



# 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

**2017**  
ANNUAL  
REPORT





# DERN Laboratory

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## 2 CHAIRMAN'S STATEMENT

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

Chan Kwun Fung  
Chairman



Dear shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Modern Dental Group Limited (the "**Company**", stock code: 3600), I hereby present the annual results of the Company and its subsidiaries (which are collectively referred to as the "**Group**" or "**Modern Dental**") for the year ended 31 December 2017.

Modern Dental is a leading global dental prosthetic device provider with, to the best of our knowledge, the largest market share in Western Europe, Australia, China and Hong Kong, and one of the leading players in North America. The global dental prosthetics industry has been growing consistently in recent years and is expected to continue the momentum as it is driven by the rising demand for cosmetic dentistry, growing awareness of oral health, rising disposable income, rising population and aging population. As a market leader with a global sales and distribution network and strategically-located production facilities, we are well-positioned to capitalise on the consolidation of the fast-growing but fragmented dental prosthetics industry.

For the year ended 31 December 2017, we are pleased to announce that our revenue growth in the majority of our markets remains healthy and stable, outperforming our competitors and the industry as a whole. Bolstered by strong and growing global demand for dental prosthetic products, demand for our products during varying economic environments remain resilient and relatively inelastic.

For the year ended 31 December 2017, the Group recorded revenue of approximately HK\$2,181 million (2016: HK\$1,642 million). Profit for the year was approximately HK\$157 million (2016: HK\$103 million). EBITDA (as defined in Management Discussion and Analysis) was approximately HK\$320 million (2016: HK\$261 million). Earnings per share for the year ended 31 December 2017 were HK15.6 cents (2016: HK10.2 cents).

The European market remains our key revenue and profit driver for the Group. With various acquisitions completed in 2016 and the first quarter of 2017, the Group has a remarkable stronghold in the European market, going from strength-to-strength. With the Euro continuing to be strong in 2018 and a growing European economy, we are confident that the European market would continue to deliver solid results to the Group through organic growth. We are continuing to gain market share from our international and local competitors through our established one-stop-shop service, which is available within close proximity to our clients; effectively

meeting our clients' high expectations through our various onshore and offshore resources. The North American market is a key market for the Group. As the largest dental prosthetics market in the world, it is full of market opportunities and where we have recently devoted much of our resources with our acquisition of MicroDental Group in October 2016 and its continued integration in 2017. In 2018, we are in the process of introducing new products and new services, and implementing new and existing plans and strategies. As a fully-fledged onshore and offshore player in this market, we are in a unique position to provide a full range of dental prosthetic products whether made locally or outsourced across our enlarged and impressive distribution network. In addition, as part of the integration process, we are implementing arrangements to make full use of our onshore and offshore capabilities including, but not limited to, enhanced procurement arrangements, reducing onshore costs through outsourcing and cross-selling new products. In particular, the Group has entered into a strategic distribution agreement with an innovative anti-snoring devices company, Oventus Medical Limited (ASX: OVN), which adds another revenue source for the United States market and a new product to our clients globally. We continue to record positive organic volume growth in the Mainland China market as a result of sales and marketing efforts in the midst of intense competition. As of now, the Group is actively seeking for investments and/or joint venture opportunities in this market. In the medium to long-term, the Mainland China market is a key market for the Group with our Dongguan production facility investment expected to greatly increase our production capacity. In order to widen our coverage in the Chinese market, the Group has also partnered with the Straumann Group to establish STM Digital targeting to tap into the premium prosthetic products in the Chinese market. The Group is also considering opportunities to expand its presence into second and third-tiered provinces and cities, to consolidate its market leading position in Mainland China. Hong Kong is a market that continues to be dominated by us, as we seek to enhance our service quality through the setting-up of new customer centres to better serve our clients. As for our Australian market, our strategies to provide full range products to corporate dental groups have paid off and resulted in a good increase in sales volume across most of our brands, in the midst of intense competition under relatively flat but improving economic conditions.

Following our vital and landmark acquisitions in 2016 and 2017, the Group's distribution and sales network is truly global. Going forward, Modern Dental aims to reinforce its worldwide leading position through opportunistic transactions including acquisitions, joint ventures and/or partnerships, to further expand and complement our product-offering, distribution and sales networks which should in turn, drive our business expansion.

In Mainland China, we have started construction of our new modernised production facilities in Dongguan and consider possible investment opportunities for the site of our existing production facilities in Xili, Nanshan District, Shenzhen. In addition, we have continued to look for strategic partners to further expand our geographical presence in Mainland China. In North America, we are in the process of integrating MicroDental Group to maximise all potential synergies, and enhance customer service through our enlarged sales and distribution network. Our global and strategically located production facilities are expected to mitigate any politically-driven import tariff measures from the United States and at the same time, our onshore United States production facilities are in an ideal market position to benefit from any such potential measures. In Europe and Australia, we will keep replicating our success via ongoing sales and marketing efforts, opportunistic acquisitions, integrating further synergies within our network and enhancing management efficiencies. Across all of our existing markets and potential new markets, we will continue to look for further opportunities that fit in with our growth strategies as well as new products that may be introduced to our clients. In addition, at the same time, we will be more cost effective and prudent with our expenses, without sacrificing efficiencies and productiveness.

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

**Chan Kwun Fung**


*Chairman*

29 March 2018



## 4 MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

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



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MODERN DENTAL GROUP LIMITED  
IS A LEADING GLOBAL DENTAL  
PROSTHETIC DEVICE PROVIDER  
WITH A FOCUS ON PROVIDING  
CUSTOM-MADE PROSTHESES TO  
CUSTOMERS IN THE GROWING  
PROSTHETICS INDUSTRY.  
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# MANAGEMENT DISCUSSION AND ANALYSIS 5

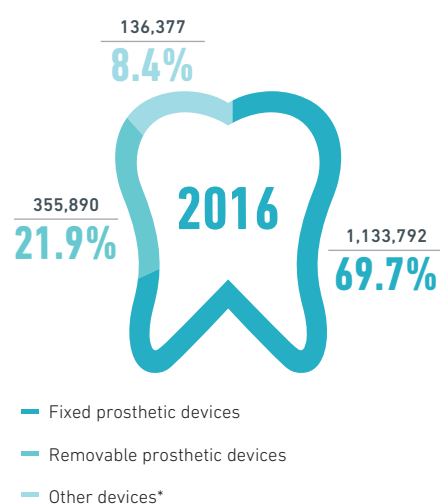
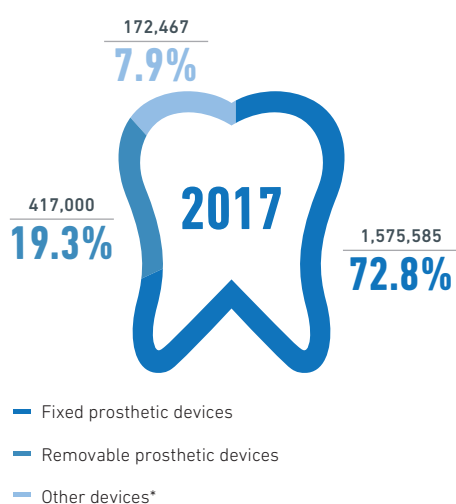


## 6 MANAGEMENT DISCUSSION AND ANALYSIS

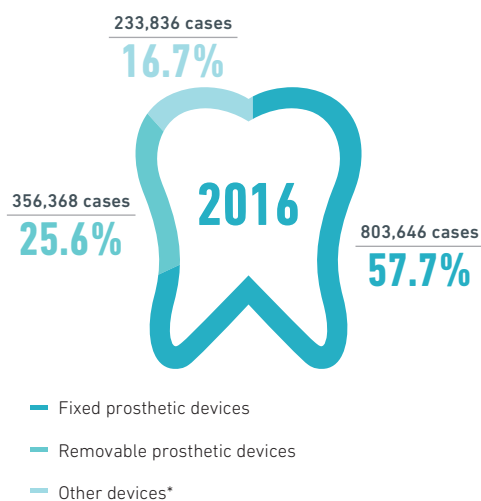
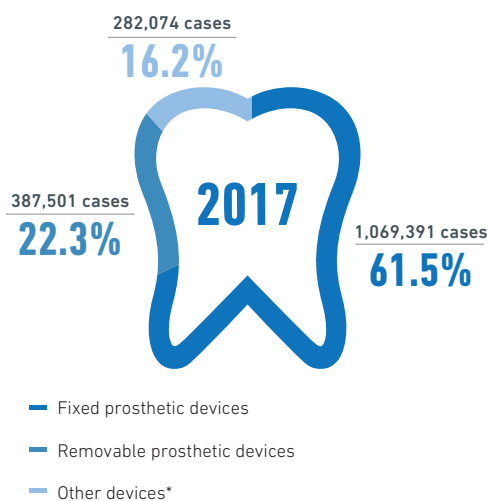
### Product Category

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 years ended 31 December 2017 and 2016 respectively:

**Breakdown of revenue**  
(HK\$'000 and %)



**Breakdown of sales volume**  
(no. of cases and %)



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



## MANAGEMENT DISCUSSION 7 AND ANALYSIS

### Fixed Prosthetic Devices

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

During the year ended 31 December 2017, fixed prosthetic devices business segment recorded revenue of approximately HK\$1,575,585,000, representing an increase of approximately HK\$441,793,000 as compared with the year ended 31 December 2016. This business segment accounted for approximately 72.8% of the Group's total revenue as compared with approximately 69.7% in the year ended 31 December 2016.

### Removable Prosthetic Devices

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

During the year ended 31 December 2017, removable prosthetic devices business segment recorded revenue of approximately HK\$417,000,000, representing an increase of approximately HK\$61,110,000 as compared with the year ended 31 December 2016. This business segment accounted for approximately 19.3% of the Group's total revenue as compared with approximately 21.9% in the year ended 31 December 2016.

### Other Devices

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

During the year ended 31 December 2017, other devices business segment recorded revenue of approximately HK\$172,467,000, representing an increase of approximately HK\$36,090,000 as compared with the year ended 31 December 2016. This business segment accounted for approximately 7.9% of the Group's total revenue as compared with approximately 8.4% in the year ended 31 December 2016.

### Product Category

The following table sets forth the breakdown of sales volume, revenue, and average selling price ("ASP") by product category for the years ended 31 December 2017 and 2016 respectively:

| Product category             | Year ended 31 December         |                    |                     |                                |                    |                     |
|------------------------------|--------------------------------|--------------------|---------------------|--------------------------------|--------------------|---------------------|
|                              | 2017                           |                    |                     | 2016                           |                    |                     |
|                              | 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     | 1,069,391                      | 1,575,585          | 1,473               | 803,646                        | 1,133,792          | 1,411               |
| Removable prosthetic devices | 387,501                        | 417,000            | 1,076               | 356,368                        | 355,890            | 999                 |
| Other devices*               | 282,074                        | 172,467            | 611                 | 233,836                        | 136,377            | 583                 |
| <b>Total</b>                 | <b>1,738,966</b>               | <b>2,165,052</b>   | <b>1,245</b>        | <b>1,393,850</b>               | <b>1,626,059</b>   | <b>1,167</b>        |

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

## 8 MANAGEMENT DISCUSSION AND ANALYSIS

### Geographic Market

By leveraging on our sales and distribution network, we achieved a leading position in the dental prosthetics industry across Europe, North America, Greater China, Australia, and other countries. The following table sets forth a breakdown of the revenue generated from the aforesaid markets for the year ended 31 December 2017 and 2016 respectively:

| Market          | Original currency | Year ended 31 December                                    |                    |   |                    |
|-----------------|-------------------|---|--------------------|---|--------------------|
|                 |                   | 2017<br>Conversion rate #<br>(Original currency per HK\$) | Revenue (HK\$'000) | 2016<br>Conversion rate #<br>(Original currency per HK\$) | Revenue (HK\$'000) |
| Europe*         | EUR               | 8.81  | 837,332            | 8.71  | 746,393            |
| North America   | US\$              | 7.75  | 687,293            | 7.75  | 277,096            |
| Greater China** | RMB               | 1.16  | 417,017            | 1.17  | 394,499            |
| Australia***    | AUD               | 5.98  | 208,930            | 5.87  | 195,765            |
| Others          |                   |   | 14,480             |   | 12,306             |
| <b>Total</b>    |                   |   | <b>2,165,052</b>   |   | <b>1,626,059</b>   |

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

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

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

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

### Sales volume and average selling price

For the year ended 31 December 2017, the sales volume and average selling price of the Group's products across its markets were 1,738,966 cases (Year ended 31 December 2016: 1,393,850 cases) and HK\$1,245 per case (Year ended 31 December 2016: HK\$1,167 per case), representing an increase of 24.8% and 6.7%, respectively.



