MODERN Dental Group

MODERN DENTAL GROUP LIMITED
現代牙科集團有限公司

(a company incorporated in the Cayman Islands with limited liability)

Stock code: 3600

2018 INTERIM REPORT

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BUSINESS REVIEW

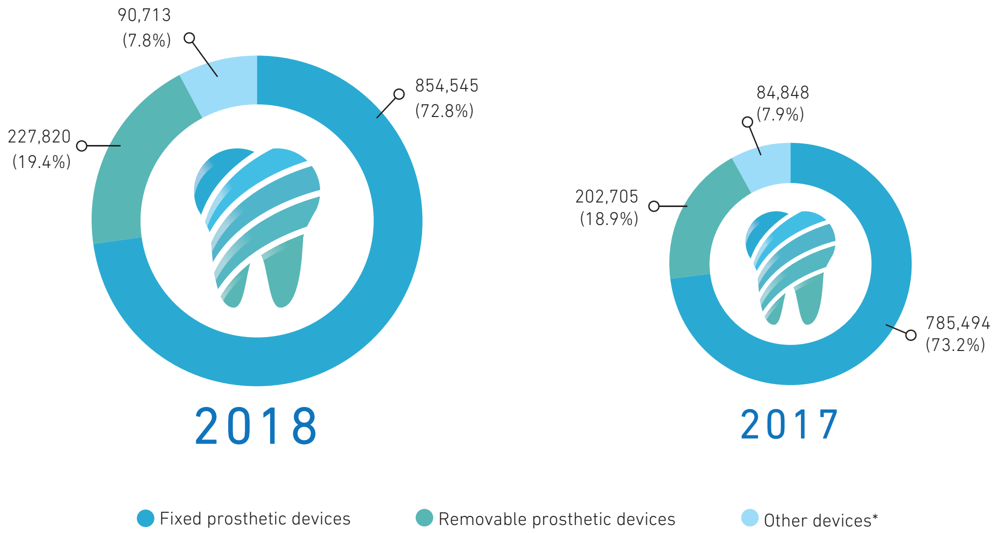
Modern Dental Group Limited (the "**Company**", stock code: 3600) and its subsidiaries (which are collectively referred to as the "**Group**" or "**Modern Dental**") is a leading global dental prosthetic device provider with a focus on providing custom-made prostheses to customers in the growing prosthetics 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 others 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 2018 and 2017 respectively:

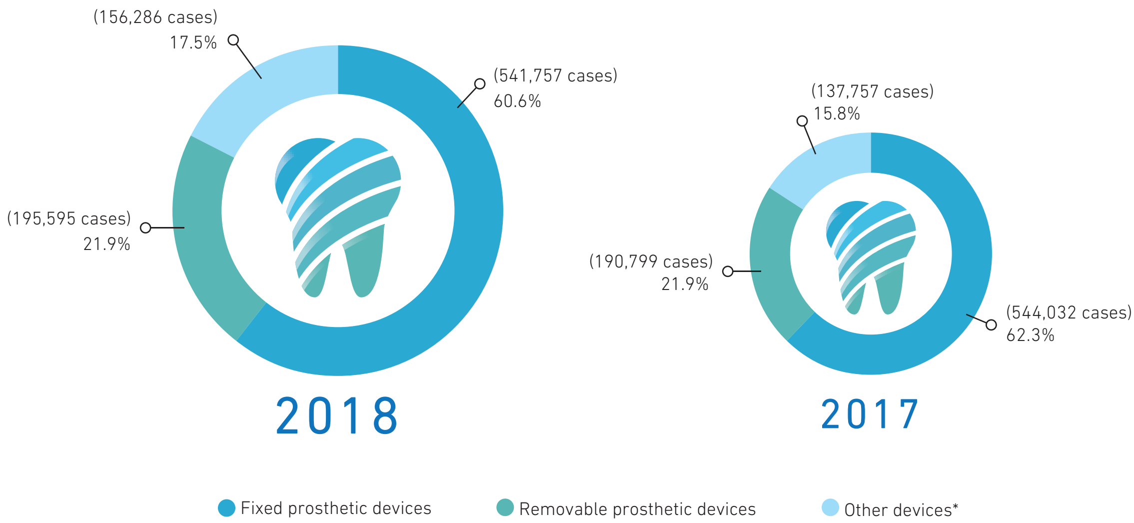
BREAKDOWN OF REVENUE

(HK$'000 and %)



BREAKDOWN OF SALES VOLUME

(no. of cases and %)



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

FIXED PROSTHETIC DEVICES

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

During the period under review, the fixed prosthetic devices business segment recorded a revenue of approximately HK$854,545,000, representing an increase of approximately HK$69,051,000 as compared with the six months ended 30 June 2017. This business segment accounted for approximately 72.8% of the Group's total revenue as compared with approximately 73.2% in the six months ended 30 June 2017.

REMOVABLE PROSTHETIC DEVICES

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

During the period under review, the removable prosthetic devices business segment recorded a revenue of approximately HK$227,820,000, representing an increase of approximately HK$25,115,000 as compared with the six months ended 30 June 2017. This business segment accounted for approximately 19.4% of the Group's total revenue as compared with approximately 18.9% in the six months ended 30 June 2017.

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$90,713,000, representing an increase of approximately HK$5,865,000 as compared with the six months ended 30 June 2017. This business segment accounting for approximately 7.8% of the Group's total revenue as compared with approximately 7.9% in the six months ended 30 June 2017.

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 2018 and 2017 respectively:

	Six months ended 30 June					
	2018			2017		
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	**541,757**	**854,545**	**1,577**	544,032	785,494	1,444
Removable prosthetic devices	**195,595**	**227,820**	**1,165**	190,799	202,705	1,062
Other devices*	**156,286**	**90,713**	**580**	137,757	84,848	616
Total	**893,638**	**1,173,078**	**1,313**	872,588	1,073,047	1,230

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

MANAGEMENT DISCUSSION AND ANALYSIS

SALES VOLUME AND AVERAGE SELLING PRICE

For the six months ended 30 June 2018, the sales volume and average selling price of the Group's products across its markets were 893,638 cases (six months ended 30 June 2017: 872,588 cases) and HK$1,313 per case (six months ended 30 June 2017: HK$1,230 per case), representing an increase of 2.4% and 6.7%, 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			
		2018		2017	
Market	Original currency	**Conversion rate # (Original currency per HK$)**	**Revenue (HK$'000)**	Conversion rate # (Original currency per HK$)	Revenue (HK$'000)
Europe*	EUR	**9.49**	**480,749**	8.43	411,113
North America	US$	**7.75**	**350,715**	7.75	357,761
Greater China**	RMB	**1.23**	**223,917**	1.13	196,381
Australia***	AUD	**6.05**	**109,975**	5.88	100,959
Others			**7,722**		6,833
Total			**1,173,078**		1,073,047

