directors, other employees of the Group and any other person selected by the Board or the Award Committee from time to time. The Pre-IPO RSU Scheme became effective on 19 June 2015 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Unless otherwise duly approved by the shareholders, the total number of shares underlying restricted share units (the "RSUs") under the Pre-IPO RSU Scheme shall not exceed 5,131,000, and following the capitalization issue, has adjusted to 8,149,038 and representing approximately 0.81% of the enlarged issue share capital of the Company immediately following the completion of the capitalization issue and the global offering.

The offer of a grant of RSUs may be accepted within the time period and in a manner prescribed in the grant letter. The Board or the Award Committee (if authority is delegated) has the sole discretion to determine the vesting schedule and vesting criteria (if any) for any grant of award(s) to any grantee, which may also be adjusted and re-determined by the Board or the Award Committee from time to time.

RSUs do not confer rights on the holders to dividends or to vote at shareholders' meetings.

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 21. PRE-IPO RESTRICTED SHARE UNIT SCHEME (continued)

The following RSUs were outstanding under the Pre-IPO RSU Scheme during the six months ended 30 June 2016:

	Exercise price	Number of RSUs
At 31 December 2015 and 30 June 2016	—	8,149,038

The RSUs shall vest as follows:

- (i) 50% of the RSUs awarded shall vest on the first anniversary of the date of listing; and
- (ii) 50% of the RSUs awarded shall vest on the second anniversary of the date of listing.

The fair value of the RSUs granted on 19 June 2015 was HK\$45,931,000 (HK\$8.95 each), of which the Group recognised an employee benefit expense (credited to capital reserve) of HK\$11,796,000 during the six months ended 30 June 2016 (unaudited) (six months ended 30 June 2015: HK\$832,000 (audited)).

The fair value of equity-settled RSUs granted on 19 June 2015 was estimated as at the date of grant, based on business enterprise value of the Group, taking into account the terms and conditions upon which the RSUs were granted. The business enterprise value of the Group was determined using market approach, measured by earnings per share times appropriate market multiple.

No other feature of the RSUs granted was incorporated into the measurement of fair value.

## 22. CONTINGENT LIABILITIES

The Group had no significant contingent liability as at 31 December 2015 and 30 June 2016.

## 23. BUSINESS COMBINATION

### Acquisition of Cenetory Pty Limited (“Cenetory”)

On 1 June 2016, SCDL Pty Limited, a wholly-owned subsidiary of the Group, entered into a share sale and purchase agreement with Ceralius Pty Limited, Sobengu Pty Limited and NDC Australia Pty Limited (the “Sellers”) to acquire 100% equity interest of Cenetory Pty Limited (“Cenetory”) at a cash consideration of AUD455,658. Cenetory is principally engaged in sale of prosthetic devices in Australia. The acquisition was completed on 1 June 2016. The acquisition was made as part of the Group’s strategy to expand its market share of prosthetic devices in Australia.

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

	Notes	Fair value recognised on acquisition HK\$'000
Property, plant and equipment	10	900
Deferred tax assets		111
Trade receivables		869
Prepayments, deposits and other receivable		256
Cash and cash equivalents		40
Trade payables		(242)
Other payables and accruals		(738)
<b>Total identifiable net assets at fair value</b>		<b>1,196</b>
Goodwill on acquisition	11	1,378
		<b>2,574</b>
Satisfied by:		
Cash		2,574

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 23. BUSINESS COMBINATION (continued)

### Acquisition of Cenetory Pty Limited (“Cenetory”) (continued)

The Group incurred transaction costs of HK\$37,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the interim condensed consolidated statement of profit or loss.

Included in the goodwill of HK\$1,378,000 recognised above are mainly distribution channel, assembled workforce, know-how, etc., which are not recognised separately. They are not separable and therefore they do not meet the criteria for recognition as intangible assets under IAS 38 Intangible Assets. None of the goodwill recognised is expected to be deductible for income tax purposes.