# MANAGEMENT DISCUSSION AND ANALYSIS 9



## Europe

The revenue generated from sales in the European markets, including France, Germany, the Netherlands, Belgium, Denmark, Sweden, Norway, Spain, the United Kingdom and other European countries, accounted for the largest portion of our revenue for the year ended 31 December 2017.

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.

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

## 10 MANAGEMENT DISCUSSION AND ANALYSIS

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.

For the year ended 31 December 2017, the European market recorded revenue of approximately HK\$837,332,000, representing an increase of approximately HK\$90,939,000 as compared with year ended 31 December 2016. Together with the sales of dental equipment of approximately HK\$6,266,000, this geographic market accounted for 38.7% of the Group's total revenue as compared with approximately 45.9% for year ended 31 December 2016. The increase of revenue from the European market was largely attributable to (i) the acquisitions completed during the year under review; (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 year under review.

After the completion of the Group's acquisition of RTFP Dental Inc. and its subsidiaries ("**MicroDental Group**") in late October 2016, MicroDental Group contributed approximately HK\$494,137,000 (year ended 31 December 2016: HK\$97,707,000) to the Group's revenue, approximately HK\$5,054,000 (year ended 31 December 2016: HK\$1,062,000) to the Group's adjusted EBITDA and approximately HK\$10,130,000 (year ended 31 December 2016: HK\$6,120,000) of loss to the Group's profit for the year ended 31 December 2017. The loss of approximately HK\$10,130,000 for the year ended 31 December 2017 included (i) non-cash depreciation and amortisation of approximately HK\$13,950,000; (ii) non-recurring expenses, such as professional fees in connection with the acquisitions and restructuring of approximately HK\$2,634,000; and (iii) one-off audit fee for the overrun in 2016 audit of approximately HK\$1,675,000. Our main strategies for MicroDental Group are (i) to increase sales through expanding the products offering and strengthening our investments in training and sales and marketing strategies; (ii) to increase ASP through strategically placing each of our products at the optimal price-point; (iii) to capitalise on existing and future synergies, utilise MicroDental Group's 40 year brand history, its extensive distribution network and its very experienced employees; and (iv) cost restructuring, effectively leveraging existing resources and minimising any overlap of resources.

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 recently entered into an exclusive distribution agreement with Oventus Medical Limited (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.

## MANAGEMENT DISCUSSION AND ANALYSIS 11

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

For the year ended 31 December 2017, the North American market recorded revenue of approximately HK\$687,293,000, representing an increase of approximately HK\$410,197,000 as compared with year ended 31 December 2016. This geographic market accounted for approximately 31.5% of the Group's total revenue as compared with approximately 16.9% last year. The increase of revenue from the North American market was largely attributable to (i) the acquisition of MicroDental Group; and (ii) the increase in ASP and growth in sales volume of our offshore-made products.

### 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 year under review.

Given the significant rise in the living standards in Greater China over the years, people have become increasingly aware of the importance of oral health, which benefits the custom-made dental prosthetics domestic sales market. We offer comparatively higher prices for products of premium quality in Greater China, which appeal to the population that has a strong demand for higher quality products. The Group experienced a pick-up in activity in this market since first half of 2017 due to the Group's strategy of focusing on building better relationships with, and attracting new clients from, private clinics in first tier cities in Mainland China. Another key strategy was to expand our geographic presence, such as improving our sales and marketing strategies, customer service and technical service teams to provide customers with a higher quality service. The Group has been actively looking for acquisitions or strategic co-operation opportunities in Greater China. STM Digital Dentistry Holding Limited ("STM Digital") was established in Hong Kong in cooperation with the Straumann Group in order to widen our coverage in the premium Chinese market. STM Digital was established for the production of customised dental prosthetics for the Chinese market and it is ready to launch in the market by the end of the first half of 2018.

With our new production facilities in Dongguan, we expect to further consolidate our status in the Mainland China market as we expect our production volume will increase significantly.

For the year ended 31 December 2017, the Greater China market recorded revenue of approximately HK\$417,017,000, representing an increase of approximately HK\$22,518,000 as compared with year ended 31 December 2016. Together with the sales of raw materials and dental equipment of approximately HK\$4,348,000, this geographic market accounted for approximately 19.3% of the Group's total revenue as compared with approximately 24.2% last year. The increase of revenue from the Greater China market was largely attributable to (i) the results of our recent sales and marketing efforts in Mainland China, (ii) consistent growth in sales in the Hong Kong market and (iii) the volume growth in Mainland China primarily driven by the new private clinics in first tier cities in Mainland China.

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### 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 and New Zealand markets. 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 and New Zealand markets, and has achieved solid revenue growth despite difficult underlying market conditions. The Group continues to grow sales volume, despite increased competition and continual industry pressure on price points and service levels. The Group is a preferred supplier to all the major corporate dental groups in the market.

For the year ended 31 December 2017, the Australian market recorded revenue of approximately HK\$208,930,000, representing an increase of approximately HK\$13,165,000 as compared with year ended 31 December 2016. Together with the service revenue generated from rendering educational events and seminars of approximately HK\$5,626,000, this geographic market accounted for approximately 9.8% of the Group's total revenue as compared with approximately 12.2% last year. The increase in the revenue from the Australian market was largely attributable to volume growth across all brands, and the completion of laboratory acquisitions in 2016.

### Others

Other markets primarily include Indian Ocean countries and Japan. For the year ended 31 December 2017, these markets recorded revenue of approximately HK\$14,480,000, representing an increase of approximately HK\$2,174,000 as compared with year ended 31 December 2016. This geographic market accounted for approximately 0.7% of the Group's total revenue as compared with approximately 0.8% last year.

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2017, the consolidated revenue of the Group amounted to approximately HK\$2,181,292,000, representing an increase of approximately 32.8% as compared with approximately HK\$1,642,176,000 for year ended 31 December 2016. The increase was mainly attributable to (i) the acquisitions of MicroDental Group and CDI in October 2016 and February 2017 respectively; (ii) the annual increment of retail prices to the dentists; and (iii) the organic growth in the sales volume.

## MANAGEMENT DISCUSSION AND ANALYSIS 13

### Gross Profit and Gross Profit Margin

The gross profit for the year ended 31 December 2017 was approximately HK\$1,061,512,000, which was approximately 20.5% higher than that of last year. The decrease in the gross profit margin of approximately 4.9 percentage point mainly attributable to the dilution effect of sales from MicroDental Group's local production in North America with lower gross profit margin.

The gross profit margins of Fixed Prosthetic Devices business segment, Removable Prosthetic Devices business segment and Other Devices business segment were approximately 48.7%, 48.1% and 49.8% respectively. The following table sets forth the breakdown of our gross profit and gross margin by product line.

| Product category             | Year ended 31 December   |                     |                          |                     |
|------------------------------|--------------------------|---------------------|--------------------------|---------------------|
|                              | 2017                     |                     | 2016                     |                     |
|                              | Gross profit<br>HK\$'000 | Gross margin<br>(%) | Gross profit<br>HK\$'000 | Gross margin<br>(%) |
| Fixed prosthetic devices     | 766,978                  | 48.7                | 626,356                  | 55.2                |
| Removable prosthetic devices | 200,646                  | 48.1                | 185,940                  | 52.2                |
| Other devices                | 93,888                   | 49.8                | 68,365                   | 44.8                |
| Total                        | 1,061,512                |                     | 880,661                  |                     |

### Selling and Distribution Expenses

Selling and distribution expenses increased by approximately 43.6% to approximately HK\$265,926,000 for the year ended 31 December 2017 from approximately HK\$185,222,000 for the year ended 31 December 2016, accounting for approximately 12.2% of the Group's revenue, as compared with approximately 11.3% for last year. The percentage increase was primarily attributable to an increase in salaries, bonuses, commissions and other benefits for sales personnel, which resulted from the increase in headcount after our acquisitions of MicroDental Group in October 2016.

### Administrative Expenses

The administrative expenses increased by approximately 17.4% to approximately HK\$586,525,000 for the year ended 31 December 2017 from approximately HK\$499,549,000 for the year ended 31 December 2016, accounting for approximately 26.9% of the Group's revenue, as compared with approximately 30.4% for last year. The increase in the administrative expenses was primarily attributable to an increase in the administrative labour costs, office expenses and rental expenses primarily arising from an increase in local presence as a result of our acquisitions of MicroDental Group in October 2016.

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### Other Operating Expenses

Other operating expenses decreased by approximately 91.4% from approximately HK\$18,435,000 for the year ended 31 December 2016 to approximately HK\$1,582,000 for the year ended 31 December 2017. The decrease in other operating expenses was mainly due to (i) no impairment of goodwill recorded for the year ended 31 December 2017 (2016: approximately HK\$9,832,000); (ii) no fair value loss from forward foreign exchange contracts recorded for the year ended 31 December 2017 (2016: approximately HK\$4,182,000); (iii) the turnaround from foreign exchange difference (2017: gain of approximately HK\$14,985,000 included in "other income and gains"; 2016: loss of approximately HK\$3,487,000 included in "other operating expenses"). The other operating expenses mainly represented remeasurement loss on contingent consideration of approximately HK\$1,096,000 for year ended 31 December 2017 (2016: HK\$196,000).

### Finance Costs

For the year ended 31 December 2017, the finance costs has remained stable (Year ended 31 December 2017: approximately HK\$28,582,000; Year ended 31 December 2016: approximately HK\$28,411,000).

### Income Tax Expense

For the year ended 31 December 2017, income tax expense decreased by approximately 11.8% from approximately HK\$50,048,000 for the year ended 31 December 2016 to approximately HK\$44,158,000 for the year ended 31 December 2017. The decrease was primarily attributable to the increase in deferred tax credit (2017: approximately HK\$8,930,000; 2016: approximately HK\$3,974,000) arising mainly from recognition of deferred tax assets for tax losses.

### Profit for the Year

Profit for the year increased by approximately 52.7% from approximately HK\$103,068,000 for the year ended 31 December 2016 to approximately HK\$157,363,000 for the year ended 31 December 2017.

### Profit Attributable to Owners of the Company

Profit attributable to owners of the Company for the year ended 31 December 2017 amounted to approximately HK\$155,371,000, representing an increase of approximately HK\$53,888,000, or approximately 53.1%, as compared with approximately HK\$101,483,000 for the year ended 31 December 2016.

### Non-IFRS Measures

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



## MANAGEMENT DISCUSSION 15 AND ANALYSIS

### EBITDA and Adjusted EBITDA

During the year ended 31 December 2017, the Group incurred some one-off expenses, which are not indicative of the operating performance of the business of the year. Therefore, the Group arrives at an adjusted EBITDA (the "Adjusted EBITDA") by eliminating the effects of certain non-cash or non-recurring items, including one-off transaction cost in connection with acquisitions and disposals, loan arrangement fee, the Pre-IPO RSU Scheme (as defined below) related expenses and fair value loss on derivate instruments.

The table below indicates the profit for the years, reconciling the Adjusted EBITDA for the years presented to the most comparable financial measures calculated in accordance with the IFRSs:

|  | For the year ended<br>31 December |                  |
|--|-----------------------------------|------------------|
|  | 2017<br>HK\$'000                  | 2016<br>HK\$'000 |
| <b>EBITDA and Adjusted EBITDA</b>                                      |                                   |                  |
| <b>Net profit</b>  | 157,363                           | 103,068          |
| Finance costs  | 28,582                            | 28,411           |
| Tax  | 44,158                            | 50,048           |
| Depreciation   | 53,183                            | 34,346           |
| Amortisation of intangible assets                                      | 36,820                            | 36,160           |
| Amortisation of prepaid land lease payments                            | 256                               | 86               |
| Impairment of goodwill   | —                                 | 9,832            |
| Less:  |                                   |                  |
| Bank interest income   | (443)                             | (701)            |
| <b>EBITDA</b>  | <b>319,919</b>                    | <b>261,250</b>   |
| One-off transaction cost in connection with acquisitions and disposals | 18,141                            | 37,490           |
| Fair value loss on derivate instruments                                | —                                 | 4,554            |
| Pre-IPO RSU Scheme related expenses                                    | 5,414                             | 18,658           |
| Remeasurement loss on contingent consideration                         | 1,096                             | 196              |
| Less:  |                                   |                  |
| Write-back of consideration payable                                    | (3,610)                           | —                |
| <b>Adjusted EBITDA</b>   | <b>340,960</b>                    | <b>322,148</b>   |
| <b>Adjusted EBITDA Margin</b>  | <b>15.6%</b>                      | <b>19.6%</b>     |

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### LIQUIDITY AND FINANCIAL RESOURCES

#### Cash Flows

The table below summarises the Group's cash flows for the years ended 31 December 2017 and 2016 respectively:

|  | For the year ended<br>31 December |                  |
|--|-----------------------------------|------------------|
|  | 2017<br>HK\$'000                  | 2016<br>HK\$'000 |
| Net cash flows from operating activities           | 194,673                           | 181,696          |
| Net cash flows used in investing activities        | (211,767)                         | (681,217)        |
| Net cash flows from/(used in) financing activities | 28,061                            | (81,137)         |

The Group derives its working capital mainly from cash on hand, net cash generated from operating activities and financing activities. The Board expects that the Group will rely on the internally generated funds, the available banking facilities and the unutilised net proceeds from the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 December 2015 (the "Listing"). 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\$368,660,000 as of 31 December 2017, which was mainly denominated in Hong Kong dollar ("HK\$"), Renminbi ("RMB"), United States dollar ("US\$"), Euro ("EUR") and Australian dollar ("AUD").