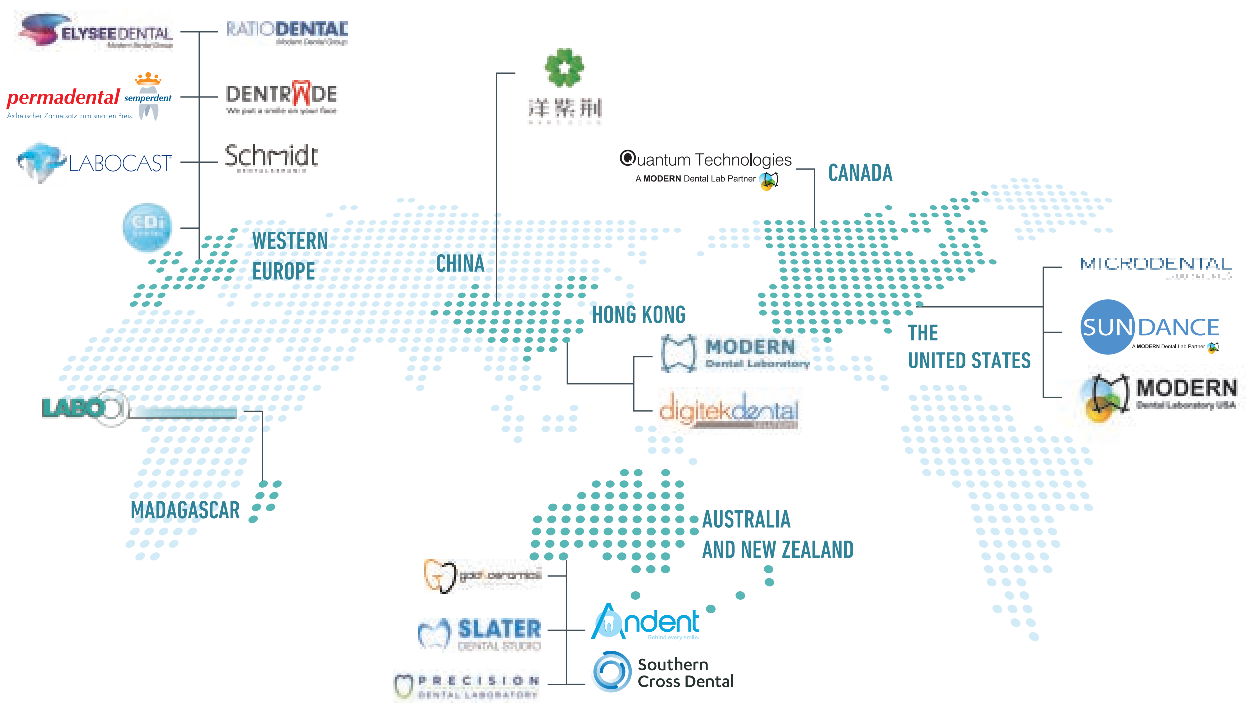
* The dental equipment revenue is subtracted from the European revenue.

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

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

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 well-respected, long-established and trusted brands. Generally, the Group outperformed the overall market to further increase our market share, through acquisitions and organic growth. Our sales and marketing efforts yielded positive results and this was reflected in the strong growth in our revenue in this market, in particular, our PRC-made imports. This growth has been product- and customer-led, as customers are typically purchasing different products from our broad product line. We offer comparatively more competitive prices for products of comparable quality in the market with high quality customer services.

One key strategy in Europe is to offer existing clients comprehensive products, including technologically advanced and traditional products, and better local services such as providing quicker and more efficient turnaround time through our satellite local laboratories which are in close proximity to our clients. The Group is in a position to match our clients' high expectations through our various onshore and offshore resources. Through our improved local presence, the Group is in a better position to attract new customers from local competitors in additional market segments. At the same time, our team and management are working intensively on growth strategies and synergies, on a range of new products (in particular, orthodontic treatments and anti-snoring appliances), on being at the forefront of continuous education and training programs, and innovations to stimulate further growth. As our newly acquired companies integrate into the Group, we expect to capture further cost-savings and synergies. In Europe, we have a geographically diversified business model which puts us in a strong position for seizing acquisition opportunities going forward. At the same time, we have organic growth drivers such as improved marketing and sales, brand awareness, track-record in quality and customer service, providing value-added services to our clients and in turn, consolidating our reputation as being a one-stop shop for our customers.

During the period under review, the European market recorded a revenue of approximately HK$480,749,000, representing an increase of approximately HK$69,636,000 as compared with the six months ended 30 June 2017. Together with the sales of dental equipment of approximately HK$6,686,000, this geographic market accounted for 41.1% of the Group's total revenue as compared with approximately 38.3% in the six months ended 30 June 2017. The increase of revenue from the European market was largely attributable to (i) appreciation of Euro against Hong Kong dollars; (ii) the organic growth in sales volume; and (iii) the annual increment of the retail price to the dentists.

NORTH AMERICA

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

RTFP Dental Inc. and its subsidiaries ("**MicroDental Group**") contributed approximately HK$249,725,000 (six months ended 30 June 2017: HK$260,144,000) to the Group's revenue, approximately HK$552,000 (six months ended 30 June 2017: HK$1,510,000) to the Group's Adjusted EBITDA and approximately HK$9,045,000 (six months ended 30 June 2017: HK$5,292,000) of loss to the Group's profit for the six months ended 30 June 2018. The loss of approximately HK$9,045,000 for the six months ended 30 June 2018 included (i) non-cash depreciation and amortisation of approximately HK$5,659,000; and (ii) non-recurring expenses, such as one-off costs in connection with the restructuring and reorganisations of approximately HK$3,600,000. 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 strategically place each of our products at the optimal price-point; (iii) to capitalise on existing and future synergies, utilise MicroDental Group's 40 year brand history, its extensive distribution network and its very experienced employees; and (iv) cost restructuring, effectively leveraging existing resources and minimizing any overlap of resources.

With our Group's onshore and offshore North American production capabilities, we are in a unique position to offer customers a wide range of onshore-and offshore-made products, improve customer services and shorten turnaround time. Our expanded North American distribution network is an useful platform for the Group to effectively promote new products. In particular, the Group entered into an exclusive distribution agreement with Oventus Medical Ltd (ASX:OVN) for the United States market. The Group is expected to further utilise its extensive North American distribution network for its existing products as well as new products.

The dental prosthetics market in North America grew during the period under review due to various factors. The aging population had a direct impact on the demand for dental prosthetic devices. In addition, since the promulgation of the Affordable Care Act in 2010, the coverage of health insurance has expanded. Moreover, the United States government has been funding and promoting oral health awareness.

During the period under review, the North American market recorded a revenue of approximately HK$350,715,000, representing a decrease of approximately HK$7,046,000 as compared with the six months ended 30 June 2017. This geographic market accounted for approximately 29.6% of the Group's total revenue as compared with approximately 33.1% in the six months ended 30 June 2017. The decrease of revenue from the North American market was largely attributable to decrease in both ASP and sales volume at MicroDental Group as a result of the temporary distortions arose from restructuring and reorganisations, such as relocation of the major production facilities and closure of inefficient locations, in the period under review.

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 Greater China market positively rebounded in the period under review, as each of Mainland China and Hong Kong markets recorded a mid-teens increase in revenue in Hong Kong dollars during the period due to the Group's strategy of focusing on building better relationships with, and attracting new clients from, private clinics in first tier cities in Mainland China. Another key strategy was to expand our geographic presence, such as improving our sales and marketing strategies, customer service and technical service teams to provide customers with a higher quality service. The Group has been actively looking for acquisitions or strategic co-operation opportunities in Greater China. STM Digital Dentistry Holding Limited ("**STM Digital**") was established in Hong Kong in cooperation with the Straumann Group in order to widen our coverage in the premium Chinese market. STM Digital was established for 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 Greater China market as we expect our production volume will increase significantly.