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

	HK\$'000
Cash consideration	(2,574)
Cash and bank balances acquired	40
Net outflow of cash and cash equivalents included in cash flow from investing activities in the six months ended 30 June 2016	(2,534)
Transaction costs of the acquisition included in cash flow from operating activities in the six months ended 30 June 2016	(37)
	(2,571)

Since the acquisition, Cenetory had generated HK\$848,000 to the Group's turnover and loss of HK\$49,000 to the Group's profit for the six months ended 30 June 2016.

Had the combination taken place at the beginning of the period, the revenue and the profit of the Group for the six months ended 30 June 2016 would have been HK\$778,523,000 and HK\$71,154,000, respectively.



## 23. BUSINESS COMBINATION (continued)

### Acquisition of Precision Dental Laboratory Limited (“PDL”)

On 1 April 2016, SCDL Pty Limited, a wholly-owned subsidiary of the Group, entered into a share sale and purchase agreement with Karen Harris Dental Limited as trustee of the Pineridge Trust, Capital Trustees 2012 Limited, Karen Christina Harris and Graham Peter William Head as trustees of the Auckand Trust, Graham Peter William Head and Karen Christina Harris (the “Sellers”) to acquire 100% equity interest of Precision Dental Laboratory Limited (“PDL”) at a cash consideration of New Zealand Dollar (“NZD”) 974,000, and a contingent consideration of NZD600,000. PDL is principally engaged in sale of prosthetic devices in New Zealand. The acquisition was completed on 1 April 2016. The acquisition was made as part of the Group’s strategy to expand its market share of prosthetic devices in New Zealand.

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

	Notes	Fair value recognised on acquisition HK\$'000
Property, plant and equipment	10	1,445
Trade receivables		1,032
Prepayments, deposits and other receivable		2,314
Trade payables		(283)
Other payables and accruals		(3,770)
Total identifiable net assets at fair value		738
Goodwill on acquisition	11	7,620
		8,358
Satisfied by:		
Cash		5,171
Contingent consideration		3,187
		8,358

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 23. BUSINESS COMBINATION (continued)

### Acquisition of Precision Dental Laboratory Limited (“PDL”) (continued)

The Group incurred transaction costs of HK\$159,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the interim condensed consolidated statement of profit or loss.

Included in the goodwill of HK\$7,620,000 recognised above are mainly distribution channel, assembled workforce, know-how, etc., which are not recognised separately. They are not separable and therefore they do not meet the criteria for recognition as intangible assets under IAS 38 Intangible Assets. None of the goodwill recognised is expected to be deductible for income tax purposes.

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

	HK\$'000
Cash consideration	(5,171)
Net outflow of cash and cash equivalents included in cash flow from investing activities in six months ended 30 June 2016	(5,171)
Transaction costs of the acquisition included in cash flow from operating activities in six months ended 30 June 2016	(159)
	(5,330)

Since the acquisition, PDL had contributed HK\$2,381,000 to the Group's turnover and HK\$192,000 to the consolidated profit for the six months ended 30 June 2016.

Had the combination taken place at the beginning of the period, the revenue and the profit of the Group for the six months ended 30 June 2016 would have been HK\$776,386,000 and HK\$71,110,000, respectively.

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 24. COMMITMENTS

		<b>30 June</b>	31 December
		<b>2016</b>	2015
		<b>(Unaudited)</b>	(Audited)
		<b>HK\$'000</b>	HK\$'000
Contracted, but not provided for land and buildings	(1)	<b>296,754</b>	293,633
Acquisition of subsidiaries	(2)	<b>98,813</b>	—
		<b>395,567</b>	293,633

(1) An investment agreement dated 28 April 2015 has been entered into between Modern Dental Laboratory Company Limited and Dongguan Songshan Lake High-tech Industrial Development Zone Management Committee regarding an investment of not less than RMB246,000,000 (equivalent to HK\$287,830,000) for the acquisition of land, construction of a new factory and acquisition and installation of equipment in the Songshan Lake High-tech Industrial Development Zone. The investment should be completed within three years from the date of the agreement. As at 30 June 2016, there was no settlement for the commitment.