#### Operating Activities

Cash inflow from operating activities was mainly generated from cash receipt from revenue generated from sales of our products. Cash outflow from operating activities was mainly due to purchase of raw materials, wages of technicians and employees and tax paid. For the year ended 31 December 2017, the net cash flows from operating activities was approximately HK\$194,673,000 (2016: HK\$181,696,000). The increase in net cash flows from operating activities was primarily attributable to increase in cash generated from operations as a result of the continued growth in sales of the Group and the additional contributions from acquisitions made during the year.

The amount of trade receivables increased from approximately HK\$359,354,000 as at 31 December 2016 to approximately HK\$413,682,000 as at 31 December 2017. The trade receivable turnover days (the average of the beginning and ending trade receivable balances/revenue  $\times$  365 days) decreased from approximately 72 days for the year ended 31 December 2016 to approximately 65 days for the year ended 31 December 2017. The decrease in the trade receivable turnover days was mainly attributable to the increase in sales in the United States market with shorter turnover days.

The amount of trade payables decreased from approximately HK\$73,760,000 as at 31 December 2016 to approximately HK\$57,195,000 as at 31 December 2017. The trade payable turnover days (the average of the beginning and ending trade payable balances/cost of sales  $\times$  365 days) decreased from approximately 26 days for the year ended 31 December 2016 to approximately 21 days for the year ended 31 December 2017. The general credit terms granted by suppliers normally ranged from 30–90 days. The decrease in trade payable turnover days was primarily due to prompt settlements of trade payables.

The amount of inventory increased from approximately HK\$74,098,000 as at 31 December 2016 to approximately HK\$81,861,000 as at 31 December 2017. The inventory turnover days (the average of the beginning and ending inventory balances/cost of sales  $\times$  365 days) decreased from approximately 32 days for the year ended 31 December 2016 to approximately 25 days for the year ended 31 December 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS 17

### Investing Activities

The net cash used in investing activities for the year ended 31 December 2017 of approximately HK\$211,767,000 were mainly represented payment for expansion of our production facilities in the Mainland China, expansion of the office facilities in the United States, the Netherlands and Germany and upgrade of our computer-aided/manufacturing production equipment.

### Financing Activities

The net cash flows from the financing activities for the year ended 31 December 2017 were mainly represented advancement of bank loans of approximately HK\$206,895,000 net of repayment of bank loans of approximately HK\$118,602,000; dividends paid of approximately HK\$34,000,000 and interest paid of approximately HK\$25,139,000.

### Capital Expenditure

During the year under review, the Group's capital expenditure amounted to approximately HK\$192,144,000 which was mainly used for acquisitions of subsidiaries and expansion of our production facilities and improvement in our production equipment. All of the capital expenditure was financed by internal resources, bank borrowings and unutilised net proceeds from the Listing.

### Bank loans and other borrowings

The Board considers that the level of borrowings at the end of the year 2017 remains healthy and sustainable. As at 31 December 2017, the Group had interest-bearing bank loans and other borrowings which amounted to approximately HK\$717,458,000. The Board considers that our borrowings during the year ended 31 December 2017 had no seasonality of borrowing requirements.

The Board considers that the maturity profile of borrowings is in line with normal commercial practices. As at 31 December 2017, the Group's bank loans which amounted to approximately HK\$269,874,000, approximately HK\$216,508,000 and approximately HK\$230,719,000 are repayable within one year or on demand, in the second year and in the third to fifth years (inclusive), respectively. The Group's finance lease payables which amounted to approximately HK\$486,000, approximately HK\$272,000 and approximately HK\$139,000 are repayable within one year, in the second year and in the third to fifth years (inclusive), respectively.

On 31 January 2018, the Group drew down bank loans of approximately HK\$700,000,000 from the banks repayable by annual instalments over a 5-year period to repay its existing bank loans.

Details of the amount and maturity profile of borrowings and finance lease payables during the year ended 31 December 2017 are set out in Note 25 and 26 to the consolidated financial statements.

## 18 MANAGEMENT DISCUSSION AND ANALYSIS

### CAPITAL STRUCTURE

#### Funding and treasury policies

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

#### Bank borrowings

Bank loans of the Group as of 31 December 2017 amounted to approximately HK\$716,561,000 as compared to approximately HK\$618,615,000 as of 31 December 2016. Pledged bank deposits of the Group as of 31 December 2017 amounted to approximately HK\$12,467,000 as compared to approximately HK\$3,726,000 as of 31 December 2016. As of 31 December 2017, the bank loans of approximately HK\$507,026,000, approximately HK\$209,413,000 and approximately HK\$122,000 were denominated in US\$, EUR and Canadian dollars ("**CAD**"), respectively. As of 31 December 2017, all bank borrowings were at floating interest rates.

#### Finance lease payables

Finance lease payables of the Group as of 31 December 2017 amounted to approximately HK\$897,000 as compared to approximately HK\$2,581,000 as of 31 December 2016. As of 31 December 2017, the finance lease payables of approximately HK\$16,000, approximately HK\$659,000 and approximately HK\$222,000 were denominated in HK\$, AUD and US\$, respectively. As of 31 December 2017, 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 – Cash Flows" on page 16 of this Annual 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 parent) plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, other payables and accruals, other non-current liabilities, less cash and cash equivalents and pledged deposits. As of 31 December 2017, the gearing ratio of the Group was approximately 21.8%, reflecting that the Group's financial position was at a sound level.

## MANAGEMENT DISCUSSION AND ANALYSIS 19

### Debt securities

As of 31 December 2017, the Group did not have any debt securities.

### Contingent liabilities

As of 31 December 2017, the Group did not have any material contingent liabilities or guarantees.

## CHARGE OF GROUP ASSETS

Modern Dental Holding Limited, a subsidiary of the Company, entered into facility agreements (the "**Facility Agreements**") for certain term loans and a revolving credit, secured by certain assets of the Group including certain shares, receivables and bank accounts of subsidiaries of the Company. 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. Details of the Facility Agreements and the charge on the Group's assets are set out in the prospectus of the Company dated 3 December 2015 (the "**Prospectus**") and Note 25 of the consolidated financial statements, respectively.

### 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 31 December 2017, the Group has paid approximately RMB39,677,000 and RMB11,094,000 for the construction in progress and acquisition of land, respectively, and the remaining commitments was approximately RMB195,229,000.

Save as disclosed above, the Group had no other significant capital commitments as of 31 December 2017.

## 20 MANAGEMENT DISCUSSION AND ANALYSIS

### DETAILS OF MATERIAL ACQUISITIONS

The Group has completed a number of acquisitions of subsidiaries, including (i) CDI in February 2017 and (ii) Schmidt in January 2017. For details of CDI, please refer to the Company's announcements dated 13 February 2017, and Note 31 of the Company's consolidated financial statements. For details of Schmidt, please refer to the Company's announcements dated 5 January 2017, and Note 31 of the Company's consolidated financial statements respectively.

Save as disclosed above, the Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2017.

### Long Term Development Plan

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

The public tender process was completed in June 2016. The new headquarter has a total site area of 27,347 square meters and the construction is divided into two phases. In phase 1, a production factory and an employee dormitory will be built on a 16,575 square meters land, with a total floor area of 51,830 square meters. Total investment for the phase 1 is estimated to be RMB137 million with the business commencement date expected to be in late 2018.

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

Save as disclosed in this annual report, there were no significant investments held by the Company for the year ended 31 December 2017, nor was there any plan authorised by the Board for other material investments or additions of capital assets as at the date of this annual report.

## OFF-BALANCE SHEET TRANSACTIONS

As of 31 December 2017, the Group did not enter into any material off-balance sheet transactions.

## EVENTS AFTER THE YEAR UNDER REVIEW

On 31 January 2018, the Group drew down bank loans of HK\$700 million from the banks repayable by instalments over a 5-year period to repay its existing bank loans.

## 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.

## 22 MANAGEMENT DISCUSSION AND ANALYSIS

### Interest Rate Risk

Our exposure to the interest rate risk relates primarily to our long-term debt obligations with floating interest rates. We manage our interest rate exposure with a focus on reducing our overall cost of debt and exposure to changes in interest rate. Our management continues to monitor the cash flows of our operation and the debt markets, where we would expect to refinance these borrowings with a lower cost of debt when desirable. For the year ended 31 December 2017, the interest rates on floating-rate bank loans were approximately US\$ LIBOR+2.60% per annum for US\$ denominated loans and EURIBOR +2.35% per annum for Euro denominated loans. 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 an associate, pledged deposits and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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

### Liquidity Risk

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



## MANAGEMENT DISCUSSION AND ANALYSIS 23

### EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 6,130 dedicated full-time employees at our production facilities, service centers, points of sales and other sites as of 31 December 2017, mainly including 4,819 production staff members, 464 general management staff members and 294 customer service staff members.

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

### FUTURE PROSPECTS AND STRATEGIES

The Board expects the global demand for dental prosthetics continues to be stable and increasing due to the growing global population and the aging population.

The Board is of the view that through further acquisitions, continuing organic growth, joint ventures and new products, the Group will go from strength-to-strength in consolidating its status as the leading global dental prosthetic device provider. In particular, the Board is of the view that with the (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 had been commenced in December 2016 and targeted to be completed in 2018, some of the existing production facilities in Shenzhen will be gradually relocated to the new production facilities in Dongguan, the relocation will enhance the Group's production capacity and lower its labour costs in the future.

## 24 DIRECTORS AND SENIOR MANAGEMENT

### BOARD OF DIRECTORS

As at 31 December 2017, the board (the "Board") of directors (the "Directors", each a "Director") consisted of 11 Directors comprising 7 executive Directors and 4 independent non-executive Directors. The biographical details of the Directors are set out below.

### DIRECTORS

#### Executive Directors

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**CHAN KWUN FUNG,**  
MICHAEL



**Mr. CHAN Kwun Fung (陳冠峰先生)**, aged 63, is the chairman of the Board and an executive Director. He is also a director of Modern Dental Holding Limited, Modern Dental Technology Holding Limited, Modern Dental Macau Holding Limited, Modern Dental America Holding Limited, Modern Dental Laboratory Company Limited, Top Vast (Hong Kong) Limited, Modern Dental Europe Limited, Modern Dental Europe Holding Limited, Modern Dental Pacific Holding Limited and Modern Dental International (Macao Commercial Offshore) Limited, all of which are the Company's subsidiaries. Mr. Chan is also the chairman, and the legal representative of Yangzhijin Dental Laboratory (Shenzhen) Co., Ltd, and the supervisor of Modern Dental Laboratory (Shenzhen) Company Limited, Modern Dental and Medical Instruments (Dong Guan) Company Limited, Modern Dental Technology (Dong Guan) Company Limited, Dong Guan Yangzhijin Dental Laboratory Company Limited and Yangzhijin Dental Laboratory (Beijing) Co., Ltd, all of which are the Company's subsidiaries. He is primarily responsible for the overall strategic planning and management of the Group.

Mr. Chan joined Modern Dental Laboratory, which was the predecessor of Modern Dental Laboratory Company Limited, the first operating subsidiary, as a partner, to develop the Company's business in November 1991. He has been a Director since 5 July 2012 and has been designated as an executive Director and the chairman of the Board since 19 June 2015.

Mr. Chan is a dental technician and has over 30 years of experience in the field of dental prosthesis. His experience includes research, design and development of dental prosthesis-related production techniques and management.

Mr. Chan is the brother of Mr. Chan Kwun Pan (vice chairman of the Board, executive Director and substantial shareholder of the Company), father of Mr. Chan Chi Yuen (executive Director), and uncle of Dr. Chan Ronald Yik Long (executive Director) and Ms. Chan Yik Yu (executive Director).