During the period under review, the Greater China market recorded a revenue of approximately HK$223,917,000, representing an increase of approximately HK$27,536,000 as compared with the six months ended 30 June 2017. Together with the sales of raw materials and dental equipment of approximately HK$1,532,000, this geographic market accounted for approximately 19.0% of the Group's total revenue as compared with approximately 18.4% in the six months ended 30 June 2017. The increase of revenue from the Greater China market was largely attributable to (i) the appreciation of RMB against HK$; (ii) the increase in sales of higher value products and; (iii) the volume growth during the period.

AUSTRALIA

The Australian market includes both Australia and New Zealand. In Australia and New Zealand, individuals are primarily responsible for financing their own dental treatments.

Through our various brands, which offer onshore-and offshore-made products, at multiple price points ranging from economy and standard to premium/boutique, the Group is able to effectively penetrate the entire Australian market. Similar to our strategy in Europe, where the Group is focusing on providing better local service, we have invested in local production capacity to provide faster service to our customers, and to provide choices around where the products are made. The Group is one of the largest players in the Australian market, and has achieved solid revenue growth despite difficult underlying market conditions. The Group continues to grow sales volume, despite increased competition and continual industry pressure on price points and service levels. The Group is a preferred supplier to all the major corporate dental groups in the market.

During the period under review, the Australian market recorded a revenue of approximately HK$109,975,000, representing an increase of approximately HK$9,016,000 as compared with the six months ended 30 June 2017. Together with the service revenue generated from rendering educational events and seminars of approximately HK$3,561,000, this geographic market accounted for approximately 9.6% of the Group's total revenue as compared with approximately 9.6% in the six months ended 30 June 2017. The increase in the revenue from the Australian market was largely attributable to the increase in sales volume during the period under review.

OTHERS

Other markets primarily include Indian Ocean countries, Japan and Singapore. During the period under review, these markets recorded a revenue of approximately HK$7,722,000, representing an increase of approximately HK$889,000 as compared with the six months ended 30 June 2017. This geographic market accounted for approximately 0.7% of the Group's total revenue as compared with approximately 0.6% in the six months ended 30 June 2017.

FUTURE PROSPECTS AND STRATEGIES

The board (the "**Board**") of directors (the "**Directors**") expects the global demand for dental prosthetics continues to be stable and increasing due to the growing global population and the aging population.

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

The construction of phase 1 of new production facilities in Dongguan is targeted to be completed in late 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 the labour costs in the future.

FINANCIAL REVIEW

REVENUE

During the period under review, the revenue of the Group amounted to approximately HK$1,184,857,000 representing an increase of approximately 9.5% as compared with approximately HK$1,082,185,000 in the six months ended 30 June 2017. The increase was mainly attributable to (i) appreciation of foreign currencies; (ii) the annual increment of retail prices to the dentists; and (iii) the organic growth in the sales volume.

GROSS PROFIT AND GROSS PROFIT MARGIN

The gross profit for the six months ended 30 June 2018 was approximately HK$561,045,000, which was approximately 4.8% higher than that of the six months ended 30 June 2017. The decrease of the gross profit margin of approximately 1.3% compared with year ended 31 December 2017 was mainly attributable to (i) the lower utilisation of production capacity as a result of restructuring and reorganisations activities in the current period and (ii) the appreciation of RMB against HK$ in the current period under review.

The gross profit margins of Fixed Prosthetic Devices business segment, Removable Prosthetic Devices business segment and Others business segment were approximately 47.1%, 46.6% and 51.1% respectively. The following table sets forth the breakdown of our gross profit and gross profit margin by product category.

Product category	Six months ended 30 June 2018 Gross profit HK$'000	2018 Gross profit margin (%)	2017 Gross profit HK$'000	2017 Gross profit margin (%)
Fixed prosthetic devices	**402,574**	**47.1**	383,373	48.8
Removable prosthetic devices	**106,061**	**46.6**	100,892	49.8
Others	**52,410**	**51.1**	51,290	54.6
Total	**561,045**	**47.4**	535,555	49.5

SELLING AND DISTRIBUTION EXPENSES

During the period under review, the selling and distribution expenses increased by approximately 8.5% from approximately HK$122,009,000 for the six months ended 30 June 2017 to approximately HK$132,353,000 for the six months ended 30 June 2018, accounting for approximately 11.2% of the Group's revenue, as compared with approximately 11.3% for the corresponding period in 2017. The increase in the selling and distribution expenses was primarily attributable to the increase in freight and transportation cost, salaries, bonuses, commissions and other benefits for sales personnel, which resulted from the increase in the Group's sales volume and appreciation of the EUR and RMB during the period under review.

ADMINISTRATIVE EXPENSES

During the period under review, the administrative expenses increased by approximately 4.1% from approximately HK$293,104,000 for the six months ended 30 June 2017 to approximately HK$305,067,000 for the six months ended 30 June 2018, accounting for approximately 25.7% of the Group's revenue, as compared with approximately 27.1% for the corresponding period in 2017. The increase in the administrative expenses was primarily attributable to an increase in the average salaries of our employees and appreciation of the EUR and RMB during the period under review.

OTHER OPERATING EXPENSES

During the period under review, the other operating expenses increased by approximately 945.6% from approximately HK$1,492,000 for the six months ended 30 June 2017 to approximately HK$15,601,000 for the six months ended 30 June 2018, accounting for approximately 1.3% of the Group's revenue, as compared with approximately 0.1% for the corresponding period in 2017. Other operating expenses mainly represented (i) exchange losses, net, incurred of approximately HK$15,014,000 which included exchange losses incurred upon re-financing of bank loans of approximately HK$13,130,000 (six months ended 30 June 2017: HK$1,279,000); and (ii) write-off of property, plant and equipment of approximately HK$226,000 (six months ended 30 June 2017: HK$190,000).

FINANCE COSTS

During the period under review, the finance costs increased by approximately 68.2% from approximately HK$14,155,000 for the six months ended 30 June 2017 to approximately HK$23,806,000 for the six months ended 30 June 2018, accounting for approximately 2.0% of the Group's revenue, as compared with approximately 1.3% for the corresponding period in 2017. The increase was primarily attributable to written off of unamortised loan arrangement fee of approximately of HK$12,333,000 upon re-financing of bank loans in January 2018.

INCOME TAX EXPENSE

During the period under review, the income tax expense decreased by approximately 6.9% from approximately HK$21,986,000 for the six months ended 30 June 2017 to approximately HK$20,471,000 for the six months ended 30 June 2018. The decrease was primarily attributable to decrease in the profit before tax.