A purchase agreement dated 7 June 2016 has been entered into between Yangzhijin Dental Laboratory (Beijing) Co., Ltd and Beijing Huiyuan Tongguang Technology Development Co., Ltd (北京慧遠通廣科技發展有限公司). Total contract amount is RMB34,627,000 (equivalent to HK\$40,515,000). As at 30 June 2016, Yangzhijin Dental Laboratory (Beijing) Co., Ltd has prepaid RMB27,000,000 (equivalent to HK\$31,591,000) for the acquisition of factory building and the remaining commitment was RMB7,627,000 (equivalent to HK\$8,924,000).

(2) On 6 June 2016, MDI Acquisitions Inc., a wholly-owned subsidiary of the Group, entered into a share purchase agreement with an independent third party, to acquire 100% equity interest of RTFP DENTAL INC. and its subsidiaries at a base cash consideration of US\$65,000,000. As at 30 June 2016, the prepayment for the acquisition of subsidiaries were US\$52,250,000 (equivalent to HK\$405,981,000) and the remaining commitment was US\$12,750,000 (equivalent to HK\$98,813,000).

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 25. RELATED PARTY TRANSACTIONS

### (1) Transactions with related parties

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the period:

	Six months ended 30 June	
	2016	2015
	(Unaudited) HK\$'000	(Audited) HK\$'000
Rental fee paid to Most Wealth International Limited	1,026	1,024
Purchase raw materials from Yangzhijin Dental Laboratory Company	—	2,777
Sales of raw materials to Yangzhijin Dental Laboratory Company	—	29
Sales of finished goods to Yangzhijin Dental Laboratory Company	—	384
Training fee paid to ShenZhen Nanshan District Modern Denture Technology Training Centre	2,957	1,328
Sales of finished goods to Trident Dental Group Limited	42	—

Most Wealth International Limited and Yangzhijin Dental Laboratory Company are controlled by Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and Mr. Ngai Shing Kin; ShenZhen Nanshan District Modern Denture Technology Training Centre (the "Centre") is controlled by Mr. Ngai Shing Kin; Trident Dental Group Limited is ultimately 33.3% owned by Mr. Chan Ronald Yik Long. The transactions with Most Wealth International Limited, Yangzhijin Dental Laboratory Company, the Centre and Trident Dental Group Limited were made on prices and conditions as mutually agreed. Mr. Chan Kwun Fung, Mr. Chan Kwun Pan, Mr. Ngai Shing Kin and Mr. Chan Ronald Yik Long are shareholders and directors of the Company.

- (b) Other transactions with related parties

- (i) Certain bank facility made to the Group up to HK\$775,276,000, during the six months ended 30 June 2015 was secured by properties owned by Most Wealth International Limited and Top Team (China) Limited whose shareholders are Mr. Chan Kwun Pan and Ms. Man Foon Chun, and was guaranteed by Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and Mr. Ngai Shing Kin. The facility was utilised to the extent of HK\$647,848,000 as at 30 June 2015. There is no such transaction during the current period. Ms. Man Foon Chun, mother of Mr. Chan Kwun Fung and Mr. Chan Kwun Pan, was the former shareholder and director of the Company.

## 25. RELATED PARTY TRANSACTIONS (continued)

### (2) Balances with related parties

At 30 June 2016, the Group's balances with related parties were as follows:

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Due from a related party:		
Trident Dental Group Limited	9	2
Due to related parties:		
Shenzhen Nanshan District Modern Denture Technology Training Centre	106	151
Most Wealth International Limited	1,916	899
	<b>2,022</b>	1,050

The Group's balances with its related parties as at the end of the reporting period are unsecured, interest-free and has no fixed terms of repayment.

### (3) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Audited) HK\$'000
Short term employee benefits	12,237	7,107
Equity-settled share option expense	5,898	417
Post-employment benefits	1,797	856
Total compensation paid to key management personnel	<b>19,932</b>	8,380

Save as disclosed above and elsewhere in the interim condensed consolidated financial statements, the Group did not have other related party transactions during the period.