## DIRECTORS AND SENIOR MANAGEMENT 25

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**CHAN KWUN PAN,  
BEN**



**Mr. CHAN Kwun Pan (陳冠斌先生)**, aged 60, is the founder of the Group, the vice chairman of the Board and an executive Director. He is also a director of Modern Dental Holding Limited, Modern Dental Technology Holding Limited, Modern Dental Macau Holding Limited, Modern Dental America Holding Limited, Modern Dental Laboratory Company Limited, Top Vast (Hong Kong) Limited, Modern Dental Europe Limited, Modern Dental Europe Holding Limited, Modern Dental Pacific Holding Limited and Modern Dental International (Macao Commercial Offshore) Limited, and the supervisor of Modern Dental Laboratory (Shenzhen) Company Limited, all of which are the Company's subsidiaries. He is primarily responsible for the overall strategic planning and management of the Group.

As the founder of the Group, Mr. Chan established Modern Dental Laboratory, which was the predecessor of Modern Dental Laboratory Company Limited, the first operating subsidiary, to develop the Company's business in August 1986. He has been a Director since 5 July 2012 and has been designated as an executive Director and the vice chairman of the Board since 19 June 2015.

Mr. Chan is a dental technician and has over 30 years of experience in the dental prosthesis field. He obtained a craft certificate in dental mechanics from The Hong Kong Polytechnic University (formerly known as The Hong Kong Polytechnic) in November 1975. His experience includes research, design and development of dental prosthesis-related production techniques and management. Mr. Chan has been a vice chairman of the Shenzhen Nanshan Foreign Enterprise's Chamber of Commerce since May 2001 and a member of the Political Consultative Committee of Nanshan District, Shenzhen in the PRC since October 2006.

Mr. Chan is the brother of Mr. Chan Kwun Fung (chairman of the Board, executive Director and substantial shareholder of the Company), father of Dr. Chan Ronald Yik Long (executive Director) and Ms. Chan Yik Yu (executive Director) and uncle of Mr. Chan Chi Yuen (executive Director).

## 26 DIRECTORS AND SENIOR MANAGEMENT



**NGAI SHING KIN,  
GODFREY**

**Mr. NGAI Shing Kin (魏聖堅先生)**, aged 69, is an executive Director, the chief executive officer and a member of the remuneration committee of the Company. He is also a director of Modern Dental Holding Limited, Modern Dental Technology Holding Limited, Modern Dental Macau Holding Limited, Modern Dental America Holding Limited, Modern Dental Laboratory Company Limited, Top Vast (Hong Kong) Limited, TVCO, Inc., Modern Dental Europe Limited, Modern Dental Europe Holding Limited, Modern Dental Europe B.V., Modern Dental Pacific Holding Limited, Modern Dental International (Macao Commercial Offshore) Limited, Quantum Dental Laboratory Inc., Modern Dental Laboratory-Savannah, LLC, Gold & Ceramics Dental Laboratory Pty Ltd, Labo OI (Mauritius) Ltd, Modern Dental Pacific Pty Ltd, MDP Finance Pty Ltd, MDP Pty Ltd, Andent Pty Ltd, Proform Australia Pty Ltd, Dentmill Australia Pty Ltd, Pavona Pty Ltd, Southern Cross Dental Laboratories (NZ) Limited, Cenetory Pty Ltd, Precision Dental Laboratory Limited, Dental Works World Wide Limited, Top Star Trading Limited and Labocast SAS, the President of MicroDental Holdings, Inc. (formerly known as MDI Acquisitions, Inc.), RTFP Dental Inc. and DTI Dental Technologies, Inc., manager of Modern Dental Laboratory USA, LLC, and Sundance Dental Laboratory, LLC, and the supervisor of Modern Dental Laboratory (Shenzhen) Company Limited and Yangzhijin Dental Laboratory (Shenzhen) Co., Ltd, all of which are the Company's subsidiaries. He is primarily responsible for the overall strategic planning and the corporate policy for the operations of the Group.

Mr. Ngai joined the Group in April 1996. He has been a Director since 5 July 2012 and has been designated as an executive Director since 19 June 2015.

Mr. Ngai was conferred honorary university fellowship from the University of Hong Kong in September 2017. He obtained a master's degree in management (technology) from the University of Melbourne in Australia in December 1994 and a

bachelor's degree in education from the University of Melbourne (Hawthorn Institute of Education) in Australia in May 1995. Mr. Ngai also obtained a Fellowship (dental) from The British Institute of Surgical Technologists (now known as The British Institute of Dental and Surgical Technologists) in the United Kingdom in May 1982, the dental technician's certificate from the City and Guilds of London Institute in the United Kingdom in June 1977, the dental technician's advanced certificate in orthodontic technology from the City and Guilds of London Institute in the United Kingdom in June 1980, the dental technician's advanced certificate in prosthodontic technology in June 1980, the dental technician's advanced certificate in crown and bridge technology from the City and Guilds of London Institute in the United Kingdom in June 1983, and the licentiateship of the City and Guilds for dental technology from the City and Guilds of London Institute in the United Kingdom in May 1990.

Mr. Ngai has over 50 years of experience in the dental prosthesis field. Prior to joining the Group, Mr. Ngai was a student dental technician and a dental technician in Department of Health, the Government of the Hong Kong Special Administrative Region (formerly known as Medical and Health Department, the Government of Hong Kong) from 1967 to 1970 and from 1970 to 1979, respectively. From 1979 to 1981, he was a lecturer at The Hong Kong Polytechnic University (formerly known as The Hong Kong Polytechnic) and was primarily responsible for teaching dental technology. From 1981 to 1998, he was an instructor dental technologist at the Faculty of Dentistry, The University of Hong Kong and was primarily responsible for teaching dental technology. Mr. Ngai is the co-author of "A Colour Atlas of Resin Bond Retained Prosthesis – A practical guide", a book published in 1989.

Mr. Ngai is the father of Mr. Ngai Chi Ho, Alwin (executive Director).

## DIRECTORS AND SENIOR MANAGEMENT 27



**NGAI CHI HO,  
ALWIN**

**Mr. NGAI Chi Ho, Alwin (魏志豪先生)**, aged 40, is an executive Director, the chief operating officer and a member of the nomination committee of the Company. He is also a director of Modern Dental Holding Limited, Modern Dental Technology Holding Limited, Modern Dental Macau Holding Limited, Modern Dental America Holding Limited, Modern Dental Europe Holding Limited, Modern Dental Europe B.V., Modern Dental Pacific Holding Limited, Digitek Dental Solutions Limited, Modern Dental Pacific Pty Ltd, MDP Finance Pty Ltd, MDP Pty Ltd, Andent Pty Ltd, Proform Australia Pty Ltd, Dentmill Australia Pty Ltd, Pavona Pty Ltd, Southern Cross Dental Laboratories (NZ) Limited, Gold & Ceramics Dental Laboratory Pty Ltd, Cenetory Pty Ltd, Precision Dental Laboratory Limited, MicroDental Holdings Inc. (formerly known as MDI Acquisitions, Inc.), RTFP Dental Inc., DTI Dental Technologies, Inc., Quantum Dental Laboratory Inc. manager of Modern Dental Laboratory USA, LLC, and Sundance Dental Laboratory LLC, the chairman, the general manager, a director and the legal representative of Modern Dental Laboratory (Shenzhen) Company Limited, a director of Yangzhijin Dental Laboratory (Shenzhen) Co., Ltd, and a director of Modern Dental and Medical Instruments (Dong Guan) Company Limited, all of which are the Company's subsidiaries. He is primarily responsible for the general operations and devising business strategies of the Group.

Mr. Ngai joined the Group in 2006. He has been a Director since 22 September 2014 and has been designated as an executive Director since 19 June 2015.

Mr. Ngai obtained a master's degree in applied commerce (marketing) from the University of Melbourne in Australia in March 2006 and a bachelor's degree in laws and a bachelor's degree in science (with honors) from the University of Melbourne in Australia in April 2002. He was admitted as a barrister and solicitor of the Supreme Court of Victoria in Australia in November 2002.

Mr. Ngai has over 11 years of experience in the dental prosthesis field. Prior to joining the Group, he was a solicitor of Ian Polak Barristers & Solicitors, being a law firm, from January 2003 to December 2005. He has also been a member of The Academy of Dental Materials, a consortium of dental professionals founded in 1941 in the United States, since June 2014. He is also an observing member of the ISO Technical committees of ISO/TC109/SC9 Dental CAD/CAM Systems; and ISO/TC106/SC2 Prosthodontic Materials.

Mr. Ngai is the son of Mr. Ngai Shing Kin (executive Director).

## 28 DIRECTORS AND SENIOR MANAGEMENT



CHAN CHI YUEN,  
ALEX



CHAN YIK LONG,  
RONALD

Mr. CHAN Chi Yuen (陳志遠先生), aged 33, is an executive Director. He is the chairman, the general manager and the legal representative of Modern Dental and Medical Instruments (Dong Guan) Company Limited, an executive director, the general manager and legal representative of Modern Dental Technology (Dong Guan) Company Limited and Dong Guan Yangzhijin Dental Laboratory Company Limited and the general manager and a director of Yangzhijin Dental Laboratory (Shenzhen) Co., Ltd, all of which are the Company's subsidiaries. He is also the vice chairman and vice general manager of Modern Dental Laboratory (Shenzhen) Company Limited and a director of Quantum Dental Laboratory Inc., all of which are the Company's subsidiaries. Mr. Chan is primarily responsible for the business development, customer services and daily operations of Yangzhijin Dental Laboratory (Shenzhen) Co., Ltd.

Mr. Chan joined the Group in 2011. He has been a Director since 22 September 2014 and has been designated as an executive Director since 19 June 2015.

Mr. Chan obtained a diploma in business administration (majoring in accountancy) from the Southern Alberta Institute Technology in Canada in June 2009.

Mr. Chan is the son of Mr. Chan Kwun Fung (chairman of the Board, executive Director and substantial shareholder of the Company), nephew of Mr. Chan Kwun Pan (vice chairman of the Board, executive Director and substantial shareholder of the Company), and cousin of Dr. Chan Ronald Yik Long (executive Director) and Ms. Chan Yik Yu (executive Director).

Dr. CHAN Ronald Yik Long (陳奕朗醫生), aged 31, is an executive Director and a member of the nomination committee of the Company. He is a vice chairman of Modern Dental and Medical Instruments (Dong Guan) Company Limited and the general manager of Modern Dental Laboratory Company Limited, both of which are the Company's subsidiaries. He is also a director of Modern Dental Laboratory Company Limited, Modern Dental Europe Limited, Top Vast (Hong Kong) Limited, Top Star Trading Limited, Modern Dental Holding Limited, Modern Dental America Holding Limited, Modern Dental Europe Holding Limited, Modern Dental Pacific Holding Limited, Modern Dental Technology Holding Limited, Modern Dental Macau Holding Limited, Modern Dental Pacific Pty Ltd, MDP Finance Pty Ltd, MDP Pty Ltd, Andent Pty Ltd, Proform Australia Pty Ltd, Dentmill Australia Pty Ltd, Pavona Pty Ltd, Gold & Ceramics Dental Laboratory Pty Ltd, Cenetry Pty Ltd, Southern Cross Dental Laboratories (NZ) Limited, Precision Dental Laboratory Limited, Modern Dental Europe B.V., Modern Dental 3D Solutions GmbH, MicroDental Holdings, Inc. (formerly known as MDI Acquisitions, Inc.), RTFP Dental Inc., DTI Dental Technologies, Inc. and a manager of Modern Dental Laboratory USA, LLC, and Sundance Dental Laboratory, LLC, all of which being the Company's subsidiaries. Dr. Chan is primarily responsible for the strategic planning, sales and marketing of Modern Dental Laboratory Company Limited and the development of corporate strategic plans and implementation of policies in the Group.

Dr. Chan joined the Group in 2014. He has been a Director since 17 October 2014 and has been designated as an executive Director since 19 June 2015.

## DIRECTORS AND SENIOR MANAGEMENT 29

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**CHAN YIK YU,**  
 EDITH



Dr. Chan obtained a bachelor's degree in sciences (majoring in biological science) with distinction from the University of Calgary in Canada in June 2008, a bachelor's degree in dental surgery from The University of Hong Kong in December 2014 and a master's degree in business administration with distinction from Edinburgh Business School, Heriot-Watt University in the United Kingdom in June 2015.

Dr. Chan has been a member of The Hong Kong Dental Association as well as a registered dentist in Hong Kong, under the general register, with The Dental Council of Hong Kong since 2014. He is currently practising as a dentist on a part-time basis in Hong Kong.

Dr. Chan is the son of Mr. Chan Kwun Pan (vice chairman of the Board, executive Director and substantial shareholder of the Company) and brother of Ms. Chan Yik Yu (executive Director), nephew of Mr. Chan Kwun Fung (chairman of the Board, executive Director and substantial shareholder of the Company), and cousin of Mr. Chan Chi Yuen (executive Director).

