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

2017
INTERIM REPORT

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CHAIRMAN'S STATEMENT

MODERN DENTAL AIMS TO REINFORCE ITS LEADING GLOBAL POSITION THROUGH BUSINESS EXPANSION.

Chan Kwun Fung
Chairman

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 unaudited 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 2017 (the "**Reporting Period**").

Modern Dental is a leading global dental prosthetic device provider with, to the best of our knowledge, the largest market share in Western Europe, Australia, Mainland China and Hong Kong, and one of the leading players in North America.

For the six months ended 30 June 2017, we are pleased to announce that the Group recorded growth in profit to approximately HK$85 million for the Reporting Period, representing a 20% increase compared with the same period in 2016. Earnings per share for the six months ended 30 June 2017 was HK8.5 cents (six months ended 30 June 2016: HK7.1 cents).

Our revenue growth in the majority of the markets remains healthy and stable, outperforming our competitors and the industry as a whole. Bolstered by strong and growing global demand for dental prosthetic products, demand for our products during varying economic environments remain resilient and relatively inelastic. With the exception of Australia, where special prices were offered to our top corporate dental groups, the average selling price in original currency in all regions increased during the Reporting Period. For the six months ended 30 June 2017, the Group recorded revenue of approximately HK$1,082 million (six months ended 30 June 2016: HK$774 million).

The European market remains our key revenue and profit driver for the Group. With various acquisitions completed in 2016 and the first quarter of 2017, the Group has a remarkable stronghold in the European market, going from strength-to-strength. With an appreciating Euro and an anticipation of recovery in European economies, we are confident that the European market would continue to deliver solid results for the full year in 2017. With the acquisition of MicroDental Group in October 2016, the Group commits itself to

CHAIRMAN'S STATEMENT

the largest dental prosthetics market in the world, the North American market. As a fully-fledged onshore and offshore player in this market, we are in a unique position to provide a full range of dental prosthetic products whether made locally or outsourced across our enlarged and impressive distribution network. In addition, as part of the integration process, we are implementing arrangements to make full use of our onshore and offshore capabilities including, but not limited to, enhanced procurement arrangements, reducing onshore costs through outsourcing and cross-selling new products. In particular, the Group has entered into a strategic distribution agreement with an innovative anti-snoring devices company, Oventus Medical Ltd (ASX: OVN), which adds another revenue source for the United States market and a new product to our clients globally. With the anticipation of the North American dental implant and prosthetics industry growing at a steady and consistent pace in years to come, our investment in this market is an important foothold and represents our firm commitment to this key market. We continue to record positive organic volume growth in the Mainland China market as a result of sales and marketing efforts in the midst of intense competition. With the government of The People's Republic of China ("**PRC**") looking to further regulate the medical device industry in the short-term, further uncertainties in the market are expected to follow with our competitors being more likely to be affected, resulting in a much-needed consolidation in a heavily fragmented market. In the medium to long-term, the Mainland China market is a key market for the Group with our Dongguan production facility investment expected to greatly increase the production capacity. In order to widen our coverage in the Chinese market, the Group has also partnered with the Straumann Group to establish STM Digital targeting to tap into the premium prosthetic products in the Chinese market. As for our Australian market, our strategies to provide full range products to corporate dental groups have paid off and resulted in a credible increase in sales volume, in the midst of intense competition under relatively flat economic conditions.

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, rising population and aging population. As a market leader with a global sales and distribution network and strategically-located production facilities, we are well-positioned to capitalise 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.

Our well established brands and newly acquired brands are the keys to our success, namely Labocast, Permadental, Elysee, CDi and Dentrade for Western Europe, Yangzhijin (洋紫荊) for Mainland China, Modern Dental Laboratory for Hong Kong, MicroDental and Modern Dental USA for the United States and Southern Cross Dental for Australia, New Zealand and Ireland.

Going forward, Modern Dental aims to reinforce its worldwide leading position through business expansion. In Mainland China, we have started construction of 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. In North America, we are in the process of integrating MicroDental Group to maximise all potential synergies, and enhance customer service through our enlarged sales and distribution network. 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 and 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

23 August 2017

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

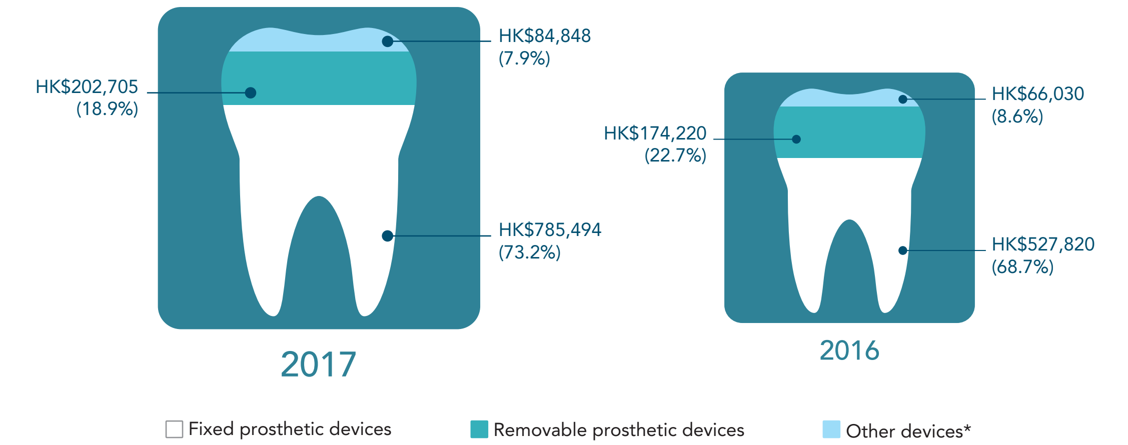
The Group is a leading global dental prosthetic device provider with a focus on providing custom-made prostheses to customers in the growing prosthetics industry. Our product portfolio is broadly categorised into three product lines: (i) fixed prosthetic devices such as crowns and bridges; (ii) removable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