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 26. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
<b>Financial assets</b>				
Derivative financial instruments	3,263	3,635	3,263	3,635
<b>Financial liabilities</b>				
Derivative financial instruments	16,413	14,138	16,413	14,138
Contingent consideration	4,185	1,362	4,185	1,362
Interest-bearing bank loans and other borrowings	648,165	645,771	648,165	645,771
	<b>668,763</b>	<b>661,271</b>	<b>668,763</b>	<b>661,271</b>

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in deposits and other receivables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

## 26. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair values of finance lease payables, interest-bearing bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease payables, interest-bearing bank loans and other borrowings as at 30 June 2016 was assessed to be insignificant.

The Group enters into forward foreign currency contracts with financial institutions with AAA credit ratings. Forward currency contracts are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts are the same as their fair values.

The fair value of contingent consideration in relation to acquisition of Sundance has been calculated by discounting the expected values of future payments. Monte-Carlo simulation method is used to determine the expected values of the future payments. The valuation requires the directors to make estimates about the annual growth rates of revenues of Sundance, volatility of revenue and discount rate.

The fair value of call options and put options is determined based on a binomial option pricing model. The model is based on a discrete-time framework to trace the evolution of the option's key underlying variable via a binomial lattice (tree), for a given number of time steps between the appraisal date and the maturity date. Significant estimate on assumptions, such as underlying equity value, risk-free interest rate, expected volatility and dividend yield, is required to be made by the directors in applying the binomial option pricing model. The underlying equity value is estimated using discounted cash flow method.

Below is a summary of significant unobservable inputs to the valuation of call options and put options as at 30 June 2016 and 31 December 2015:

	<b>30 June 2016 (Unaudited)</b>	31 December 2015 (Audited)
Dividend yield (%)	<b>0.00</b>	0.00
Expected volatility (%)	<b>29.75-29.94</b>	29.19-29.64
Risk-free interest rate (%)	<b>0.796-0.816</b>	1.467-1.506
Expected life of options (year)	<b>2.89-3.13</b>	3.39-3.63

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 26. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

#### Assets measured at fair values:

As at 30 June 2016

	Fair value measurement using			Total (Unaudited) HK\$'000
	Quoted prices in active markets (Level 1) (Unaudited) HK\$'000	Significant observable inputs (Level 2) (Unaudited) HK\$'000	Significant unobservable inputs (Level 3) (Unaudited) HK\$'000	
Derivative financial instruments	—	—	3,263	3,263

As at 31 December 2015

	Fair value measurement using			Total (Audited) HK\$'000
	Quoted prices in active markets (Level 1) (Audited) HK\$'000	Significant observable inputs (Level 2) (Audited) HK\$'000	Significant unobservable inputs (Level 3) (Audited) HK\$'000	
Derivative financial instruments	—	—	3,635	3,635



## 26. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Assets measured at fair values: (continued)

The movements in fair value measurements within Level 3 during the period are as follows:

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Derivative financial instruments – call options:		
At 1 January	3,635	3,067
Total (loss)/gain recognised in profit or loss	(372)	568
At 30 June/31 December	3,263	3,635

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 26. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Liabilities measured at fair values

As at 30 June 2016

	Fair value measurement using			Total (Unaudited) HK\$'000
	Quoted prices in active markets (Level 1) (Unaudited) HK\$'000	Significant observable inputs (Level 2) (Unaudited) HK\$'000	Significant unobservable inputs (Level 3) (Unaudited) HK\$'000	
Derivative financial instruments	—	7,305	9,108	16,413
Contingent consideration	—	—	4,185	4,185
	—	7,305	13,293	20,598

As at 31 December 2015

	Fair value measurement using			Total (Audited) HK\$'000
	Quoted prices in active markets (Level 1) (Audited) HK\$'000	Significant observable inputs (Level 2) (Audited) HK\$'000	Significant unobservable inputs (Level 3) (Audited) HK\$'000	
Derivative financial instruments	—	5,030	9,108	14,138
Contingent consideration	—	—	1,362	1,362
	—	5,030	10,470	15,500

## 26. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Liabilities measured at fair values (continued)

The movements in fair value measurements within Level 3 during the period are as follows:

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Derivative financial instruments – put options		
At 1 January	9,108	8,797
Total loss recognised in profit or loss	–	312
Exchange realignment	–	(1)
At 30 June/31 December	9,108	9,108
Contingent consideration		
At 1 January	1,362	2,149
Addition of contingent consideration (note 23)	3,187	–
Settle of contingent consideration	(775)	–
Total loss/(gain) recognised in profit or loss	521	(787)
Exchange realignment	(110)	–
At 30 June/31 December	4,185	1,362

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2015: Nil).

# Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

## 26. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Liabilities for which fair values are disclosed:

As at 30 June 2016

	Fair value measurement using			Total (Unaudited) HK\$'000
	Quoted prices in active markets (Level 1) (Unaudited) HK\$'000	Significant observable inputs (Level 2) (Unaudited) HK\$'000	Significant unobservable inputs (Level 3) (Unaudited) HK\$'000	
Interest-bearing bank loans and other borrowings	—	648,165	—	648,165

As at 31 December 2015

	Fair value measurement using			Total (Audited) HK\$'000
	Quoted prices in active markets (Level 1) (Audited) HK\$'000	Significant observable inputs (Level 2) (Audited) HK\$'000	Significant unobservable inputs (Level 3) (Audited) HK\$'000	
Interest-bearing bank loans and other borrowings	—	645,771	—	645,771

## 27. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 24 August 2016.



# Corporate Information

## PLACE OF INCORPORATION

Cayman Islands

## BOARD OF DIRECTORS

### Executive Directors

Mr. CHAN Kwun Fung (*Chairman*)

Mr. CHAN Kwun Pan (*Vice-Chairman*)

Mr. NGAI Shing Kin (*Chief Executive Officer*)

Mr. NGAI Chi Ho Alwin (*Chief Operating Officer*)

Mr. CHEUNG Ting Pong (*Chief Financial Officer*)

Ms. CHAN Yik Yu (*Chief Marketing Officer*)

Mr. CHAN Chi Yuen

Dr. CHAN Ronald Yik Long

### Independent Non-Executive Directors

Dr. CHEUNG Wai Bun Charles, J.P.

Dr. CHAN Yue Kwong Michael

Dr. WONG Ho Ching

Dr. CHEUNG Wai Man William

## BOARD COMMITTEES

### Audit Committee

Dr. CHEUNG Wai Bun Charles, J.P. (*Chairman*)

Dr. CHAN Yue Kwong Michael

Dr. WONG Ho Ching

### Remuneration Committee

Dr. WONG Ho Ching (*Chairman*)

Dr. CHEUNG Wai Man William

Dr. CHEUNG Wai Bun Charles, J.P.

Mr. NGAI Shing Kin

Ms. CHAN Yik Yu

### Nomination Committee

Dr. CHAN Yue Kwong Michael (*Chairman*)

Dr. CHEUNG Wai Bun Charles, J.P.

Dr. CHEUNG Wai Man William

Mr. NGAI Chi Ho Alwin

Dr. CHAN Ronald Yik Long

## COMPANY SECRETARY

Mr. CHEUNG Ting Pong, CPA

## AUTHORISED REPRESENTATIVES

Mr. NGAI Shing Kin

Mr. CHEUNG Ting Pong

## AUDITOR

Ernst & Young

## COMPLIANCE ADVISER

VBG Capital Limited

## REGISTERED OFFICE

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1716

17/F., CEO Tower

77 Wing Hong Street

Cheung Sha Wan

Kowloon, Hong Kong



## Corporate Information

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS**

Codan Trust Company (Cayman) Limited  
Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### **PRINCIPAL BANKERS**

ING Bank N.V., Singapore Branch  
ING Bank N.V.  
Standard Chartered Bank, Hong Kong  
The Hongkong and Shanghai Banking Corporation Limited

### **LEGAL ADVISER**

Loeb & Loeb LLP

### **COMPANY WEBSITE**

[www.moderdentalgp.com](http://www.moderdentalgp.com)

### **STOCK CODE**

3600