**Ms. CHAN Yik Yu (陳奕茹女士)**, aged 30, is an executive Director, the chief marketing officer and a member of the remuneration committee of the Company. She also serves as the vice chairman and vice general manager of Modern Dental Laboratory (Shenzhen) Company Limited, the Company's subsidiary. Ms. Chan is primarily responsible for the overall marketing of the Group.

Ms. Chan joined the Group in 2014. She has been a Director since 22 September 2014 and has been designated as an executive Director since 19 June 2015.

Ms. Chan obtained a bachelor's degree in commerce from the Haskayne School of Business, University of Calgary in Canada in June 2010.

Ms. Chan possesses over 7 years of experience in the marketing field. Ms. Chan was a marketing specialist of Goodwin Procter LLP, being a solicitor firm, from May 2013 to June 2014. Ms. Chan was also a marketing executive of the business corporate department of Fiducia (Hong Kong office), being a management consultancy firm from May 2012 to January 2013.

Ms. Chan is the daughter of Mr. Chan Kwun Pan (vice chairman of the Board, executive Director and substantial shareholder of the Company), sister of Dr. Chan Ronald Yik Long (executive Director), niece of Mr. Chan Kwun Fung (chairman of the Board, executive Director and substantial shareholder of the Company) and cousin of Mr. Chan Chi Yuen (executive Director).

## 30 DIRECTORS AND SENIOR MANAGEMENT

### Independent Non-Executive Directors

**Dr. CHEUNG Wai Bun Charles, J.P. (張惠彬博士、太平紳士)**, aged 81, is an independent non-executive Director, the chairman of the audit committee, and a member of the remuneration committee and the nomination committee of the Company. He has been an independent non-executive Director since 24 November 2015.

Dr. Cheung has appropriate professional accounting or related financial management expertise. He is an independent non-executive director and the chairman of the audit committee of Pioneer Global Group Limited (stock code: 224), an independent non-executive director and the chairman of the audit committee and nomination committee of China Financial International Investments Limited (formerly known as Sunshine Capital Investments Group Limited) (stock code: 721), an independent non-executive director, the chairman of the remuneration committee and a member of the audit committee of Universal Technologies Holdings Limited (stock code: 1026), a non-executive director of Galaxy Entertainment Group Limited (Stock Code: 27), an independent non-executive director and the chairman of the remuneration committee of Jiayuan International Group Limited (Stock Code: 2768), an independent non-executive director and a member of the audit committee, the remuneration committee and the nomination committee of Fullsun International Holdings Group Co., Limited (formerly known as U-Right International Holdings Limited) (Stock Code: 627) and an independent non-executive director of China Taifeng Beddings Holdings Limited (Stock Code: 873), which are listed on the Main Board of the Stock Exchange. He is also an independent non-executive director, the chairman of the nomination committee and a member of the audit committee of Yin He Holdings Limited (formerly known as Zebra Strategic Holdings Limited) (stock code: 8260), which is listed on the Growth Enterprise Market of the Stock Exchange. He was formerly the chairman of the board and an independent non-executive director of Grand T G Gold Holdings Limited (stock code: 8299) and formerly an executive director and Chairman of the Board of Roman Group Limited (Stock Code: 8072), which are listed on the Growth Enterprise Market of the Stock Exchange.

Dr. Cheung obtained an honorary doctorate degree in business administration from John Dewey University in the United States in December 1984, a master's degree in business administration and a bachelor of science degree in accounts and finance from New York University in the United States in June 1962 and February 1960 respectively.

Dr. Cheung is currently a director and the vice chairman of executive committee of Metropolitan Bank (China) Ltd., and he was formerly an independent non-executive director and the director general of the audit committee of China Resources Bank of Zhuhai Co. Ltd. Dr. Cheung is a member of the Hospital Governing Committee of Hong Kong Eye Hospital and Kowloon Hospital and a member of the Regional Advisory Committee of Kowloon of the Hospital Authority. Dr. Cheung is a council member of the Hong Kong Institute of Directors and is also the special advisor to the president of the University of Victoria in Canada.

**Dr. CHAN Yue Kwong Michael (陳裕光博士)**, aged 66, is an independent non-executive Director, the chairman of the nomination committee and a member of the audit committee of the Company. He has been an independent non-executive Director since 24 November 2015.

Dr. Y.K. Chan was the former chairman and is currently a non-executive director of Café De Coral Holding Limited (stock code: 341), an independent non-executive director of Starlite Holdings Limited (stock code: 403), Pacific Textiles Holdings Limited (stock code: 1382) and Tse Sui Luen Jewellery (International) Limited (stock code: 417), and non-executive director of Tao Heung Holdings Limited (stock code: 573) and an independent non-executive director of Human Health Holdings Limited (stock code: 1419), and was formerly an independent non-executive director of Kingboard Laminates Holdings Limited (stock code: 1888) from November 2006 to July 2015. All of the above companies are listed on the Main Board of the Stock Exchange.



## DIRECTORS AND SENIOR MANAGEMENT 31

Dr. Y.K. Chan obtained an honorary fellowship from Lingnan University in December 2009, a master's degree in city planning with distinction and a scholarship from the University of Manitoba in Canada in October 1977, and a double degree in sociology and political science from University of Manitoba in Canada in May 1974.

Dr. Y.K. Chan currently serves on the general committee of the Employers' Federation of Hong Kong and the council of the Hong Kong Management Association and as the adviser of the Quality Tourism Services Association. Dr Y.K. Chan is also a member of the advisory committee of the department of management and marketing of the Hong Kong Polytechnic University. Besides being the honorary chairman of the Hong Kong Institute of Marketing and Legacy Academy, he is the chairman of the Business Enterprise Management Centre of the Hong Kong Management Association. Dr. Y.K. Chan is appointed by the HKSAR government as a member of the Business Facilitation Advisory Board.

**Dr. WONG Ho Ching (黃河清博士)**, aged 70, is an independent non-executive Director, the chairman of the remuneration committee and a member of the audit committee of the Company. He has been an independent non-executive Director since 24 November 2015.

Dr. H.C. Wong was formerly an independent non-executive director of Superactive Group Company Limited (formerly known as United Pacific Industries Limited) (stock code: 176), which is listed on the Main Board of the Stock Exchange, from March 1994 to 8 February 2017.

Dr. H.C. Wong obtained a doctorate degree in management engineering from Xi'an Jiao Tung University in the PRC in April 1995, a master of science degree in engineering from The University of Hong Kong in Hong Kong in November 1988 and a higher diploma in electrical engineering from Hong Kong Technical College in Hong Kong in July 1969.

Dr. H.C. Wong became a fellow of the United Kingdom Institution of Production Engineers in June 1989, a fellow of Hong Kong Institution of Engineers in April 1989, a fellow of the United Kingdom Institution of Marine Engineers in May 1988, a fellow of the United Kingdom Institution of Electrical Engineers in November 1987, a senior member of the United States Institute of Industrial Engineers in March 1983, and a member of Chartered Institute of Building Services Engineers.

Dr. H.C. Wong was a member of the first Hong Kong Special Administrative Region Selection Committee as well as the subsequent Hong Kong Special Administrative Region Election Committee. Dr. H.C. Wong was also a member of the first and second sessions of Chinese People's Political Consultative Conference in Shenzhen Municipal Government of the PRC.

Dr. H.C. Wong was a member of the Council of China Institution of Mechanical Engineers from 2006 to 2011. Dr. H.C. Wong was the director of Industrial Centre of the Hong Kong Polytechnic University from 1991 to 2009. Dr. H.C. Wong served as the vice president of the Institute of Industrial Engineers in the USA from 1995 to 1996. Dr. H.C. Wong was the tenth president of the Hong Kong Association for the Advancement of Science and Technology from 1994 to 1995. Dr. H.C. Wong was the president of the Hong Kong Institute of Industrial Engineers from 1985 to 1987.

Dr. H.C. Wong was the recipient of the Hong Kong Outstanding Industrial Engineers Award for the Millennium in 1999, the Outstanding Alumni of the Hong Kong Polytechnic University in 1997 and the Ten Outstanding Young Persons Award in 1987. Dr. H.C. Wong was elected as a fellow of the United States Institute of Industrial Engineers in May 1997 in recognition of his professional leadership and outstanding contributions to industrial engineering.

## 32 DIRECTORS AND SENIOR MANAGEMENT

**Dr. CHEUNG Wai Man William (張偉民博士)**, aged 63, is an independent non-executive Director and a member of the nomination committee and the remuneration committee of the Company respectively. He has been an independent non-executive Director since 24 November 2015.

Dr. W. M. Cheung has maintained a dental practice in Hong Kong since 1982. He has been the honorary professor of West China College of Stomatology, Sichuan University in the PRC since 2011, an adjunct associate professor of School of Dental Medicine in University of Pennsylvania in the United States since July 2012, and the honorary associate professor of the Faculty of Dentistry in The University of Hong Kong from January 2009 to December 2012 and since March 2014.

Dr. W. M. Cheung obtained a doctorate degree in dental medicine from University of Pennsylvania in the United States in May 1981.

Dr. W. M. Cheung has served as the vice president of International College of Dentists Section XV Asia since March 2017, and as the member of the Education Committee of the FDI World Dental Federation since September 2016.

### SENIOR MANAGEMENT

The biographical details of the senior managers are set out below.

**Mr. August Wilhelm Torsten Schwafert**, aged 53, is the chief executive officer of Modern Dental Europe B.V., which is a Company's subsidiary.

Mr. Schwafert is also a director of Modern Dental Solutions B.V., Labocast Holding B.V., Permidental Holding B.V., Permidental B.V., Semperdent Holding B.V., Semperdent B.V., Elysee Dental Holding B.V., Elysee Dental Solutions B.V., Elysee Dental Supplies & Services B.V., Tandtechnisch Laboratorium J. van Noort B.V., T.T.L. Oosterwijk B.V., Oralscan Nederland B.V., Unortho B.V., Elysee Dental Europe B.V., Elysee Dental Belgium BVBA, Uni-Dent N.V., Elysee Dental Aps, Elysee Dental Aktiebolag and Elysee Dental Oy, all being the Company's subsidiaries. Mr. Schwafert is mainly responsible for leading the business development of the Group in Europe. Mr. Schwafert joined the Group in March 2014.

Mr. Schwafert received his degree in business economics from Verwaltungs- und Wirtschaftsakademie (academy for business and public administration) in Düsseldorf, Germany in June 1991.

Mr. Schwafert has over 25 years of management experience in the dental field and has extensive relationships in the European dental industry. Prior to joining our Group, Mr. Schwafert was the chief executive officer in Wieland Dental + Technik GmbH, being a dental prosthetic company which focuses on CAD/CAM solutions, from August 2009 to February 2014 and was responsible for directing the overall business development, developing sustainable strategy and restructuring. Prior to that, he was the vice president of sales and marketing of DeguDent, Dentsply Group, being a dental prosthetic company that produces materials and devices for dental laboratories, from January 2001 to July 2009 and was responsible for the strategic control of the product portfolio and the management of the global sales team. Mr. Schwafert was the president of Elephant Dental B.V. in Hoorn Netherlands, being a dental prosthetic company that develops and sells advanced dental products, from August 1999 to December 2000. Elephant Dental B.V. was a wholly owned subsidiary of Degussa Dental, which was later acquired by the Dentsply group in 2001.

## DIRECTORS AND SENIOR MANAGEMENT 33

**Mr. Gregory Scialom**, aged 43, is the president of Labocast SAS, which is a Company's subsidiary.

Mr. G. Scialom is also the managing director of Labocast Holding B.V., substitute director of Labo Ocean Indien SA, and a director and the legal representative of Labocast Technical Service (Shen Zhen) Limited (卡斯特技術服務(深圳)有限公司), all of which are the Company's subsidiaries. Mr. G. Scialom is responsible for the operation of the Group in France and the Indian Ocean. He joined the Labocast Group, which was subsequently acquired by the Group in August 2011.

Mr. G. Scialom received his bachelor's degree in laws from Université Panthé on-Assas (Paris II) in France in October 1996.

Mr. G. Scialom possesses over 16 years of experience in the dental prosthetic field at Labocast SAS. Mr. G. Scialom was the general manager of Labocast SAS from July 2005 to May 2008 and was primarily an executive assistant of Labocast SAS from January 2001 to June 2005. His experience includes establishing Labo OI (Mauritius) Ltd, developing prosthetic device manufacturing business of Labo OI (Mauritius) Ltd, managing the daily operations of the laboratories, organizing and providing quality customer service, and maintaining relationship with Modern Dental Laboratory Company Limited.