MANAGEMENT DISCUSSION AND ANALYSIS

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 2017 and 2016 respectively:

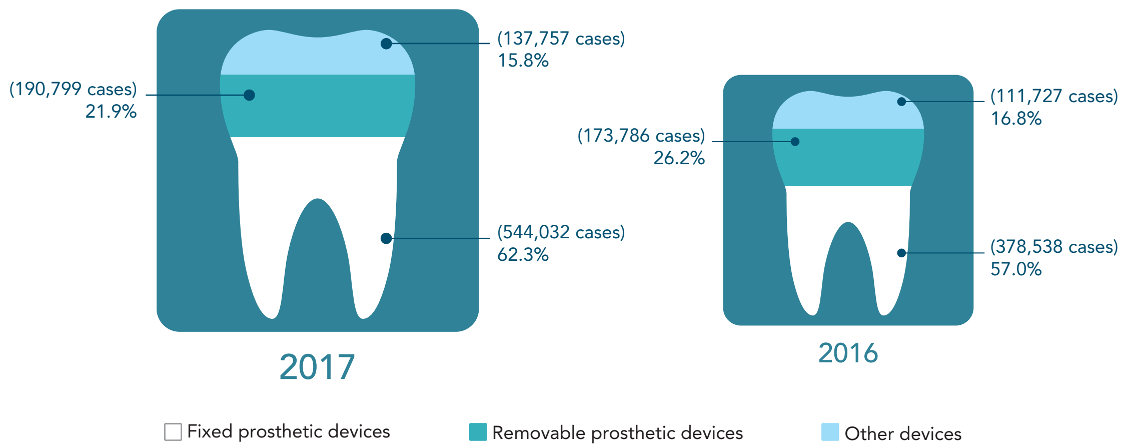
BREAKDOWN OF REVENUE

(HK$'000)



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

BREAKDOWN OF SALES VOLUMES



FIXED PROSTHETIC DEVICES

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

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

REMOVABLE PROSTHETIC DEVICES

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

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

OTHER DEVICES

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

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

PRODUCT CATEGORY

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

SALES VOLUME AND AVERAGE SELLING PRICE

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

GEOGRAPHIC MARKET

By leveraging on our sales and distribution network, we achieved a leading position in the dental prosthetics industry across Europe, North America, Greater China, Australia, and other countries. The following table sets forth a breakdown of the revenue generated from the aforesaid markets in their respective original currency against Hong Kong Dollar ("**HK$**"):

		Six months ended 30 June			
		2017		2016	
Market	Original currency	Conversion rate # (Original currency per HK$)	Revenue *(HK$'000)*	Conversion rate # (Original currency per HK$)	Revenue *(HK$'000)*
Europe*	EUR	8.43	411,113	8.78	383,294
North America	US$	7.75	357,761	7.75	90,480
Greater China**	RMB	1.13	196,381	1.19	193,226
Australia***	AUD	5.88	100,959	5.81	95,206
Others			6,833		5,864
Total			1,073,047		768,070

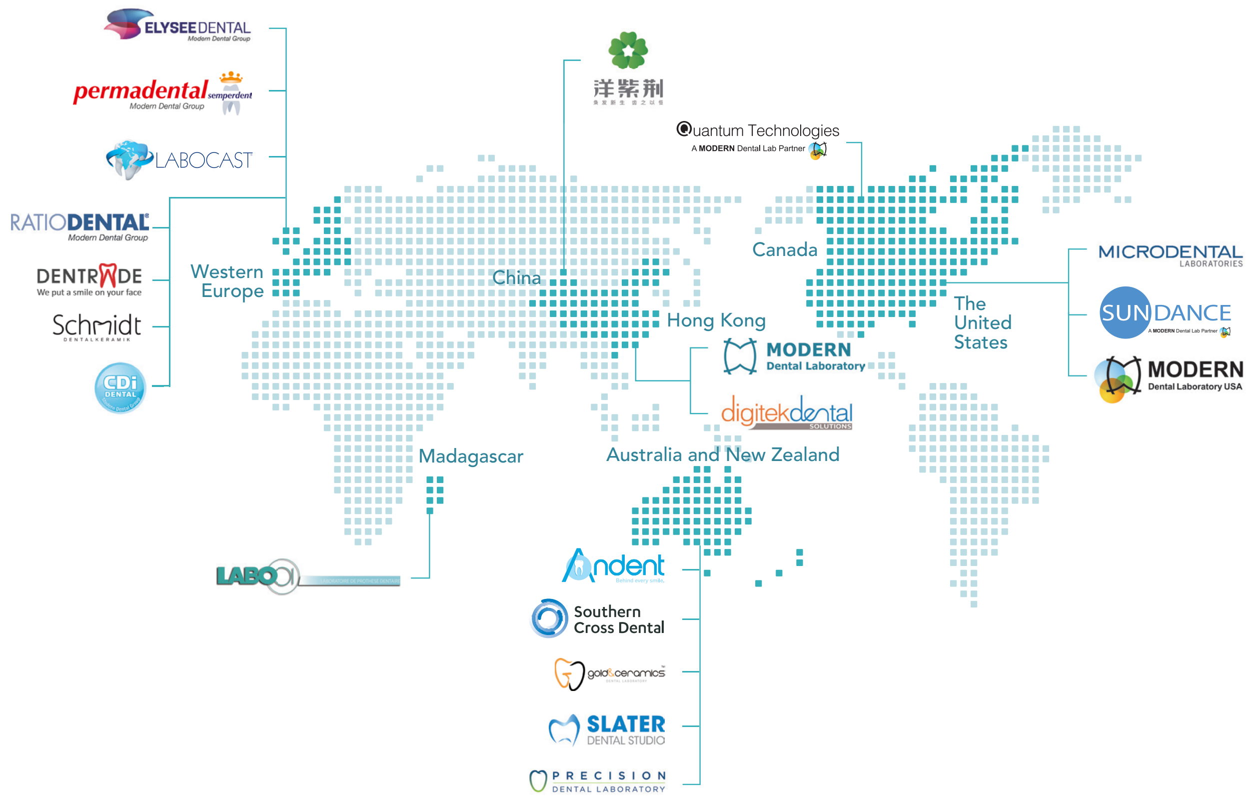
* We subtract the dental equipment revenue from the European revenue.