PROFIT FOR THE PERIOD

Profit for the period decreased by approximately 21.1% from approximately HK$85,518,000 for the six months ended 30 June 2017 to approximately HK$67,464,000 for the six months ended 30 June 2018, accounting for approximately 5.7% of the Group's revenue, as compared with approximately 7.9% for the corresponding period in 2017. The decrease in profit was mainly caused by the re-financing of bank loans of the Group in January 2018 that resulted in the one-off write-off of capitalised interest and fee and related exchange losses of approximately HK$25,463,000 in aggregate.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company amounted to approximately HK$66,081,000, representing a decrease of approximately HK$18,619,000, or approximately 22.0%, as compared with approximately HK$84,700,000 for the corresponding period in 2017. The decrease in profit attributable to owners of the Company was mainly caused by the re-financing of bank loans of the Group in January 2018 that resulted in the one-off write-off of capitalised interest and fee and related exchange losses of approximately HK$25,463,000 in aggregate.

NON-IFRS MEASURES

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

EBITDA AND ADJUSTED EBITDA

During the period under review, the Company incurred some one-off expenses, which are not indicative of the operating performance of the business of the period. Therefore, the Company arrived at an adjusted EBITDA (the "**Adjusted EBITDA**") by eliminating the effects of certain non-cash or non-recurring items, including one-off transaction cost in connection with acquisitions and disposals, one-off cost in connection with restructuring and reorganisation, one-off cost in connection with re-financing of bank loans, the Pre-IPO RSU Scheme (as defined below) related expenses and remeasurement gain on contingent consideration. The table below indicates the profit for the six months ended 30 June 2018 and 2017, 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	
	2018	2017
	HK$'000	HK$'000
EBITDA and Adjusted EBITDA		
Net profit	**67,464**	85,518
Finance costs	**23,806**	14,155
Tax	**20,471**	21,986
Depreciation	**28,107**	23,811
Amortisation of intangible assets	**19,279**	17,939
Amortisation of prepaid land lease payments	**136**	126
Less:		
Interest income	**(204)**	(430)
EBITDA	**159,059**	163,105
One-off transaction cost in connection with acquisitions and disposals	**92**	6,562
One-off cost in connection with restructuring and reorganisation	**3,600**	—
One-off cost in connection with re-financing of bank loans	**13,130**	—
Pre-IPO RSU Scheme related expenses	**—**	4,007
Less:		
Remeasurement gain on contingent consideration	**(773)**	—
Adjusted EBITDA	**175,108**	173,674
Adjusted EBITDA Margin	**14.8%**	16.0%

LIQUIDITY AND FINANCIAL RESOURCES

CASH FLOWS

The table below summarises the Group's cash flows for the six months ended 30 June 2018 and 2017:

	Six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
Net cash flows from operating activities	**45,220**	51,820
Net cash flows used in investing activities	**(85,737)**	(82,444)
Net cash flows used in financing activities	**(1,704)**	(71,535)

The Group derives its working capital mainly from cash on hand, net cash generated from operating activities and financing activities. The Board expects that the Group will rely on the internally generated funds and the available bank facilities in the absence of unforeseen circumstances. There were no material changes in the funding and financial policies of the Group.

The Group's balance of cash and cash equivalents was approximately HK$337,959,000 as of 30 June 2018 (31 December 2017: approximately HK$368,660,000), which was mainly denominated in HK$, RMB, US$, EUR and AUD. Decrease in cash and cash equivalents was mainly due to payment for constructions of our production facilities in Dongguan.

OPERATING ACTIVITIES

Net cash flows from operating activities was approximately HK$45,220,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: HK$51,820,000). The decrease in net cash flows from operating activities was primarily attributable to decrease in cash generated from operations.

INVESTING ACTIVITIES

The Group recorded a net cash outflow used in investing activities of approximately HK$85,737,000 for the six months ended 30 June 2018, of which approximately HK$83,753,000 was used primarily for the expansion of our production facilities and upgrade of our computer-aided/manufacturing production equipment.

FINANCING ACTIVITIES

The Group recorded a net cash outflow used in financing activities of approximately HK$1,704,000 for the six months ended 30 June 2018. The outflow was mainly attributable to (i) net advancement of bank loans of approximately HK$42,825,000; (ii) payment of dividend of approximately HK$21,817,000 ; and (iii) payment of interest expenses of approximately HK$22,862,000.

CAPITAL EXPENDITURE

During the period under review, the Group's capital expenditure amounted to approximately HK$83,753,000 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 previously unutilised net proceeds from the listing of the shares of the Comapny on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 15 December 2015 (the "**Listing**").

CAPITAL STRUCTURE

BANK BORROWINGS

Bank loans of the Group as of 30 June 2018 amounted to approximately HK$786,059,000 as compared to approximately HK$716,561,000 as of 31 December 2017. Pledged bank deposits of the Group as of 30 June 2018 amounted to approximately HK$11,431,000 as compared to approximately HK$12,467,000 as of 31 December 2017. As of 30 June 2018, the bank loans of approximately HK$785,992,000 and approximately HK$67,000 were denominated in HK$ and CAD, respectively. As of 30 June 2018, all bank borrowings were at floating interest rates.

FINANCE LEASE PAYABLES

Finance lease payables of the Group as of 30 June 2018 amounted to approximately HK$600,000 as compared to approximately HK$897,000 as of 31 December 2017. As of 30 June 2018, the finance lease payables of approximately HK$11,000, approximately HK$504,000 and approximately HK$85,000 were denominated in HK$, AUD and US$, respectively. As of 30 June 2018, all finance lease payables were at fixed interest rates.

CASH AND CASH EQUIVALENTS

The amount in which cash and cash equivalents were held are set out in the paragraph headed "Liquidity and Financial Resources" on page 14 of this Interim Report.

GEARING RATIO

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital (equity attributable to owners of the Company) plus net debt. Net debt includes interest bearing bank and other borrowings, trade payables, other payables and accruals, other non-current liabilities, less cash and cash equivalents and pledged deposits. As of 30 June 2018, the gearing ratio of the Group was approximately 24.2%, reflecting that the Group's financial position was at a sound level.

DEBT SECURITIES

As of 30 June 2018, the Group did not have any debt securities.

CONTINGENT LIABILITIES

As of 30 June 2018, the Group did not have any material contingent liabilities or guarantees.

CHARGE OF GROUP ASSETS

During the period under review, Modern Dental Holding Limited, a subsidiary of the Company, entered into two bank loans facility agreements (the "**Facility Agreements**"), secured by corporate guarantees of the Company and certain of its subsidiaries. Pursuant to the Facility Agreements, if the aggregate shareholding of Mr. Chan Kwun Fung, Mr. Chan Kwun Pan, Dr. Chan Ronald Yik Long, Ms. Chan Yik Yu, Mr. Ngai Chi Ho Alwin and Mr. Ngai Shing Kin, directly or indirectly, in the Company's share capital ceases to be at least 50%, the commitment under the Facility Agreements will be cancelled and all the outstanding amounts under the Facility Agreements will become immediately due and payable.

COMMITMENTS

The investment agreement, 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 2018, the Group has paid approximately RMB72,891,000 and RMB11,094,000 for the construction in progress and acquisition of land, respectively, and the remaining commitment was approximately RMB162,015,000.

Save as disclosed above, the Group had no significant capital commitments as of 30 June 2018.

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

The Group had no material acquisitions, disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2018.

OFF-BALANCE SHEET TRANSACTIONS

As of 30 June 2018, the Group did not enter into any material off-balance sheet transactions.