**Mr. James Squirrell**, aged 45, is the chief executive officer of Modern Dental Pacific Pty Ltd, which is a Company's subsidiary.

Mr. J. Squirrell is also a director of Modern Dental Pacific Pty Ltd, MDP Finance Pty Ltd, MDP Pty Ltd, Andent Pty Ltd, Proform Australia Pty Ltd, Dentmill Australia Pty Ltd, Pavona Pty Ltd, Cenetary Pty Ltd, Gold & Ceramics Dental Laboratory Pty Ltd, Southern Cross Dental Laboratories (NZ) Limited, Precision Dental Laboratory Ltd and Southern Cross Dental Laboratories Ltd (UK), all being the Company's subsidiaries. Mr. J. Squirrell is responsible for leading the business development and operations of the Group in Australia, New Zealand and the United Kingdom. He joined the SCDL Group, which was subsequently acquired by the Group, in November 2012.

Mr. J. Squirrell received his Bachelor of Arts degree in Accounting and Financial Management from the University of Essex, in the United Kingdom in 1993. He has been a member of the Institute of Chartered Accountants in England and Wales since 1996, and a Graduate of the Australian Institute of Company Directors since 2016.

Mr. J. Squirrell has over 10 years of experience as a finance executive. He acted as chief financial officer of the SCDL Group for 5 years, before taking the role of chief executive officer. Prior to joining our Group, he was the Australia/New Zealand finance director of Merlin Entertainments Group Ltd (and precedent companies) from January 2008 to July 2012, overseeing financial and accounting management, acquisitions, corporate governance and company secretarial matters for the leading visitor attraction business. Prior to that, he held finance roles at a number of listed Australian companies, across the entertainment, banking and beverage sectors.

## 34 DIRECTORS AND SENIOR MANAGEMENT

### COMPANY SECRETARY

Mr. KWAN Ngai Kit (關毅傑先生), aged 38, has been the chief financial officer, authorised representative and the company secretary of the Company since 26 October 2016. Mr. Kwan, has over 10 years of experience in auditing, accounting and corporate management. Prior to joining the Company, he was an executive director of Vision Fame International Holding Limited (stock code: 1315) from February 2015 to 2 October 2016 and the chief financial officer and the company secretary of Vision Fame International Holding Limited from June 2014 to 2 October 2016, and was responsible for corporate finance, mergers and acquisitions matters, financial and accounting management, investors relations, corporate governance as well as compliance affairs. Prior to March 2014, he worked as a senior manager in both the assurance department and the technical department of Ernst & Young during which he acquired intensive capital market transactions experience. He is currently an independent non-executive director of Group Sense (International) Limited (stock code: 601); Leyou Technologies Holdings Limited (stock code: 1089); A&S Group (Holding) Limited (stock Code: 1737) and Lai Group Holding Company Limited (stock code: 8455) which are listed on the Main Board and Growth Enterprise Market of the Stock Exchange respectively.

Mr. Kwan is currently a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Kwan obtained a master's degree in business administration from the Chinese University of Hong Kong in November 2014 and a bachelor's degree in accountancy from The Hong Kong Polytechnic University in November 2002.

# DIRECTORS' REPORT 35

The board (the "Board") of directors (the "Directors") of Modern Dental Group Limited (the "Company"), together with its subsidiaries, (the "Group") is pleased to present this Directors' report together with the consolidated financial statements of the Group for the year ended 31 December 2017.

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the production and distribution of three product lines: fixed prosthetic devices, removable prosthetic devices and other devices, such as orthodontic devices, sports guards and anti-snoring devices. The Company is an investment holding company. The principal activities of the subsidiaries of the Company are set out in Note 1 to the consolidated financial statements. The operating segment information of the Group for the year ended 31 December 2017 is set out in Note 5 to the consolidated financial statements.

## USE OF NET PROCEEDS FROM LISTING

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

|  | Available<br>to utilize<br>HK'000 | Utilized as at<br>31 December<br>2017<br>HK'000 | Unutilized as at<br>31 December<br>2017<br>HK'000 |
|--|-----------------------------------|---|---|
| Financing the strategic acquisitions and new facilities establishment of the Company in Mainland China | 125,000                           | 101,895   | 23,105  |
| 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                           | 624,378   | 23,105  |

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

## 36 DIRECTORS' REPORT

### RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss on page 67 of this Annual Report.

### DIVIDENDS

An interim dividend of HK2.5 cents per ordinary share was paid to the shareholders of the Company (the "**Shareholders**") on 7 October 2017. The Board recommended a final dividend of HK2.1 cents per ordinary share for the year ended 31 December 2017 (the "**Proposed Final Dividend**"). Subject to the approval by the Shareholders in the forthcoming annual general meeting of the Company (the "**AGM**") to be held on 24 May 2018, the Proposed Final Dividend will be paid on 25 June 2018 to Shareholders whose names appear on the Register of Members of the Company as at the close of business on 4 June 2018.

### CLOSURE OF REGISTER OF MEMBERS

To determine the entitlement to attend and vote at the AGM to be held on 24 May 2018, the Register of Members of the Company will be closed from Friday, 18 May 2018 to Thursday, 24 May 2018, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify to attend and vote at the forthcoming AGM, unregistered holders of shares of the Company shall ensure that, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 17 May 2018.

To determine the entitlement to the Proposed Final Dividend (subject to approval by the shareholders at the AGM), the Register of Members of the Company will be closed from Thursday, 31 May 2018 to Monday, 4 June 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the Proposed Final Dividend, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 30 May 2018.

### FINANCIAL SUMMARY

A summary of the audited consolidated results and the assets, liabilities and non-controlling interest of the Group for the last five financial years, as extracted from the audited consolidated financial statements and the Prospectus, is set out on page 163 of this Annual Report.

### SUBSIDIARIES

Particulars of the Company's principle subsidiaries are set out in Note 1 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The relationship between the Group and our suppliers has been stable. For the year ended 31 December 2017, the purchase amounts placed with the Group's five largest suppliers accounted for 34.6% (2016: 30.4%) of the Group's total purchases and the purchase amount placed with our single largest supplier accounted for 15.9% (2016: 14.9%) of the Group's total purchases.

The relationship between the Group and our customers has been stable. For the year ended 31 December 2017, the revenue amounts from the Group's five largest customers accounted for 2.1% (2016: 2.5%) of the Group's total revenue and the revenue amount from our single largest customer accounted for 0.5% (2016: 0.6%) of the Group's total revenue.

None of the Directors or any of their close associates or any Shareholders who, to the best knowledge of the Directors, own more than 5% of the Company's issued shares had any interest in the Group's five largest suppliers and five largest customers.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year ended 31 December 2017 are set out in Note 14 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company for the year ended 31 December 2017 are set out in Note 28 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company had distributable reserves of approximately HK\$632,393,000 (2016: approximately HK\$681,717,000) calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Law**"). This includes the Company's share premium account of approximately HK\$723,069,000 (2016: approximately HK\$740,246,000).

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2017 are set out in the section headed "Management Discussion and Analysis" in this Annual Report and Note 25 to the consolidated financial statements.

## 38 DIRECTORS' REPORT

### DIRECTORS

The Directors who held office during the year ended 31 December 2017 and up to the date of this Annual Report are:

#### **Executive Directors:**

Mr. Chan Kwun Fung (*Chairman*)

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

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

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

Mr. Chan Chi Yuen

Dr. Chan Ronald Yik Long

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

#### **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

Pursuant to Article 84 of the articles of association of the Company (the "**Articles of Association**"), one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company and will be eligible for re-election at that meeting. The Directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment and as between persons who became or were last re-elected Directors on the same day shall (unless they otherwise agree among themselves) be determined by lot. Accordingly, Dr. Cheung Wai Bun Charles J.P., Dr. Chan Yue Kwong Michael, Dr. Wong Ho Ching and Dr. Cheung Wai Man William shall retire by rotation at the AGM and, being eligible, offer themselves for re-election.

Details of the Directors standing for re-election at the AGM are set out in the circular to the Shareholders together with this Annual Report.

The Company has received from each of the independent non-executive Directors an annual confirmation of their respective independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and considers each of the independent non-executive Directors are independent.

### BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out in the section headed "Directors and Senior Management" on pages 24 to 34 of this Annual Report.



## DISCLOSURE OF INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

During the year ended 31 December 2017 and up to the date of this Annual Report, changes in the information of the Directors are as follows:

1. Dr. Cheung Wai Bun Charles J.P. has been appointed as an independent non-executive director, member of the audit committee, the remuneration committee and the nomination committee of Fullsun International Holdings Group Co., Limited (formerly known as U-Right International Holdings Limited) (Stock Code: 627) on 14 December 2017, and ceased to be the executive director and chairman of the board of Roma Group Limited (Stock Code: 8072) on 18 December 2017, the share of the companies are listed on the Stock Exchange.
2. Mr. Ngai Shing Kin, Mr. Ngai Chi Ho Alwin and Dr. Chan Ronald Yik Long ceased to be the directors of Permidental China Limited and BU Factory Pty Ltd, which were deregistered on 14 July 2017 and 17 January 2018, respectively.
3. Mr. Ngai Shing Kin ceased to be the president, and Mr. Ngai Chi Ho Alwin and Dr. Chan Ronald Yik Long ceased to be the director of MicroDental Laboratories, DIT America, Inc., QDRI Dental Resources, Inc., Tetra Dynamics, Inc., Becden Dental Laboratory, LLC, MicroDental Laboratories, Inc., CQC Prosthodontics, Inc., Ward Dental Lab, Inc., Precision Dental Arts, Hermanson Dental Services, Inc., Di Martino Dental Laboratories, Inc., Associated Dental Lab of Kentucky, Inc., Donnell Dental Lab, Inc., and Mitch Dental Lab, Inc., subsidiaries of the company, which have been merged out of existence effective on 31 December 2017.
4. Dr. Cheung Wai Man William has been appointed as vice president of International Collage of Dentists Section XV Asia in March 2017.

Save as disclosed in this annual report, there are no changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 15 December 2015 (the "Listing Date").

Each of the independent non-executive Directors has signed a letter of appointment with the Company for an initial term of three years commencing from the Listing Date.

Save as disclosed above, none of the Directors proposed for re-election at the AGM has or proposed to have a service contract with any members of the Group that is not determinable by any members of the Group within one year without payment of compensation, other than statutory compensation.

## 40 DIRECTORS' REPORT

### DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section "Continuing Connected Transactions" below, neither the Director nor any entity connected with the Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during the year or at the end of the year ended 31 December 2017.

### MANAGEMENT CONTRACTS

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2017.

### EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

In compliance with the Corporate Governance Code as set out in Appendix 14 to 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 qualification, 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). Details of the remuneration of the Directors and the five highest paid individuals are set out in Note 9 and Note 10 to the consolidated financial statements.

### PERMITTED INDEMNITY

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices.

Such permitted indemnity provision has been in force for the year ended 31 December 2017. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

## SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

As at 31 December 2017, no options had been granted, agreed to be granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme and therefore the total number of Shares available for grant under the Share Option Scheme was 100,000,000 Shares, representing 10% of the issued share capital of the Company as of the date of this Annual Report.

## 42 DIRECTORS' 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. Details of the Pre-IPO RSU Scheme are set out in Note 29 to the consolidated financial statements.