** We subtract the raw materials and the 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.

The conversion rate shall not be taken as a representation that respective original currency could actually be converted into HK$ at that rate, or at all.

GEOGRAPHIC MARKET



EUROPE

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

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

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

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

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

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

NORTH AMERICA

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

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

With our Group's onshore and offshore North American production capabilities, we are in a unique position to provide a wide range of dental prosthetic products whether made locally or outsourced across our enlarged and impressive distribution network. In addition, as part of the integration process, we are implementing arrangements to make full use of our onshore and offshore capabilities including, but not limited to, enhanced procurement arrangements, reducing onshore costs through outsourcing and cross-selling new products. In particular, the Group has entered into a strategic distribution agreement with an innovative anti-snoring devices company, Oventus Medical Ltd (ASX: OVN), which adds another revenue source for the United States market and a new product to our clients globally.

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

MANAGEMENT DISCUSSION AND ANALYSIS

GREATER CHINA

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

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

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

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

AUSTRALIA

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

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

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

OTHERS

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

FUTURE PROSPECTS AND STRATEGIES

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

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

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

FINANCIAL REVIEW

REVENUE

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

MANAGEMENT DISCUSSION AND ANALYSIS

GROSS PROFIT AND GROSS PROFIT MARGIN

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

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

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

SELLING AND DISTRIBUTION EXPENSES

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

ADMINISTRATIVE EXPENSES

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

OTHER OPERATING EXPENSES

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

FINANCE COSTS

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

INCOME TAX EXPENSE

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

PROFIT FOR THE PERIOD

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

PROFIT ATTRIBUTABLE TO OWNERS OF THE PERIOD

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

NON-IFRS MEASURES

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

MANAGEMENT DISCUSSION AND ANALYSIS

EBITDA, ADJUSTED EBITDA, ADJUSTED NET PROFIT AND ADJUSTED NET PROFIT MARGIN

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

CASH FLOWS

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

OPERATING ACTIVITIES

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

INVESTING ACTIVITIES

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

FINANCING ACTIVITIES

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

CAPITAL EXPENDITURE

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

CAPITAL STRUCTURE

BANK BORROWINGS

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

FINANCE LEASE PAYABLES

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

CASH AND CASH EQUIVALENTS

The amount in which cash and cash equivalents were held are set out in the paragraph headed "Liquidity and Financial Resources" on page 17 of this Interim Report.

GEARING RATIO

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

DEBT SECURITIES

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

CONTINGENT LIABILITIES

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

CHARGE OF GROUP ASSETS

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

COMMITMENTS

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

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

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

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

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

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

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

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

Save as disclosed above, the Group had no new material acquisition, disposal of subsidiaries, associates and joint ventures during the six months ended 30 June 2017.

OFF-BALANCE SHEET TRANSACTIONS

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

IMPORTANT EVENTS AFTER THE PERIOD UNDER REVIEW

Save as disclosed above, the Group has no significant events after the Reporting Period up to the date of this Interim Report.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

INTEREST RATE RISK

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

FOREIGN CURRENCY RISK

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

CREDIT RISK

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

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

LIQUIDITY RISK

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

OTHER INFORMATION

DIVIDENDS

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

CLOSURE OF REGISTER OF MEMBERS

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

USE OF NET PROCEEDS FROM LISTING

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

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

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

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

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

SHARE OPTION SCHEME

A share option scheme (the "**Share Option Scheme**") was adopted pursuant to the written resolutions of the shareholders of the Company (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, 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 the ordinary shares of the Company (the "**Shares**") which may be alloted 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.

The total number of the Shares which may be alloted 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 2017, 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 2017, an aggregate of 8,149,038 restricted share units ("**RSUs**") were granted to eligible participants pursuant to the Pre-IPO RSU Scheme and out of which 3,433,108 RSUs have not been vested.

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 2017, 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 AND UNDERLYING SHARES OF THE COMPANY

Name of Director	Capacity	Number of Shares and Underlying Shares interested	Total number of Shares and Underlying Shares interested	Approximate percentage of shareholding
Mr. Chan Kwun Fung	Beneficial owner	208,000 (Note 1)	472,906,263	47.29%
	Other	3,450,000 (Note 1)		
	Interest of controlled corporation	469,248,263 (Note 1)		
Mr. Chan Kwun Pan	Beneficial owner	3,450,000 (Note 1)	472,906,263	47.29%
	Other	208,000 (Note 1)		
	Interest of controlled corporation	469,248,263 (Note 1)		
Mr. Ngai Shing Kin	Beneficial owner	2,801,672 (Note 2)	98,040,998	9.80%
	Beneficiary of a trust	1,389,673 (Note 3)		
	Interest of controlled corporation	93,849,653 (Note 4)		
Mr. Ngai Chi Ho Alwin	Beneficial owner	277,934 (Note 5)	63,122,304	6.31%
	Beneficiary of a trust	277,935 (Note 6)		
	Interest of controlled corporation	62,566,435 (Note 7)		