IMPORTANT EVENTS AFTER THE PERIOD UNDER REVIEW

The Group has no important events after the reporting period up to the date of this Interim Report.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

GLOBAL ECONOMY

As a global business, the Group is exposed to the development of the global economy as well as the industries and geographical markets in which it operates. As a result, the Group's financial condition and results of operations may be influenced by the general state of the global economy or the general state of a specific market or economy. Any significant decrease in the level of economic growth in the global or regional or a specific economy could adversely affect the Group's financial condition or results of operations.

MERGERS AND ACQUISITIONS RISK

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

CENTRALIZATION OF PRODUCTION FACILITIES

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

INTEREST RATE RISK

Our exposure to the interest rate risk relates primarily to our long-term debt obligations with floating interest rates. We manage our interest rate exposure with a focus on reducing our overall cost of debt and exposure to changes in interest rate. Our management continues to monitor the cash flows of our operation and the debt markets, where we would expect to refinance these borrowings with a lower cost of debt when desirable. For the six months ended 30 June 2018, the effective interest rate on floating-rate bank loans was approximately HIBOR +1.6% 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.

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 HK1.9 cents per ordinary share for the six months ended 30 June 2018 (six months ended 30 June 2017: HK2.5 cents). The interim dividend will be paid on Monday, 8 October 2018 to the shareholders whose names appear on the Register of Members of the Company as at the close of business on Monday, 17 September 2018.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 13 September 2018 to Monday, 17 September 2018, 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 2018, unregistered holders of the shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 12 September 2018.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the Listing amounted to approximately HK$647,483,000, and such proceeds are intended to be applied in the manner consistent with that set out in the prospectus of the Company dated 3 December 2015 as follows:

	Available to utilise HK$'000	Utilised as at 30 June 2018 HK$'000	Unutilised as at 30 June 2018 HK$'000
Financing the strategic acquisitions and new facilities establishment of the Company in Mainland China	125,000	125,000	—
Financing the strategic acquisitions and new facilities establishment of the Company in overseas	375,000	375,000	—
Financing the marketing and promotion activities to enhance the brand awareness of the Company	41,483	41,483	—
Implementing the Long Term Development Plan	100,000	100,000	—
Replenishing the working capital of the Company and other general corporate purpose	6,000	6,000	—
	647,483	647,483	—

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 6,433 full-time employees at our production facilities, service centers, points of sales and other sites as of 30 June 2018, mainly including 5,002 production staff members, 503 general management staff members and 349 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 date of listing, i.e. 15 December 2015 (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.

OTHER INFORMATION

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

MANDATORY PROVIDENT FUND RETIREMENT BENEFIT SCHEME

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

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

As at 30 June 2018, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of 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:

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	466,000 *(Note 1)*	474,118,263	47.41%
	Other	3,450,000 *(Note 1)*		
	Interest of controlled corporation	470,202,263 *(Note 1)*		
Mr. Chan Kwun Pan	Beneficial owner	3,450,000 *(Note 1)*	474,118,263	47.41%
	Other	466,000 *(Note 1)*		
	Interest of controlled corporation	470,202,263 *(Note 1)*		
Mr. Ngai Shing Kin	Beneficial owner	4,191,345	98,040,998	9.80%
	Interest of controlled corporation	93,849,653 *(Note 2)*		
Mr. Ngai Chi Ho Alwin	Beneficial owner	277,934	63,122,304	6.31%
	Interest of controlled corporation	62,844,370 *(Note 3)*		

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 an 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 470,202,263 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 466,000 Shares owned by Mr. Chan Kwun Fung.
2. These Shares were held by Prosperity Worldwide Investment Holdings Limited, which is wholly-owned by Mr. Ngai Shing Kin.
3. 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 2018, 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 2018 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 2018, 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	470,202,263	47.02%
Prosperity Worldwide Investment Holdings Limited *(Note 2)*	Beneficial owner	93,849,653	9.38%
NCHA Holdings Limited *(Note 3)*	Beneficial owner	62,844,370	6.28%

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 2018, 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 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CHANGES OF DIRECTORS' INFORMATION

During the six months ended 30 June 2018 and up to the date of this Interim Report, changes in information of Directors are as follows:

1. Dr. Chan Yue Kwong Michael has been ceased to be the chairman of the Business Enterprise Management Centre of the Hong Kong Management Association and the member of the Business Facilitation Advisory Board since 1 July 2018.
2. Dr. Cheung Wai Bun Charles J.P. has been resigned as an independent non-executive director of China Taifeng Beddings Holdings Limited (stock code: 873) on 31 July 2018, the shares of the company is 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 Hong Ching was increased to HK$249,000 commencing from May 2018.

CORPORATE GOVERNANCE

During the six months ended 30 June 2018, the Company has complied with the applicable code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

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

The Company has adopted the Securities Dealing Code containing the provisions set out in the Model Code as set out in Appendix 10 to the Listing Rules, and after having made specific enquiries with regard to securities transactions by the Directors, all Directors have confirmed their compliance with the required standards set out in the Model Code regarding Directors' securities transactions during the six months ended 30 June 2018.

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 2018, including the accounting principles and practices adopted by the Group have been reviewed by 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 2018

	Notes	Six months ended 30 June **2018** **(Unaudited)** **HK$'000**	 2017 (Unaudited) HK$'000
REVENUE	4	**1,184,857**	1,082,185
Cost of sales		**(623,812)**	(546,630)
Gross profit		**561,045**	535,555
Other income and gains	4	**4,529**	2,709
Selling and distribution expenses		**(132,353)**	(122,009)
Administrative expenses		**(305,067)**	(293,104)
Other operating expenses		**(15,601)**	(1,492)
Finance costs	6	**(23,806)**	(14,155)
Share of losses of associates		**(812)**	—
PROFIT BEFORE TAX	5	**87,935**	107,504
Income tax expense	7	**(20,471)**	(21,986)
PROFIT FOR THE PERIOD		**67,464**	85,518
ATTRIBUTABLE TO:			
Owners of the Company		**66,081**	84,700
Non-controlling interests		**1,383**	818
		67,464	85,518
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	8	**HK6.61 cents**	HK8.50 cents
Diluted	8	**HK6.61 cents**	HK8.50 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT FOR THE PERIOD	**67,464**	85,518
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(66,356)**	108,100
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**(66,356)**	108,100
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,108**	193,618
ATTRIBUTABLE TO:		
Owners of the Company	**(155)**	192,732
Non-controlling interests	**1,263**	886
	1,108	193,618

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**414,661**	326,703
Prepaid land lease payments		**12,412**	12,652
Goodwill	11	**1,351,651**	1,389,250
Intangible assets	12	**355,405**	384,046
Investments in associates		**9,513**	10,325
Deferred tax assets		**10,086**	9,090
Long term prepayments and deposits	14	**21,231**	60,653
Total non-current assets		**2,174,959**	2,192,719
CURRENT ASSETS			
Inventories		**97,282**	81,861
Trade receivables	13	**428,574**	413,682
Prepayments, deposits and other receivables	14	**93,435**	59,858
Due from an associate		**—**	274
Current tax assets		**17,106**	10,709
Pledged deposits	15	**11,431**	12,467
Cash and cash equivalents	15	**337,959**	368,660
Total current assets		**985,787**	947,511
CURRENT LIABILITIES			
Trade payables	16	**54,655**	57,195
Other payables and accruals	17	**160,546**	179,947
Interest-bearing bank and other borrowings	18	**10,074**	270,360
Tax payable		**41,956**	43,477
Total current liabilities		**267,231**	550,979
NET CURRENT ASSETS		**718,556**	396,532
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,893,515**	2,589,251