An aggregate of 8,149,038 restricted share units ("**RSUs**") had been granted to eligible participants in accordance with the Pre-IPO RSU Scheme in the prior years and out of which 3,598,108 RSUs were outstanding and had not been vested as at 1 January 2017. On 15 December 2017, 3,417,608 RSUs were vested and 180,500 RSUs were forfeited. As at 31 December 2017, no outstanding RSUs 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 31 December 2017, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") were as follows:

### Long Positions in Shares and Underlying Shares of the Company

| Name of Director      | Capacity                           | Number of Shares and Underlying Shares interested | Total number of Shares and Underlying Shares interested | Approximate percentage of shareholding |
|-----------------------|------------------------------------|---|---|--|
| Mr. Chan Kwun Fung    | Beneficial owner                   | 208,000 <i>(Note 1)</i>                           | 473,860,263   | 47.38%                                 |
|                       | Other                              | 3,450,000 <i>(Note 1)</i>                         |   |  |
|                       | Interest of controlled corporation | 470,202,263 <i>(Note 1)</i>                       |   |  |
| Mr. Chan Kwun Pan     | Beneficial owner                   | 3,450,000 <i>(Note 1)</i>                         | 473,860,263   | 47.38%                                 |
|                       | Other                              | 208,000 <i>(Note 1)</i>                           |   |  |
|                       | Interest of controlled corporation | 470,202,263 <i>(Note 1)</i>                       |   |  |
| Mr. Ngai Shing Kin    | Beneficial owner                   | 2,801,672 <i>(Note 2)</i>                         | 98,040,998  | 9.80%                                  |
|                       | Beneficiary of a trust             | 1,389,673 <i>(Note 3)</i>                         |   |  |
|                       | Interest of controlled corporation | 93,849,653 <i>(Note 4)</i>                        |   |  |
| Mr. Ngai Chi Ho Alwin | Beneficial owner                   | 277,934 <i>(Note 5)</i>                           | 63,122,304  | 6.31%                                  |
|                       | Beneficiary of a trust             | 277,935 <i>(Note 6)</i>                           |   |  |
|                       | Interest of controlled corporation | 62,566,435 <i>(Note 7)</i>                        |   |  |

#### Notes:

- Mr. Chan Kwun Fung and Mr. Chan Kwun Pan signed a confirmation letter on 10 August 2015 confirming their acting-in-concert arrangement whereby they operate the Group collectively, through discussions, and reached consensus between themselves before making any commercial decisions for the Group on a unanimous basis. As such and by virtue of the SFO, (i) each of Mr. Chan Kwun Fung and Mr. Chan Kwun Pan is deemed to be interested in the 470,262,263 Shares owned by Triera Holdings Limited, (ii) Mr. Chan Kwun Fung is deemed to be interested in the 3,450,000 Shares owned by Mr. Chan Kwun Pan, and (iii) Mr. Chan Kwun Pan is deemed to be interested in the 208,000 Shares owned by Mr. Chan Kwun Fung.
- This includes 1,389,672 RSUs granted and vested to Mr. Ngai Shing Kin under the Pre-IPO RSU Scheme.
- These Shares were held by MDG Management Corporation in trust for Mr. Ngai Shing Kin since 1,389,673 RSUs had vested to him on 15 December 2017.
- These Shares were held by Prosperity Worldwide Investment Holdings Limited, which is wholly-owned by Mr. Ngai Shing Kin.
- This refers to 277,934 RSUs granted and vested to Mr. Ngai Chi Ho Alwin under the Pre-IPO RSU Scheme.
- These Shares were held by MDG Management Corporation in trust for Mr. Ngai Chi Ho Alwin since 277,935 RSUs had vested to him on 15 December 2017.
- These Shares were held by NCHA Holdings Limited, which is wholly-owned by Mr. Ngai Chi Ho Alwin.

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executives of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code.

## 44 DIRECTORS' REPORT

### 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 Annual Report, at no time during the year ended 31 December 2017 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate, or had exercised any such right.

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

As at 31 December 2017, the persons other than the Directors, whose interests have been disclosed in the above section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations", had an interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO, were as follows:

#### Long Positions in Shares of the Company

| Name of Shareholder  | Capacity         | Number of Shares interested | Approximate percentage of shareholding |
|--|------------------|-----------------------------|--|
| Triera Holdings Limited <sup>(Note 1)</sup>                          | Beneficial owner | 470,202,263                 | 47.02%                                 |
| Prosperity Worldwide Investment Holdings Limited <sup>(Note 2)</sup> | Beneficial owner | 93,849,653                  | 9.38%                                  |
| NCHA Holdings Limited <sup>(Note 3)</sup>                            | Beneficial owner | 62,566,435                  | 6.26%                                  |

Notes:

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

Save as disclosed herein, as at 31 December 2017, no person, other than the Directors whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporation" above, had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2017, none of the Directors or their respective associates (as defined in the Listing Rules) had engaged in or had any interest in any business which competes or may compete with the businesses of the Group as required to be disclosed pursuant to the Listing Rules.

## NON-COMPETITION UNDERTAKING

The Controlling Shareholders (as defined in the Listing Rules) of the Company, namely, Mr. Chan Kwun Fung, Mr. Chan Kwun Pan, Trieria Holdings Limited and the Company entered into a deed of non-competition (the "**Deed of Non-competition**") in favour of the Company dated 25 November 2015, pursuant to which the Controlling Shareholders have undertaken to the Company (for itself and for the benefit of its subsidiaries) that it or he would not, and would procure that its or his associates (other than any member of the Group) would not, directly or indirectly, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, principal, agent, director, employee or otherwise) any business which is or may be in competition with the current business of the Group during the restricted period.

An annual confirmation has been received from each of the Controlling Shareholders on compliance with each of their respective undertakings and enforcement of the Deed of Non-competition in accordance with the Listing Rules.

The independent non-executive Directors have reviewed the status of compliance with the Deed of Non-competition by the Controlling Shareholders and confirmed that the Deed of Non-competition is fully complied with and duly enforced since the Listing Date and up to the date of this Annual Report.

## CONTINUING CONNECTED TRANSACTIONS

The following transactions of the Group constituted continuing connected transactions (the "**Continuing Connected Transactions**") for the Group for the year ended 31 December 2017. All of the Continuing Connected Transactions are exempt from reporting, annual review, announcement and independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

## 46 DIRECTORS' REPORT

### Tenancy agreements

- (i) For the purpose of operating the Company's business in Hong Kong, on 26 August 2016, Modern Dental Laboratory Company Limited ("**MDLCL**"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "**MDLCL Tenancy Agreement**") with Most Wealth International Limited, which is held as to 37.5%, 37.5% and 25% by Mr. Chan Kwun Fung and Mr. Chan Kwun Pan, executive Directors and substantial shareholders of the Company, and by Mr. Ngai Shing Kin, an executive Director of the Company, respectively. Pursuant to the MDLCL Tenancy Agreement, Most Wealth International Limited shall lease 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. For details, please refer to the announcement of the Company dated 30 December 2016.
- (ii) 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 a tenancy agreement (the "**Residential Tenancy Agreement 1**") with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan, executive Directors and substantial shareholders of the Company. Pursuant to the Residential Tenancy Agreement 1, 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. For details, please refer to the announcement of the Company dated 30 December 2016.
- (iii) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement 2**") with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan, executive Directors and substantial shareholders of the Company. Pursuant to the Residential Tenancy Agreement 2, 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 RMB20,268. For details, please refer to the announcement of the Company dated 30 December 2016.
- (iv) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement 3**") with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan, executive Directors and substantial shareholders of the Company. Pursuant to the Residential Tenancy Agreement 3, 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 RMB19,968. For details, please refer to the announcement of the Company dated 30 December 2016.
- (v) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement 4**") with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan, executive Directors and substantial shareholders of the Company. Pursuant to the Residential Tenancy Agreement 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 RMB19,668. For details, please refer to the announcement of the Company dated 30 December 2016.
- (vi) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement 5**") with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan, executive Directors and substantial shareholders of the Company, and an associate ("**Landlord C**") of Mr. Ngai Shing Kin, an executive Director of the Company. Pursuant to the Residential Tenancy Agreement 5, 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. For details, please refer to the announcement of the Company dated 30 December 2016.
- (vii) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement 6**") 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 Agreement 6, 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 RMB19,714. For details, please refer to the announcement of the Company dated 30 December 2016.
- (viii) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement 7**") 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 Agreement 7, 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 RMB19,214. For details, please refer to the announcement of the Company dated 30 December 2016.



- (ix) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement 8**") 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 Agreement 8, 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 RMB18,714. For details, please refer to the announcement of the Company dated 30 December 2016.
- (x) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement 9**") 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 Agreement 9, 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 RMB18,214. For details, please refer to the announcement of the Company dated 30 December 2016.
- (xi) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement 10**") 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 Agreement 10, 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 RMB17,714. For details, please refer to the announcement of the Company dated 30 December 2016.
- (xii) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement 11**") 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 Agreement 11, 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 RMB17,214. For details, please refer to the announcement of the Company dated 30 December 2016.
- (xiii) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement 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 Agreement 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 RMB14,308. For details, please refer to the announcement of the Company dated 30 December 2016.
- (xiv) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement 13**") with an associate ("**Landlord B**") of Mr. Chan Kwun Pan, an executive Director and substantial shareholder of the Company. 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. For details, please refer to the announcement of the Company dated 30 December 2016.
- (xv) 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. For details, please refer to the announcement of the Company dated 30 December 2016.
- (xvi) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement 15**") with an associate ("**Landlord A**") of Mr. Chan Kwun Fung, an executive Director and substantial shareholder of the Company. 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. For details, please refer to the announcement of the Company dated 30 December 2016.

## 48 DIRECTORS' REPORT

### Master purchase agreement

MDLCL, a wholly-owned subsidiary of the Company, entered into a master purchase agreement (the "**Master Purchase Agreement**") with Trident Dental Group Limited ("**Trident**"). Trident, a company incorporated in Hong Kong, is a wholly-owned subsidiary of Tresodont Holdings Limited ("**Tresodont**"). Tresodont is held as to 33.3%, 33.3% and 33.3% by Dr. Chan Ronald Yik Long, Amazing Home Limited and J&N Consultants Limited respectively. Dr. Chan Ronald Yik Long is an executive Director of the Company.

Pursuant to the Master Purchase Agreement, Trident shall purchase dental prosthetic devices from MDLCL for a term of three years from 10 August 2015 to 31 December 2017 with the proposed annual caps of HK\$450,000, HK\$1,080,000 and HK\$1,080,000 in 2015, 2016 and 2017 respectively. This agreement was extended until 31 December 2020 with proposed annual caps changed to HK\$400,000 in 2018 – 2020.

A summary of all related party transactions entered into by the Group during the year ended 31 December 2017 is contained in Note 36 to the consolidated financial statements. The transactions referred to in item (a), (b), (c), (d), (e), (f) and (h) of Note 36(1) all fall under the definitions of "continuing connected transactions" under the Listing Rules, and are either disclosed previously in the Prospectus pursuant to the Listing Rules or exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the year ended 31 December 2017.

The independent non-executive directors have reviewed and confirmed that the above continuing connected transactions undertaken by the Group were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole, as required in Rule 14A.55 of the Listing Rules.

Ernst & Young, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing its conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this Annual Report, the Company has maintained the prescribed percentage of public float under the Listing Rules.

### COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

Save as disclosed in the Prospectus, the Group has complied with the relevant laws and regulations that have a significant impact on the Group.

## AUDITOR

The consolidated financial statements of the Group have been audited by Ernst & Young, who will retire and, being eligible, offer themselves for re-appointment at the AGM.

## IMPORTANT EVENTS AFTER REPORTING DATE

On 31 January 2018, the Group drew down bank loans of HK\$700 million from the banks repayable by instalments over a 5-year period to repay its existing bank loans.

## EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme and the Pre-IPO RSU Scheme of the Group as set out in this section, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2017.

## DEBENTURE ISSUED

The Group has not issued any debenture during the year ended 31 December 2017.

## BUSINESS REVIEW

A fair review of the business of the Group, a discussion and analysis of principal risks and uncertainties facing the Group during the year ended 31 December 2017 and an indication of likely development of the Group are set out on pages 4 to 23 under the section headed "Management Discussion and Analysis", respectively.

## 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.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environmental, Social and Governance Report of the Company prepared in accordance with Appendix 27 to the Listing Rules will be published within three months after the publication of this Annual report on the websites of the Company and the Stock Exchange.

## 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.

## 50 DIRECTORS' REPORT

### SPONSORSHIP AND DONATIONS

In recent years, we have continuously sponsored Young Oral and Maxillofacial Surgeon Group of Hong Kong Limited in organising their monthly dental seminar.

Charitable and other donations (the "**Donations**") made by the Group during the year ended 31 December 2017 amounted to approximately HK\$678,000. Part of the Donations, which amounted to approximately HK\$107,000, was made by donating free dental products to charitable organisations<sup>(Note)</sup>.

*Note: The amount of the Donations is calculated on the basis of the market price of dental products donated, excluding any value-added tax.*

By order of the Board

**Mr. Chan Kwun Fung**

*Chairman*

Hong Kong,

29 March 2018

# CORPORATE GOVERNANCE REPORT 51

The Board is pleased to present the Corporate Governance Report of the Company.

## CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high corporate governance standards to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**").

The Board is of the view that throughout the year ended 31 December 2017, (the "**Reporting Year**"), the Company has complied with all the applicable principles and code provisions as set out in the CG Code except for code provision E.1.2, details will be set out below.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding Directors' dealings in the Company's securities (the "**Code of Conduct**") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Code of Conduct throughout the Reporting Year.