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 reached 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 Triera Holdings Limited, (ii) Mr. Chan Kwun Fung is deemed to be interested in the 3,450,000 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. *This includes 1,389,672 RSUs granted and vested to Mr. Ngai Shing Kin under the Pre-IPO RSU scheme.*

3. *Mr. Ngai Shing Kin is interested in 1,389,673 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 1,389,673 Shares subject to vesting. These Shares were held by MDG Management Corporation as the nominee under the Pre-IPO RSU Scheme.*

4. *These Shares were held by Prosperity Worldwide Investment Holdings Limited, which is wholly-owned by Mr. Ngai Shing Kin.*

5. *This refers to 277,934 RSUs granted and vested to Mr. Ngai Chi Ho Alwin under the Pre-IPO RSU scheme.*

6. *Mr. Ngai Chi Ho Alwin is interested in 277,935 RSUs granted to him under the Pre-IPO RSU Scheme entitling him to receive 277,935 Shares subject to vesting. These Shares were held by MDG Management Corporation as the nominee under the Pre-IPO RSU Scheme.*

7. *These Shares were held by NCHA Holdings Limited, which is wholly-owned by Mr. Ngai Chi Ho Alwin.*

Save as disclosed above, as at 30 June 2017, 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 2017 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.

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

As at 30 June 2017, 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 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 *(Note 1)*	Beneficial owner	469,248,263	46.92%
Prosperity Worldwide Investment Holdings Limited *(Note 2)*	Beneficial owner	93,849,653	9.38%
NCHA Holdings Limited *(Note 3)*	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.*

Save as disclosed herein, as at 30 June 2017, 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 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 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CHANGE OF DIRECTORS' INFORMATION

During the six months ended 30 June 2017 and up to the date of this Interim Report, changes in information of Directors are as follows:

1. Mr. Ngai Shing Kin, Mr. Ngai Chi Ho Alwin and Dr. Chan Ronald Yik Long have ceased to be the directors of Ray Woods Dental Laboratories, Inc., a subsidiary of the Company, which was deregistered on 24 April 2017.

2. Dr. Cheung Wai Bun Charles J.P. (i) has been appointed as an independent non-executive director of China Taifeng Beddings Holdings Limited (stock code: 873) on 20 April 2017; and (ii) has been appointed as an executive director and the chairman of the board of directors of Roma Group Limited (stock code: 8072) on 2 June 2017, the shares of both of the companies are listed on the Stock Exchange.

3. The annual director's fee payable to each of Dr. Cheung Wai Man William, Dr. Cheung Wai Bun Charles, J.P., Dr. Chan Yue Kwong Michael and Dr. Wong Ho Ching was increased to HK$237,000 commencing from May 2017.

CORPORATE GOVERNANCE

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

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

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

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

The Company has adopted the Securities Dealing Code containing the provisions set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, and after having made specific 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 2017.

REVIEW OF INTERIM RESULTS

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

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.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	221,204	173,238
Prepaid land lease payments		12,313	12,071
Goodwill	11	1,353,218	1,256,356
Intangible assets	12	392,544	390,028
Interests in associates	13	11,613	—
Deferred tax assets		11,734	7,482
Deposits paid for purchase of property, plant and equipment	15	39,896	40,901
Prepayments for acquisition of subsidiaries	15	—	41,027
Long term prepayments and deposits	15	13,136	—
Total non-current assets		2,055,658	1,921,103
CURRENT ASSETS			
Inventories		92,523	74,098
Trade receivables	14	425,135	359,354
Prepayments, deposits and other receivables	15	47,933	43,603
Current tax assets		7,592	5,615
Pledged deposits	16	11,337	3,726
Cash and cash equivalents	16	241,212	337,004
Total current assets		825,732	823,400
CURRENT LIABILITIES			
Trade payables	17	64,926	73,760
Other payables and accruals	18	166,050	146,874
Interest-bearing bank and other borrowings	19	205,574	190,746
Tax payable		43,038	40,451
Total current liabilities		479,588	451,831
NET CURRENT ASSETS		346,144	371,569
TOTAL ASSETS LESS CURRENT LIABILITIES		2,401,802	2,292,672

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		2,401,802	2,292,672
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	19	359,538	430,450
Deferred tax liabilities		28,850	31,288
Other non-current liabilities	18	3,893	8,704
Total non-current liabilities		392,281	470,442
Net assets		2,009,521	1,822,230
EQUITY			
Equity attributable to owners of the Parent			
Share capital	21	77,500	77,500
Treasury shares		(304)	(304)
Reserves		1,926,127	1,738,543
		2,003,323	1,815,739
Non-controlling interests		6,198	6,491
Total equity		2,009,521	1,822,230

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Parent									
	Share capital HK$'000	Share premium HK$'000	Treasury shares HK$'000	Statutory reserve HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January, 2017	77,500	740,246	(304)	6,033	587,144	(243,158)	648,278	1,815,739	6,491	1,822,230
Profit for the period	—	—	—	—	—	—	84,700	84,700	818	85,518
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	—	—	—	—	—	108,032	—	108,032	68	108,100
Total comprehensive income for the period	—	—	—	—	—	108,032	84,700	192,732	886	193,618
Transfer from retained earnings	—	—	—	1,921	—	—	(1,921)	—	—	—
2016 final dividend	—	—	—	—	—	—	(9,000)	(9,000)	—	(9,000)
Equity-settled Pre-IPO RSU Scheme expense (note 5, 22)	—	—	—	—	3,852	—	—	3,852	—	3,852
Capital contribution by non-controlling interests	—	—	—	—	—	—	—	—	150	150
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	—	(1,329)	(1,329)
At 30 June 2017 (unaudited)	77,500	740,246#	(304)	7,954#	590,996#	(135,126)#	722,057#	2,003,323	6,198	2,009,521