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,893,515**	2,589,251
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	18	**776,585**	447,098
Deferred tax liabilities		**21,290**	23,379
Other non-current liabilities	17	**11,206**	13,781
Total non-current liabilities		**809,081**	484,258
NET ASSETS		**2,084,434**	2,104,993
EQUITY			
Equity attributable to owners of the Company			
Share capital	20	**77,500**	77,500
Treasury shares		**(39)**	(39)
Reserves		**1,998,874**	2,020,029
		2,076,335	2,097,490
Non-controlling interests		**8,099**	7,503
TOTAL EQUITY		**2,084,434**	2,104,993

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company									
	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 2018	77,500	723,069	(39)	8,967	575,265	(87,987)	800,715	2,097,490	7,503	2,104,993
Profit for the period	—	—	—	—	—	—	66,081	66,081	1,383	67,464
Other comprehensive loss for the period:										
Exchange differences on translation of foreign operations	—	—	—	—	—	(66,236)	—	(66,236)	(120)	(66,356)
Total comprehensive income for the period	—	—	—	—	—	(66,236)	66,081	(155)	1,263	1,108
Transfer from retained earnings	—	—	—	2,161	—	—	(2,161)	—	—	—
2017 final dividend	—	(21,000)	—	—	—	—	—	(21,000)	—	(21,000)
Capital contribution by non-controlling shareholders	—	—	—	—	—	—	—	—	150	150
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	—	(817)	(817)
At 30 June 2018 (unaudited)	77,500	702,069#	(39)	11,128#	575,265#	(154,223)#	864,635#	2,076,335	8,099	2,084,434

These reserve accounts comprise the consolidated reserves of approximately HK$1,998,874,000 (unaudited) (30 June 2017: HK$1,926,127,000 (unaudited)) in the interim condensed consolidated statements of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company									
	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 (notes 5, 21)	—	—	—	—	3,852	—	—	3,852	—	3,852
Capital contribution by non-controlling shareholders	—	—	—	—	—	—	—	—	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 CASH FLOWS

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**87,935**	107,504
Adjustments for:			
Finance costs	6	**23,806**	14,155
Bank interest income	4,5	**(204)**	(430)
Gains on disposal of items of property, plant and equipment, net	4,5	**(44)**	(17)
Remeasurement gain on contingent consideration	4,5	**(773)**	—
Write-off of property, plant and equipment	5	**226**	190
Depreciation and amortisation	5	**47,522**	41,876
Equity-settled Pre-IPO RSU Scheme expense	5	**—**	3,852
Share of losses of associates		**812**	—
		159,280	167,130
Increase in inventories		**(17,078)**	(17,187)
Increase in trade receivables		**(22,367)**	(46,862)
Increase in prepayments, deposits and other receivables		**(38,670)**	(12,426)
Increase in an amount due from a related party		**(112)**	(17)
Decrease in an amount due from an associate		**274**	—
Decrease in trade payables		**(2,263)**	(12,277)
Decrease/(increase) in other payables and accruals		**(1,279)**	2,083
Decrease in an amount due to related parties		**(1,072)**	(27)
Cash generated from operations		**76,713**	80,417
Interest received		**204**	430
Income tax paid		**(31,697)**	(29,027)
Net cash flows from operating activities		**45,220**	51,820

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 (Unaudited) HK$'000	Six months ended 30 June 2017 (Unaudited) HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		**(83,753)**	(64,921)
Proceeds from disposal of items of property, plant and equipment		**538**	913
Net cash inflow from acquisition of subsidiaries		**—**	1,563
Decrease/(increase) in pledged deposits	15	**1,036**	(7,611)
Settlement of contingent consideration	25	**(3,558)**	(775)
Capital contributions for investments in associates		**—**	(11,613)
Net cash flows used in investing activities		**(85,737)**	(82,444)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		**784,248**	—
Repayment of bank and other borrowings		**(741,423)**	(58,790)
Dividend paid		**(21,000)**	—
Interest paid		**(22,862)**	(11,566)
Dividend paid to non-controlling shareholders		**(817)**	(1,329)
Capital contribution by non-controlling shareholders		**150**	150
Net cash flows used in financing activities		**(1,704)**	(71,535)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(42,221)**	(102,159)
Effect of foreign exchange rate changes, net		**11,520**	6,367
Cash and cash equivalents at beginning of period		**368,660**	337,004
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**337,959**	241,212
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	15	**329,962**	236,716
Non-pledged time deposits with original maturity of less than three months when acquired	15	**7,997**	4,496
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position	15	**337,959**	241,212

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

1. CORPORATE AND GROUP INFORMATION

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

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange of Hong Kong Limited ("**Listing Rules**"), including compliance with International Accounting Standard 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 2017 annual financial statements. The interim condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017.

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

2.2 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards and interpretations effective as of 1 January 2018, noted below:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
IFRIC – Int 22	*Foreign Currency Transactions and Advance Consideration*

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.

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					
	2018			2017		
	(unaudited)			(unaudited)		
	Revenue	**Cost of sales**	**Gross profit**	Revenue	Cost of sales	Gross profit
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Fixed prosthetic devices	**854,545**	**451,971**	**402,574**	785,494	402,121	383,373
Removable prosthetic devices	**227,820**	**121,759**	**106,061**	202,705	101,813	100,892
Others	**102,492**	**50,082**	**52,410**	93,986	42,696	51,290
Total	**1,184,857**	**623,812**	**561,045**	1,082,185	546,630	535,555

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

3. OPERATING SEGMENT INFORMATION (CONTINUED)

GEOGRAPHICAL INFORMATION

(A) REVENUE FROM EXTERNAL CUSTOMERS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Europe	**487,435**	414,427
North America	**350,715**	357,761
Greater China	**225,449**	199,380
Australia	**113,536**	103,784
Others	**7,722**	6,833
	1,184,857	1,082,185

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

(B) NON-CURRENT ASSETS

	30 June	31 December
	2018	2017
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Europe	**759,917**	786,535
North America	**635,231**	627,253
Australia	**452,280**	484,947
Greater China	**246,823**	211,480
Others	**70,622**	73,414
	2,164,873	2,183,629

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	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Revenue		
Sale of goods	**1,184,857**	1,082,185
Other income		
Bank interest income	**204**	430
Government subsidies*	**1,428**	871
Others	**2,080**	1,391
	3,712	2,692
Gains		
Gains on disposal of items of property, plant and equipment, net	**44**	17
Remeasurement gain on contingent consideration	**773**	—
	817	17
Other income and gains	**4,529**	2,709

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

5. PROFIT BEFORE TAX

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

		Six months ended 30 June	
	Notes	**2018**	2017
		(Unaudited)	(Unaudited)
		HK$'000	HK$'000
Cost of inventories sold#		**623,812**	546,630
Depreciation	10	**28,107**	23,811
Amortisation of intangible assets	12	**19,279**	17,939
Amortisation of prepaid land lease payments		**136**	126
Minimum lease payments under operating leases		**34,581**	31,395
Auditors' remuneration		**2,322**	3,130
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages and salaries		**500,218**	439,173
Pension scheme contributions		**71,084**	65,773
Equity-settled Pre-IPO RSU Scheme expenses		**—**	3,852
		571,302	508,798
Bank interest income	4	**(204)**	(430)
Gains on disposal of items of property, plant and equipment, net	4	**(44)**	(17)
Remeasurement gain on contingent consideration	4	**(773)**	—
Write-off of property, plant and equipment*	10	**226**	190
Allowance for impairment of trade receivables, net	13	**268**	134
Foreign exchange loss, net*		**15,014**	1,279

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

\# Cost of inventories sold includes approximately HK$382,302,000 (unaudited) (six months ended 30 June 2017: HK$324,314,000 (unaudited)) relating to employee benefit expense, minimum lease payments under operating leases and depreciation, which are also included in the respective total amounts disclosed above for each of these types of expenses.

6. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on bank loans, overdrafts and other loans	**10,515**	11,507
Less: amount capitalised on qualifying assets	**(800)**	—
	9,715	11,507
Write-off of capitalised finance charges upon re-financing of bank loans	**12,333**	—
Finance charges on bank loans	**1,744**	2,589
Interest on finance leases	**14**	59
	23,806	14,155

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	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current – Hong Kong	**4,146**	4,024
Current – Elsewhere	**19,633**	24,275
Deferred	**(3,308)**	(6,313)
Total tax charge for the period	**20,471**	21,986

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

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

The calculation of the basic earnings per share amount is based on the profit for the six months ended 30 June 2018 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 999,501,955 (six months ended 30 June 2017: 996,310,049) 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 2018 attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**66,081**	84,700

	Number of shares	
	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation*	**999,501,955**	996,310,049

* The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2018. No adjustment had been made to the basic earnings per share amounts presented for six months ended 30 June 2017 in respect of a dilution as the impact of the shares outstanding under the Pre-IPO RSU Scheme had an anti-dilutive effect on the basic earnings per share amounts presented.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

9. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interim dividend	**19,000**	25,000

The Board declared an interim dividend of HK1.9 cents per share for the six months ended 30 June 2018 (six months ended 30 June 2017: HK2.5 cents).

The interim dividend is not recognised as a liability as at 30 June 2018 because it has been declared after the end of reporting period.

10. PROPERTY, PLANT AND EQUIPMENT

	30 June	31 December
	2018	2017
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Carrying amount at 1 January	**326,703**	173,238
Additions	**125,300**	193,687
Acquisition of subsidiaries	**—**	1,548
Disposals	**(494)**	(1,411)
Write-off	**(226)**	(895)
Depreciation provided during the period/year	**(28,107)**	(53,183)
Exchange realignment	**(8,515)**	13,719
Carrying amount at 30 June/31 December	**414,661**	326,703

As at 30 June 2018, none of the Group's equipment were pledged to secure general banking facilities granted to the Group (unaudited) (31 December 2017: equipment of HK$8,354,000 (audited) were pledged) (note 18).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

11. GOODWILL

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Carrying amount at 1 January	**1,389,250**	1,256,356
Acquisition of subsidiaries	**—**	35,060
Exchange realignment	**(37,599)**	97,834
Carrying amount at 30 June/31 December	**1,351,651**	1,389,250

12. INTANGIBLE ASSETS

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Carrying amount at 1 January	**384,046**	390,028
Additions	**1,755**	668
Amortisation provided during the period/year	**(19,279)**	(36,820)
Exchange realignment	**(11,117)**	30,170
Carrying amount at 30 June/31 December	**355,405**	384,046

13. TRADE RECEIVABLES

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Trade receivables	**446,870**	432,259
Impairment	**(18,296)**	(18,577)
	428,574	413,682

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

An aging analysis of the trade receivables as at 30 June 2018 and 31 December 2017, based on the invoice date and net of provision, is as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Within 1 month	**255,990**	230,243
1 to 2 months	**55,751**	68,439
2 to 3 months	**34,868**	31,311
3 months to 1 year	**67,423**	68,662
Over 1 year	**14,542**	15,027
	428,574	413,682

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

13. TRADE RECEIVABLES (CONTINUED)

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

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
At 1 January	**18,577**	14,400
Impairment loss recognised (note 5)	**353**	7,055
Impairment loss reversed (note 5)	**(85)**	(3,034)
Amount written off as uncollectible	**(52)**	(1,077)
Exchange realignment	**(497)**	1,233
At 30 June/31 December	**18,296**	18,577

As at 30 June 2018, none of the Group's trade receivables were pledged to secure general banking facilities granted to the Group (unaudited) (31 December 2017: trade receivables of HK$94,060,000 (audited) were pledged) (note 18).

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Current		
Prepayments	**50,113**	14,130
Prepaid land lease payments	**263**	265
Deposits and other receivables	**45,242**	47,767
Due from a related party (note 24(3))	**215**	103
	95,833	62,265
Impairment	**(2,398)**	(2,407)
	93,435	59,858
Non-current		
Prepayments	**9,194**	49,735
Deposits	**12,037**	10,918
	21,231	60,653

15. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Cash and bank balances	**329,962**	348,015
Time deposits	**19,428**	33,112
	349,390	381,127
Less: Pledged deposits	**(11,431)**	(12,467)
Cash and cash equivalents	**337,959**	368,660

16. TRADE PAYABLES

An aging analysis of the trade payables as at 30 June 2018 and 31 December 2017, based on the invoice date, is as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Within 1 month	**27,612**	42,862
1 to 2 months	**18,221**	9,285
2 to 3 months	**4,074**	3,146
Over 3 months	**4,748**	1,902
	54,655	57,195

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

17. OTHER PAYABLES AND ACCRUALS

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Current		
Deferred rent	**396**	420
Deferred income	**182**	209
Contingent consideration (note 25)	**—**	4,369
Deposits received from customers	**4,077**	2,320
Accruals	**138,470**	143,543
Other payables	**16,998**	27,591
Due to related parties (note 24(3))	**423**	1,495
	160,546	179,947
Other non-current liabilities		
Deferred rent	**10,041**	10,369
Deferred income	**1,165**	1,045
Other payables	**—**	2,367
	11,206	13,781

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

18. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2018 (Unaudited) Effective/ contractual interest rate(%)	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) Effective/ contractual interest rate (%)	31 December 2017 (Audited) HK$'000
Current				
Finance lease payables (note 19)	4.53	339	4.53	486
Bank loans – secured	—	—	London Interbank Offered Rate ("**LIBOR**") +2.60	77,500
Current portion of long term bank loans – secured	Hong Kong Interbank Offered Rate ("HIBOR") +1.60	9,735	LIBOR+2.60/ Euro Interbank Offered Rate ("**EURIBOR**") +2.35	192,374
		10,074		270,360
Non-current				
Finance lease payables (note 19)	4.53	261	4.53	411
Long term bank loans – secured	HIBOR+1.60	776,324	LIBOR+2.60/ EURIBOR+2.35	446,687
		776,585		447,098
		786,659		717,458

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

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**9,735**	269,874
In the second year	**82,022**	216,508
In the third to fifth years, inclusive	**694,302**	230,179
	786,059	716,561
Finance lease payables (note 19):		
Within one year	**339**	486
In the second year	**261**	272
In the third to fifth years, inclusive	**—**	139
	600	897
	786,659	717,458

Notes:

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

(b) As at 31 December 2017, all of the amounts borrowed from these facilities are guaranteed by the Company and certain of its subsidiaries and secured by the shares of certain subsidiaries as well as trade receivables of approximately HK$94,060,000, floating charges over cash and cash equivalents of approximately HK$114,722,000 and equipment of approximately HK$8,354,000.