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Parent										
	Share capital HK$'000	Share premium HK$'000	Treasury shares HK$'000	Statutory reserve HK$'000	Capital reserve HK$'000	Put option reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity 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 Pre-IPO RSU Scheme expense (note 5, 22)	—	—	—	—	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#	(632)	1,932#	627,368#	(28,140)#	(167,263)#	642,338#	1,872,510	8,023	1,880,533

These reserve accounts comprise the consolidated reserves of HK$1,926,127,000 (unaudited) (2016: HK$1,795,642,000 (unaudited)) in the interim condensed consolidated statements of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		107,504	99,199
Adjustments for:			
Finance costs	6	14,155	14,265
Bank interest income	4,5	(430)	(487)
Gain on disposal of items of property, plant and equipment, net	4,5	(17)	(148)
Fair value loss on forward foreign exchange contracts, net	5	—	7,704
Remeasurement loss on contingent consideration	5	—	521
Fair value loss on call options and put options measured at fair value through profit or loss, net	5	—	372
Write-off of property, plant and equipment	5	190	15
Allowance for impairment of trade receivables	5	134	2,804
Depreciation and amortisation	5	41,876	33,245
Equity-settled Pre-IPO RSU Scheme expense	5	3,852	11,796
		167,264	169,286
Increase in inventories		(17,187)	(11,902)
Increase in trade receivables		(46,996)	(42,615)
Increase in prepayments, deposits and other receivables		(12,443)	(27,791)
Decrease in trade payables		(12,277)	(1,787)
Increase/(decrease) in other payables and accruals		2,056	(17,403)
Cash generated from operations		80,417	67,788
Interest received		430	487
Income tax paid		(29,027)	(26,704)
Net cash flows from operating activities		51,820	41,571

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		(64,921)	(44,137)
Loss from forward foreign exchange contracts		—	(5,421)
Proceeds from disposal of items of property, plant and equipment		913	2,039
Net cash inflow/(outflow) from acquisition of subsidiaries	24	1,563	(7,705)
Prepayment for acquisition of subsidiaries		—	(405,981)
Increase in pledged deposits	16	(7,611)	(181)
Settlement of contingent consideration		(775)	(775)
Capital contributions and advance of loans to associates		(11,613)	—
Net cash flows used in investing activities		(82,444)	(462,161)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings		—	125
Repayment of bank loans and other borrowings		(58,790)	(584)
Dividend paid		—	(1,069)
Interest paid		(11,566)	(11,427)
Dividend paid to non-controlling shareholders		(1,329)	—
Capital contribution by non-controlling interests		150	—
Net cash flows used in financing activities		(71,535)	(12,955)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(102,159)	(433,545)
Effect of foreign exchange rate changes, net		6,367	(1,477)
Cash and cash equivalents at beginning of period		337,004	945,689
CASH AND CASH EQUIVALENTS AT END OF PERIOD		241,212	510,667
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	16	236,716	502,790
Non-pledged time deposits with original maturity of less than three months when acquired	16	4,496	7,877
Cash and cash equivalents as stated in the statement of financial position	16	241,212	510,667

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

1. CORPORATE AND GROUP INFORMATION

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

2.1 BASIS OF PREPARATION

The interim financial report for the six months ended 30 June 2017 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 2016 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 2016.

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 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017, noted below.

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

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

3. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

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

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

3. OPERATING SEGMENT INFORMATION (CONTINUED)

GEOGRAPHICAL INFORMATION

(A) REVENUE FROM EXTERNAL CUSTOMERS

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

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

(B) NON-CURRENT ASSETS

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

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

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

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

5. PROFIT BEFORE TAX

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

		Six months ended 30 June	
	Notes	2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
Cost of inventories sold		173,545	103,866
Depreciation	10	23,811	15,180
Amortisation of intangible assets	12	17,939	18,065
Amortisation of prepaid land lease payments		126	—
Minimum lease payments under operating leases		31,395	17,168
Auditors' remuneration		3,130	3,346
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages and salaries		439,173	295,434
Pension scheme contributions		65,773	32,362
Equity-settled Pre-IPO RSU Scheme expenses		3,852	11,796
		508,798	339,592
Bank interest income	4	(430)	(487)
Gain on disposal of items of property, plant and equipment, net	4	(17)	(148)
Fair value loss, net:			
Call options and put options*		—	372
Forward foreign exchange contracts*		—	7,704
Remeasurement loss on contingent consideration*		—	521
Write-off of property, plant and equipment*	10	190	15
Allowance for impairment of trade receivables	14	134	2,804
Foreign exchange differences, net*		1,279	6,632

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

6. FINANCE COSTS

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

7. INCOME TAX EXPENSE

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

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

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

The calculation of the diluted earnings per share amount is based on the profit for the six months ended 30 June 2017 attributable to ordinary equity holders of the Parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares. No adjustment has been made to the basic earnings per share amounts presented for six months ended 30 June 2017 and 2016 in respect of a dilution as the impact of the shares outstanding under Pre-IPO RSU scheme had an anti-dilutive effect on the basic earnings per share amounts presented. Details of the Pre-IPO RSU Scheme are set out in note 22 to the interim condensed consolidated financial statements.

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

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

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

9. DIVIDENDS

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

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

10. PROPERTY, PLANT AND EQUIPMENT

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Carrying amount at 1 January	173,238	138,486
Additions	64,250	45,698
Acquisition of subsidiaries (note 24)	1,548	29,948
Disposals	(896)	(2,563)
Write-off	(190)	(140)
Depreciation provided during the period/year	(23,811)	(34,346)
Exchange realignment	7,065	(3,845)
Carrying amount at 30 June/31 December	221,204	173,238

At 30 June 2017, certain of the Group's equipment with a net carrying amount of approximately HK$6,670,000 (unaudited) (31 December 2016: HK$5,643,000 (audited)) were pledged to secure general banking facilities granted to the Group (note 19).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

11. GOODWILL

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Carrying amount at 1 January	1,256,356	857,592
Acquisition of subsidiaries (note 24)	35,060	432,520
Impairment during the period/year	—	(9,832)
Exchange realignment	61,802	(23,924)
Carrying amount at 30 June/31 December	1,353,218	1,256,356

12. INTANGIBLE ASSETS

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Carrying amount at 1 January	390,028	338,599
Additions	671	290
Acquisition of subsidiaries	—	94,261
Amortisation provided during the period/year	(17,939)	(36,160)
Exchange realignment	19,784	(6,962)
Carrying amount at 30 June/31 December	392,544	390,028

13. INTERESTS IN ASSOCIATES

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

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Share of net assets	11,613	—
	11,613	—

Particulars of associates, which was held directly by the Company, were as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activity
STM Digital Dentistry Holding Limited	Ordinary shares	Hong Kong	51*	Production of customised dental prosthetics

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

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

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Share of the associates profit for the period	—	—
Aggregate carrying amount of the Group's interests in the associates	11,613	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

14. TRADE RECEIVABLES

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Trade receivables	439,833	373,754
Impairment	(14,698)	(14,400)
	425,135	359,354

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

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

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

14. TRADE RECEIVABLES (CONTINUED)

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

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
At 1 January	14,400	12,812
Acquisition of subsidiaries	—	1,174
Impairment loss recognised (note 5)	816	2,914
Impairment loss reversed (note 5)	(682)	(865)
Amount written off as uncollectible	(460)	(1,334)
Exchange difference	624	(301)
At 30 June/31 December	14,698	14,400

Certain of the Group's trade receivables of approximately HK$96,432,000 (unaudited) (31 December 2016: HK$76,348,000 (audited)) were pledged to secure general banking facilities granted to the Group (note 19).

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Current		
Prepayments	22,666	22,976
Prepaid land lease payments	256	248
Deposits and other receivables	23,794	20,366
Due from a related party (note 26(3))	30	13
Due from an associate	1,187	—
	47,933	43,603
Non-current		
Prepayments for acquisition of subsidiaries	—	41,027
Deposits paid for purchase of property, plant and equipment	39,896	40,901
Long term prepayments and deposits	13,136	—
	53,032	81,928

16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Cash and bank balances	236,716	318,245
Time deposits	15,833	22,485
	252,549	340,730
Less: Pledged deposits	(11,337)	(3,726)
Cash and cash equivalents	241,212	337,004

17. TRADE PAYABLES

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

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

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

18. OTHER PAYABLES AND ACCRUALS

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Current		
Deferred rent	329	296
Deferred income	1,125	483
Consideration payable	3,610	3,610
Contingent consideration (note 27)	3,188	2,277
Deposits received from customers	3,537	1,434
Accruals	128,260	117,702
Due to related parties (note 26(3))	466	493
Dividend payables	9,000	—
Other payables	16,535	20,579
	166,050	146,874
Other non-current liabilities		
Deferred rent	2,760	6,004
Deferred income	1,133	1,205
Contingent consideration (note 27)	—	1,495
	3,893	8,704

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

19. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
	Effective/ contractual interest rate (%)	HK$'000	Effective/ contractual interest rate (%)	HK$'000
Current				
Finance lease payables (note 20)	4.53-8.50	1,464	4.53-8.50	1,769
Bank loans – secured	LIBOR+(2.60)	77,500	LIBOR+(2.60)	77,500
Current portion of long term bank loans – secured	LIBOR+(2.60)	126,610	LIBOR+(2.60)	111,477
		205,574		190,746
Non-current				
Finance lease payables (note 20)	4.53-8.50	623	4.53-8.50	812
Long term bank loans – secured	LIBOR+(2.60)	358,915	LIBOR+(2.60)	429,638
		359,538		430,450
		565,112		621,196

19. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Analysed into:		
Bank loans and bank overdrafts repayable:		
Within one year or on demand	204,110	188,977
In the second year	142,485	141,794
In the third to fifth years, inclusive	216,430	287,844
	563,025	618,615
Finance lease payables (note 20):		
Within one year	1,464	1,769
In the second year	356	466
In the third to fifth years, inclusive	267	346
	2,087	2,581
	565,112	621,196

Notes:

(a) On 6 November 2015, the Group has drawn down a US$75 million 5 year term loan and a US$10 million revolving credit facility, and has repaid the majority of its previous bank loan facilities in the same month. The principal and interest payments for existing loan facilities will be repaid according to the loan agreements. As at 30 June 2017 and 31 December 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 2017 (unaudited), the Group's bank borrowings denominated in United States Dollar ("US$") and Canadian Dollar ("CAD") amounted to HK$562,846,000 and HK$179,000 respectively. The Group's finance lease payables denominated in Hong Kong Dollar ("HK$"), Australian Dollar ("AUD") and US$ amounted to HK$21,000, HK$1,700,000 and HK$366,000 respectively.

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

20. 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 2017 and 31 December 2016, 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 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Amounts payable:				
Within one year	1,515	1,808	1,464	1,769
In the second year	374	545	356	466
In the third to fifth years, inclusive	277	360	267	346
Total minimum finance lease payments	2,166	2,713	2,087	2,581
Future finance charges	(79)	(132)		
Total net finance lease payables	2,087	2,581		
Portion classified as current liabilities (note 19)	(1,464)	(1,769)		
Non-current portion (note 19)	623	812		

21. SHARE CAPITAL

	30 June 2017 (Unaudited) US'000	31 December 2016 (Audited) US'000
Shares		
Issued and fully paid:		
1,000,000,000 (31 December 2016: 1,000,000,000) ordinary shares of US$0.01 each	10,000	10,000
Equivalent to HK$'000	77,500	77,500

There is no movement in the Company's share capital during the six months ended 30 June 2017.