(c) As at 30 June 2018 (unaudited), the Group's bank borrowings denominated in HK$ and Canadian Dollar ("**CAD**") amounted to approximately HK$785,992,000 and HK$67,000, respectively. The Group's finance lease payables denominated in HK$, Australian Dollar ("**AUD**") and United States Dollar ("**US$**") amounted to approximately HK$11,000, HK$504,000 and HK$85,000, respectively.

As at 31 December 2017 (audited), the Group's bank borrowings denominated in US$, Euro and CAD amounted to approximately HK$507,026,000, HK$209,413,000 and HK$122,000, respectively. The Group's finance lease payables denominated in HK$, AUD and US$ amounted to approximately HK$16,000, HK$659,000 and HK$222,000, respectively.

19. FINANCE LEASE PAYABLES

The Group leases certain of its furniture and fixtures for its denture business. These leases are classified as finance leases and have remaining lease terms within five years.

At 30 June 2018 and 31 December 2017, 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 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
Amounts payable:				
Within one year	**357**	511	**339**	486
In the second year	**267**	285	**261**	272
In the third to fifth years, inclusive	**—**	140	**—**	139
Total minimum finance lease payments	**624**	936	**600**	897
Future finance charges	**(24)**	(39)		
Total net finance lease payables	**600**	897		
Portion classified as current liabilities (note 18)	**(339)**	(486)		
Non-current portion (note 18)	**261**	411		

20. SHARE CAPITAL

	30 June 2018 (Unaudited) US$'000	31 December 2017 (Audited) US$'000
Shares		
Issued and fully paid:		
1,000,000,000 (31 December 2017: 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 2018.

21. PRE-IPO RESTRICTED SHARE UNIT SCHEME

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

Unless otherwise duly approved by the shareholders, the total number of shares underlying restricted share units (the "**RSUs**") under the Pre-IPO RSU Scheme shall not exceed 5,131,000, and following the 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.

21. PRE-IPO RESTRICTED SHARE UNIT SCHEME (CONTINUED)

The following RSUs were outstanding under the Pre-IPO RSU Scheme during the year ended 31 December 2017 and six months ended 30 June 2018:

	Exercise price	Number of RSUs
At 1 January 2017	—	3,598,108
Forfeited during the year	—	(180,500)
Exercised during the year	—	(3,417,608)
At 31 December 2017 (audited) and 30 June 2018 (unaudited)	—	—

The 5,131,000 RSUs which were granted on 19 June 2015 to the grantees 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$45,931,000, of which the Group recognised an employee benefit expense (credited to capital reserve) of HK$Nil during the six months ended 30 June 2018 (unaudited) (six months ended 30 June 2017: HK$3,852,000 (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.

22. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2018 and 31 December 2017.

23. COMMITMENTS

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Contracted, but not provided for:		
Leasehold improvement	**—**	2,994
Land and buildings	**192,167**	233,650
	192,167	236,644

An investment agreement was 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$291,780,000) 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. As at 30 June 2018, the Group has paid approximately RMB72,891,000 (equivalent to HK$86,455,000) and approximately RMB11,094,000 (equivalent to HK$13,158,000) for the construction in progress and acquisition of land, respectively, and the remaining commitment was approximately RMB162,015,000 (equivalent to HK$192,167,000).

Except for such agreement, the Group did not have any other significant commitments as at 30 June 2018 and 31 December 2017.

24. 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:

	Notes	Six months ended 30 June 2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000
Rental fee paid to Most Wealth International Limited	(i)	**1,281**	1,281
Rental fee paid to directors	(ii)	**593**	547
Rental fee paid to directors and an associate of a director	(iii)	**1,070**	988
Rental fee paid to an associate of a director	(iv)	**94**	87
Rental fee paid to an associate of a director	(v)	**70**	65
Rental fee paid to an associate of a director	(vi)	**211**	195
Training fee paid to ShenZhen Nanshan District Modern Denture Technology Training Centre	(vii)	**1,293**	5,312
Sales of finished goods to Trident Dental Group Limited	(viii)	**189**	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 prices and conditions as mutually agreed.

(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 prices and conditions as mutually agreed.

(iv) Rental fee was paid to an associate ("**Landlord B**") of Mr. Chan Kwun Pan. The tenancy agreements were entered into on prices and conditions as mutually agreed.

(v) Rental fee was paid to Landlord C. The tenancy agreements were entered into on prices and conditions as mutually agreed.

(vi) Rental fee was paid to an associate ("**Landlord A**") of Mr. Chan Kwun Fung. The tenancy agreements were entered into on prices and conditions as mutually agreed.

(vii) ShenZhen Nanshan District Modern Denture Technology Training Centre (the "**Centre**") and the Company 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.

24. 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.

24. RELATED PARTY TRANSACTIONS (CONTINUED)

(3) BALANCES WITH RELATED PARTIES

As at 30 June 2018 and 31 December 2017, the Group's balances with related parties were as follows:

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Due from a related party:		
Trident Dental Group Limited	215	103
Due to related parties:		
Shenzhen Nanshan District Modern Denture Technology Training Centre	248	—
Most Wealth International Limited	175	1,495
	423	1,495

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

(4) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	Six months ended 30 June	
	2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000
Short term employee benefits	14,510	11,605
Equity-settled Pre-IPO RSU Scheme expense	—	1,871
Post-employment benefits	964	869
Total compensation paid to key management personnel	15,474	14,345

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

25. 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 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
Financial liabilities				
Contingent consideration	**—**	4,369	**—**	4,369
Interest-bearing bank and other borrowings	**786,659**	717,458	**786,659**	717,458
	786,659	721,827	**786,659**	721,827

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, amounts due from/to related parties, an amount due from an associate 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 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 2018 was assessed to be insignificant. The fair value of contingent consideration in relation to the acquisition of subsidiaries has been calculated by discounting the expected values of future payments.

25. 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 2018

	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	**—**	**—**	**—**	**—**

As at 31 December 2017

	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	—	—	4,369	4,369

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

	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Contingent consideration		
At 1 January	**4,369**	3,772
Settlement of contingent consideration	**(3,558)**	(775)
Total (gain)/loss recognised in profit or loss	**(773)**	1,096
Exchange realignment	**(38)**	276
At 30 June/31 December	**—**	4,369

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 (2017: Nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

25. 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 2018

	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 and other borrowings	—	786,659	—	786,659

As at 31 December 2017

	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 and other borrowings	—	717,458	—	717,458

26. 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 30 August 2018.

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
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Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Chiyu Banking Corporation Limited
Australia and New Zealand Banking Group Limited,
Hong Kong Branch

LEGAL ADVISER

Loeb & Loeb LLP

COMPANY WEBSITE

www.moderndentalgp.com

STOCK CODE

3600