22. 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 capitalisation 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 capitalisation 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.

22. 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 2017:

	Exercise price	Number of RSUs
At 1 January 2016	—	8,149,038
Forfeited during the year	—	(317,545)
Exercised during the year	—	(4,233,385)
At 31 December 2016 and at 1 January 2017	—	3,598,108
Forfeited during the period	—	(165,000)
At 30 June 2017	—	3,433,108

The RSUs shall vest as follows:

(i) 50% of the RSUs awarded shall vest on the first anniversary of the date of listing of the Company, i.e. 15 December 2015; and

(ii) 50% of the RSUs awarded shall vest on the second anniversary of the date of listing of the Company.

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$3,852,000 during the six months ended 30 June 2017 (unaudited) (six months ended 30 June 2016: HK$11,796,000 (unaudited)).

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.

23. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2017 and 31 December 2016.

24. BUSINESS COMBINATION

ACQUISITION OF SCHMIDT DENTALKERAMIK APS ("SCHMIDT")

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

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

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	10	631
Inventories		136
Trade receivables		608
Prepayments, deposits and other receivables		191
Cash and cash equivalents		1,527
Trade payables		(129)
Other payables and accruals		(834)
Tax payable		(332)
Deferred tax liabilities		(12)
Total identifiable net assets at fair value		1,786
Goodwill on acquisition	11	7,345
		9,131
Satisfied by:		
Cash		9,131

24. BUSINESS COMBINATION (CONTINUED)

ACQUISITION OF SCHMIDT DENTALKERAMIK APS ("SCHMIDT") (CONTINUED)

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

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

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

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

	HK$'000
Total consideration	(9,131)
Prepayment paid in the year ended 31 December 2016	6,950
Cash consideration paid in the six months ended 30 June 2017	(2,181)
Cash and bank balances obtained	1,527
Net outflow of cash and cash equivalents included in cash flow from investing activities in the six months ended 30 June 2017	(654)
Transaction costs of the acquisition included in cash flow from operating activities in the six months ended 30 June 2017	(520)
	(1,174)

Since the acquisition, Schmidt had generated HK$4,753,000 to the Group's turnover and profit of HK$1,208,000 to the Group's profit for the six months ended 30 June 2017.

24. BUSINESS COMBINATION (CONTINUED)

ACQUISITION OF CDI DENTAL AB AND CDI SUPPLY AB ("CDI")

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

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

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	10	917
Inventories		1,102
Trade receivables		3,199
Prepayments, deposits and other receivables		4,824
Cash and cash equivalents		1,289
Trade payables		(1,524)
Other payables and accruals		(3,250)
Interest-bearing bank and other borrowings		(117)
Tax payable		(1,006)
Total identifiable net assets at fair value		5,434
Goodwill on acquisition	11	27,715
		33,149
Satisfied by:		
Cash		33,149

24. BUSINESS COMBINATION (CONTINUED)

ACQUISITION OF CDI DENTAL AB AND CDI SUPPLY AB ("CDI") (CONTINUED)

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

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

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

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

	HK$'000
Total consideration	(33,149)
Prepayment paid in the year ended 31 December 2016	34,077
Cash consideration refunded in the six months ended 30 June 2017	928
Cash and bank balances obtained	1,289
Net inflow of cash and cash equivalents included in cash flow from investing activities in the six months ended 30 June 2017	2,217
Transaction costs of the acquisition included in cash flow from operating activities in the six months ended 30 June 2017	(1,176)
	1,041

Since the acquisition, CDI had generated HK$15,980,000 to the Group's turnover and profit of HK$1,395,000 to the Group's profit for the six months ended 30 June 2017.

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 2017 would have been HK$1,084,440,000 and HK$85,441,000, respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

25. COMMITMENTS

		30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Contracted, but not provided for land and buildings	(1)	249,895	262,609
Interests in associates	(2)	6,015	—
Contracted, but not provided for property, plant and equipment		6,869	—
		262,779	262,609

(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$283,436,000) 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 2017, the Group has prepaid RMB29,111,000 (equivalent to HK$33,541,000) and the remaining commitment was RMB216,889,000 (equivalent to HK$249,895,000).

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

26. RELATED PARTY TRANSACTIONS

(1) TRANSACTIONS WITH RELATED PARTIES

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	
	Notes	2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
Rental fee paid to Most Wealth International Limited	(i)	1,281	1,026
Rental fee paid to directors	(ii)	547	—
Rental fee paid to directors and an associate of a director	(iii)	988	—
Rental fee paid to an associate of a director	(iv)	87	—
Rental fee paid to an associate of a director	(v)	65	—
Rental fee paid to an associate of a director	(vi)	195	—
Training fee paid to ShenZhen Nanshan District Modern Denture Technology Training Centre	(vii)	5,312	2,957
Sales of finished goods to Trident Dental Group Limited	(viii)	42	42

Notes:

(i) Most Wealth International Limited ("Most Wealth") is controlled by Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and Mr. Ngai Shing Kin. The transactions with Most Wealth were made on prices and conditions as mutually agreed.

(ii) Rental fee was paid to Mr. Chan Kwun Fung and Mr. Chan Kwun Pan. The Tenancy Agreements were entered into on an arm's length negotiations.

(iii) Rental fee was paid to Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and an associate ("Landlord C") of Mr. Ngai Shing Kin. The Tenancy Agreements were entered into on an arm's length negotiations.

(iv) Rental fee was paid to an associate ("Landlord B") of Mr. Chan Kwun Pan. The Tenancy Agreements were entered into on an arm's length negotiations.

(v) Rental fee was paid to Landlord C. The Tenancy Agreements were entered into on an arm's length negotiations.

(vi) Rental fee was paid to an associate ("Landlord A") of Mr. Chan Kwun Fung. The Tenancy Agreements were entered into on an arm's length negotiations.

(vii) ShenZhen Nanshan District Modern Denture Technology Training Centre (the "Centre") has a common director, Mr. Ngai Shing Kin. The transactions with the Centre were made on prices and conditions as mutually agreed.

(viii) Trident Dental Group Limited is ultimately 33.3% owned by Dr. Chan Ronald Yik Long,. The transactions with 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 Dr. Chan Ronald Yik Long are shareholders and directors of the Company.

The related party transactions in respect of items (i), (ii), (iii), (iv), (v), (vi) and (viii) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

26. RELATED PARTY TRANSACTIONS (CONTINUED)

(2) COMMITMENTS WITH RELATED PARTIES

(a) For the purposes of commercial use, on 26 August 2016, Modern Dental Laboratory Company Limited ("MDLCL"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Most Wealth, a company controlled by Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and Mr. Ngai Shing Kin. Pursuant to the agreement, Most Wealth should lease the premises to MDLCL for a term of two years from 1 September 2016 to 31 August 2018 at a monthly rent of HK$213,850.

(b) For the purposes of residential use, on 30 December 2016, Modern Dental Laboratory (Shenzhen) Company Limited ("MDLSZ"), a wholly-owned subsidiary of the Company, entered into four tenancy agreements (the "Residential Tenancy Agreements 1-4") with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan, executive Directors and substantial shareholders of the Company. Pursuant to the Residential Tenancy Agreements 1-4, Mr. Chan Kwun Fung and Mr. Chan Kwun Pan shall lease premises to MDLSZ for a term of two years from 1 January 2017 to 31 December 2018 at a monthly rent of RMB20,568, RMB 20,268, RMB 19,968, RMB 19,668 respectively.

(c) For the purposes of residential use, on 30 December 2016, MDLSZ entered into eight tenancy agreements (the "Residential Tenancy Agreements 5-12") with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan, executive Directors and substantial shareholders of the Company, and Landlord C. Pursuant to the Residential Tenancy Agreements 5-12, Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and Landlord C shall lease premises to MDLSZ for a term of two years from 1 January 2017 to 31 December 2018 at a monthly rent of RMB20,214, RMB19,714, RMB19,214, RMB18,714, RMB18,214, RMB17,714, RMB17,214, RMB14,308, respectively.

(d) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "Residential Tenancy Agreement 13") with Landlord B. Pursuant to the Residential Tenancy Agreement 13, Landlord B shall lease premises to MDLSZ for a term of two years from 1 January 2017 to 31 December 2018 at a monthly rent of RMB12,738.

(e) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "Residential Tenancy Agreement 14") with Landlord C. Pursuant to the Residential Tenancy Agreement 14, Landlord C shall lease premises to MDLSZ for a term of two years from 1 January 2017 to 31 December 2018 at a monthly rent of RMB9,553.

(f) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "Residential Tenancy Agreement 15") with Landlord A. Pursuant to the Residential Tenancy Agreement 15, Landlord A shall lease premises to MDLSZ for a term of two years from 1 January 2017 to 31 December 2018 at a monthly rent of RMB28,660.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

26. RELATED PARTY TRANSACTIONS (CONTINUED)

(3) BALANCES WITH RELATED PARTIES

At 30 June 2017, the Group's balances with related parties were as follows:

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Due from a related party:		
Trident Dental Group Limited	30	13
Due to related parties:		
Shenzhen Nanshan District Modern Denture Technology Training Centre	252	66
Most Wealth International Limited	214	427
	466	493

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.

(4) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	Six months ended 30 June	
	2017 (Unaudited) HK$'000	2016 (Unaudited) HK$'000
Short term employee benefits	11,605	12,237
Equity-settled Pre-IPO RSU Scheme expense	1,871	5,898
Post-employment benefits	869	1,797
Total compensation paid to key management personnel	14,345	19,932

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.

27. 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 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Financial liabilities				
Contingent consideration	3,188	3,772	3,188	3,772
Interest-bearing bank loans and other borrowings	565,112	621,196	565,112	621,196
	568,300	624,968	568,300	624,968

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:

The fair values of finance lease payables, interest-bearing bank 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 and other borrowings as at 30 June 2017 was assessed to be insignificant.

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.

27. 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:

Liabilities measured at fair values:

As at 30 June 2017

	Fair value measurement using			
	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$'000	Total (Unaudited) HK$'000
Contingent consideration	—	—	3,188	3,188
	—	—	3,188	3,188

As at 31 December 2016

	Fair value measurement using			
	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$'000	Total (Audited) HK$'000
Contingent consideration	—	—	3,772	3,772
	—	—	3,772	3,772

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

Liabilities measured at fair values: (continued)

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

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Contingent consideration		
At 1 January	3,772	1,362
Acquisition of a subsidiary	—	3,187
Settlement of contingent consideration	(775)	(775)
Total loss recognised in profit or loss included in other operating expenses	—	196
Exchange realignment	191	(198)
At 30 June/31 December	3,188	3,772

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 (2016: Nil).

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

Liabilities for which fair values are disclosed:

As at 30 June 2017

	Fair value measurement using			
	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$'000	Total (Unaudited) HK$'000
Interest-bearing bank loans and other borrowings	—	565,112	—	565,112

As at 31 December 2016

	Fair value measurement using			
	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$'000	Total (Audited) HK$'000
Interest-bearing bank loans and other borrowings	—	621,196	—	621,196

28. 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 23 August 2017.

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)*
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. KWAN Ngai Kit

AUTHORISED REPRESENTATIVES

Mr. NGAI Shing Kin
Mr. KWAN Ngai Kit

AUDITOR

Ernst & Young

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

Conyers 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.
The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISER

Loeb & Loeb LLP

COMPANY WEBSITE

www.moderndentalgp.com

STOCK CODE

3600