The Company has also established written guidelines (the "**Employees Written Guidelines**") no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

## 52 CORPORATE GOVERNANCE REPORT

### BOARD OF DIRECTORS

#### Board Composition

As at the date of this Annual Report, the Board comprises eleven members consisting of seven Executive Directors and four Independent Non-executive Directors. The details of the Board composition are as follows:

| Name of Director   | Membership of Board Committee(s)  |
|--|---|
| <i>Executive Directors:</i>                              |   |
| Mr. Chan Kwun Fung ( <i>Chairman</i> )                   | —   |
| Mr. Chan Kwun Pan ( <i>Vice-Chairman</i> )               | —   |
| Mr. Ngai Shing Kin ( <i>Chief Executive Officer</i> )    | Member of Remuneration Committee  |
| Mr. Ngai Chi Ho Alwin ( <i>Chief Operating Officer</i> ) | Member of Nomination Committee  |
| Mr. Chan Chi Yuen  | —   |
| Dr. Chan Ronald Yik Long                                 | Member of Nomination Committee  |
| Ms. Chan Yik Yu ( <i>Chief Marketing Officer</i> )       | Member of Remuneration Committee  |
| <i>Independent Non-executive Directors:</i>              |   |
| Dr. Cheung Wai Bun Charles J.P.                          | Chairman of Audit Committee<br>Member of Remuneration Committee<br>Member of Nomination Committee |
| Dr. Chan Yue Kwong Michael                               | Chairman of Nomination Committee<br>Member of Audit Committee                                     |
| Dr. Wong Ho Ching  | Chairman of Remuneration Committee<br>Member of Audit Committee                                   |
| Dr. Cheung Wai Man William                               | Member of Remuneration Committee<br>Member of Nomination Committee                                |

The biographical information of the Directors and the relationships between the members of the Board are disclosed under the section headed "Directors and Senior Management" on pages 24 to 34 of this Annual Report.

#### Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer ("CEO") are held by Mr. Chan Kwun Fung and Mr. Ngai Shing Kin respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The CEO focuses on the Company's business development and the daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

#### Independent Non-executive Directors

During the Reporting Year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors, representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors are independent.

### **Appointment and Re-election of Directors**

The Independent Non-executive Directors of the Company are appointed for a specific term of three years, subject to renewal after the expiry of the then current term.

The Company's Articles of Association provides that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment.

Under the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three of a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The retiring Directors shall be eligible for re-election.

### **Responsibilities of the Directors**

The Board is responsible for leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances at the Company's expenses for discharging their duties to the Company.

The Board reserves its decisions for all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board and directing and co-ordinating the daily operation and management of the Company are delegated to the management.

### **Continuous Professional Development of Directors**

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

The Company acknowledges the importance of Directors participating in appropriate continuous professional development ("CPD") to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All the Directors are encouraged to attend relevant training courses at the Company's expenses.

## 54 CORPORATE GOVERNANCE REPORT

All the Directors received from time to time CPD and updates relating to Director's duties and regulatory and business development relevant to the Company and their CPD record for the Reporting Year is received and summarized as follows:

| Directors                                  | Type of Training <sup>Note</sup> |
|--|----------------------------------|
| <i>Executive Directors</i>                 |                                  |
| Chan Kwun Fung                             | B                                |
| Chan Kwun Pan                              | B                                |
| Ngai Shing Kin                             | B                                |
| Ngai Chi Ho Alwin                          | B                                |
| Chan Chi Yuen                              | B                                |
| Chan Ronald Yik Long                       | B                                |
| Chan Yik Yu                                | A and B                          |
| <i>Independent Non-Executive Directors</i> |                                  |
| Cheung Wai Bun Charles                     | A and B                          |
| Chan Yue Kwong Michael                     | A                                |
| Wong Ho Ching                              | B                                |
| Cheung Wai Man William                     | B                                |

Note:

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

### BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing specific aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

#### Audit Committee

The Audit Committee consists of three Independent Non-executive Directors, namely Dr. Cheung Wai Bun Charles J.P., Dr. Chan Yue Kwong Michael and Dr. Wong Ho Ching. Dr. Cheung Wai Bun Charles J.P. is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code.

The primary duties of the Audit Committee are to assist the Board in reviewing the financial controls, risk management and internal control systems, effectiveness of the internal audit function, scope of audit, appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.



The Audit Committee held five meetings to review, in respect of the year ended 31 December 2017, the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems, internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works and, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

### Remuneration Committee

The Remuneration Committee consists of five members, namely Dr. Wong Ho Ching, Dr. Cheung Wai Man William, Dr. Cheung Wai Bun Charles J.P., as Independent Non-executive Directors, Mr. Ngai Shing Kin and Ms. Chan Yik Yu, as Executive Directors. Dr. Wong Ho Ching is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code.

The primary duties of the Remuneration Committee are to assist the Board in reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee met once to determine the remuneration packages of Executive Directors and senior management, and to review and make recommendation to the Board on the remuneration policy and structure of the Company, and other related matters.

The remuneration by band of members of the senior management (excluding Directors) of the Group for the year ended 31 December 2017 is set out below:

| Remuneration                   | Number of person |
|--------------------------------|------------------|
| Nil to HK\$1,000,000           | —                |
| HK\$1,000,001 to HK\$3,000,000 | 2                |
| HK\$3,000,001 to HK\$4,000,000 | 1                |
| HK\$4,000,001 to HK\$5,000,000 | 1                |

Details of the fees and other emoluments paid or payable to the Directors and the details of the five highest paid employees for the year ended 31 December 2017 are set out in details in Notes 9 and 10 to the audited consolidated financial statements contained in this Annual Report.

### Nomination Committee

The Nomination Committee consists of five members, namely Dr. Chan Yue Kwong Michael, Dr. Cheung Wai Bun Charles J.P., Dr. Cheung Wai Man William, as Independent Non-executive Directors, Mr. Ngai Chi Ho Alwin and Dr. Chan Ronald Yik Long, as Executive Directors. Dr. Chan Yue Kwong Michael is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

## 56 CORPORATE GOVERNANCE REPORT

The primary duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of Independent Non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills and knowledge as well as industry and regional experience, etc.

In identifying and selecting suitable candidates for directorship, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendations to the Board.

The Nomination Committee met once to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors and to consider the qualifications of the retiring Directors standing for election at the Annual General Meeting. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective implementing the Board Diversity Policy.

### Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of the Directors and the senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Code of Conduct and Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

### ATTENDANCE RECORDS OF DIRECTORS

The attendance record of each Director at the Board and Board committee meetings and the general meeting of the Company held during the year ended 31 December 2017 is set out in the table below:

| Name of Director            | Attendance/Number of Meetings |                 |                        |                      | Annual General Meeting |
|-----------------------------|-------------------------------|-----------------|------------------------|----------------------|------------------------|
|                             | Board                         | Audit Committee | Remuneration Committee | Nomination Committee |                        |
| Chan Kwun Fung              | 2/4                           | N/A             | N/A                    | N/A                  | 0/1                    |
| Chan Kwun Pan               | 4/4                           | N/A             | N/A                    | N/A                  | 0/1                    |
| Ngai Shing Kin              | 4/4                           | N/A             | 1/1                    | N/A                  | 1/1                    |
| Ngai Chi Ho Alwin           | 4/4                           | N/A             | N/A                    | 1/1                  | 1/1                    |
| Chan Chi Yuen               | 4/4                           | N/A             | N/A                    | N/A                  | 1/1                    |
| Chan Ronald Yik Long        | 4/4                           | N/A             | N/A                    | 1/1                  | 1/1                    |
| Chan Yik Yu                 | 3/4                           | N/A             | 0/1                    | N/A                  | 1/1                    |
| Cheung Wai Bun Charles J.P. | 3/4                           | 5/5             | 1/1                    | 1/1                  | 1/1                    |
| Chan Yue Kwong Michael      | 2/4                           | 4/5             | N/A                    | 1/1                  | 1/1                    |
| Wong Ho Ching               | 3/4                           | 5/5             | 1/1                    | N/A                  | 1/1                    |
| Cheung Wai Man William      | 3/4                           | N/A             | 1/1                    | 1/1                  | 1/1                    |

Apart from regular Board meetings, the Chairman also held meetings with the Independent Non-executive Directors without the presence of Executive Directors during the year ended 31 December 2017.

Under code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. Mr. Chan Kwun Fung, the Chairman of the Board, had not attended the annual general meeting of the Company held on 21 June 2017 due to work commitment. He delegated the duty of attending the annual general meeting to the CEO of the Company. The chairman considers the CEO a suitable person for taking up such duty as the CEO has good understanding of each operating segment of the Group. He will use his best endeavours to attend all future shareholders' meetings of the Company.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including project management, sales and leasing, financial reporting, human resources and information technology.

The Company's risk management and internal control systems have been developed with the following features and processes:

- (a) The processes used to identify, evaluate and manage significant risks by the Group are summarised as follows:

**Risk Identification:** Identifies risks that may potentially affect the Group's business and operations.

**Risk Assessment:** Assesses the risks identified by using the assessment criteria developed by the management; and considers the impact and consequence on the business and the likelihood of their occurrence.

**Risk Response:** Prioritises the risks by comparing the results of the risk assessment; and determines the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

**Risk Monitoring and Reporting:** Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control processes are in place; revises the risk management strategies and internal control processes in case of any significant change of situation; and reports the results of risk monitoring to the management and the Board regularly.

- (b) The main features of the risk management and internal control systems are summarised as follows:

Control procedures have been designed to safeguard assets against misappropriation and disposition; ensure compliance with relevant laws, rules and regulations; ensure proper maintenance of accounting records for provision of reliable financial information used within the business or for publication; ensure that unauthorized access and use of inside information are strictly prohibited; and to provide reasonable assurance against material misstatement, loss or fraud.

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The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control system for the year ended 31 December 2017.

The Board has engaged an external professional service firm as its risk management and internal control review adviser ("the Adviser") to conduct the annual review of the risk management and internal control systems for the year ended 31 December 2017. Such review is conducted annually and cycles reviewed are under rotation basis. The scope of review was previously determined and approved by the Board. The Adviser has reported findings and areas for improvement to the Audit Committee and management. The Audit Committee are of the view that there are no material internal control defeats noted. All recommendations from the Adviser are properly followed up by the Group to ensure that they are implemented within a reasonable period of time. The Board therefore considered that the risk management and internal control systems are effective and adequate.

Arrangements are in place to facilitate employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

### DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2017.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company, Ernst & Young, about their reporting responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 61 to 66 of this Annual Report.

### AUDITOR'S REMUNERATION

A breakdown of the remuneration paid/payable to the external auditor of the Company, Ernst & Young, in respect of the audit services and the non-audit services for the year ended 31 December 2017 is set out below:

| Service Category   | Fees Paid/Payable<br>HK\$ |
|--------------------|---------------------------|
| Audit Services     | 9,707,000                 |
| Non-audit Services | 2,681,000                 |
|                    | 12,388,000                |

## SHAREHOLDERS' RIGHTS

The Company engages with shareholders through various communication channels and a shareholders' communication policy is in place to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

To safeguard shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

### Convening an Extraordinary General Meeting by Shareholders

Under Article 58 of the Articles of Association, any one or more shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company may at all times have the right, by a written requisition to the Board or the company secretary of the Company, to require the convening of an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If, within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Putting Forward Proposals at General Meetings

The Board is not aware of any provisions allowing the shareholders of the Company to put forward proposals at general meetings of the Company under the Articles of Association and the Companies Law of the Cayman Islands Law. Shareholders who wish to put forward proposals at general meetings may refer to the preceding paragraph to make a written requisition to require the convening of an extraordinary general meeting of the Company.

Detailed procedures for shareholders to propose a person for election as a director of the Company are published on the Company's website.

### Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

## 60 CORPORATE GOVERNANCE REPORT

### Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Suite 1716, 17/F  
CEO Tower, 77 Wing Hong Street  
Cheung Sha Wan  
Kowloon, Hong Kong  
(For the attention of the Board of Directors/Company Secretary)

Fax: +852 3766 0700

Email: [info@moderndentallab.com](mailto:info@moderndentallab.com)

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. The information of the shareholder(s) may be disclosed as required by law.

### COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavors to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At annual general meetings, Directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

During the year under review, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is available on the websites of the Company and the Stock Exchange.

### COMPANY SECRETARY

Mr. Kwan Ngai Kit is the chief financial officer and the company secretary of the Company. He has complied with requirements set out in Rule 3.29 of the Listing Rules by receiving relevant professional training for not less than 15 hours during the year ended 31 December 2017.

# INDEPENDENT AUDITOR'S REPORT 61



Ernst & Young  
22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

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## To the shareholders of Modern Dental Group Limited

(Incorporated in the Cayman Islands with limited liability)

## Opinion

We have audited the consolidated financial statements of Modern Dental Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 67 to 162, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## 62 INDEPENDENT AUDITOR'S REPORT

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

| Key audit matter   | How our audit addressed the key audit matter   |
|--|--|
| <b><i>Goodwill and intangible assets impairment review</i></b>   |  |
| <p>As at 31 December 2017, the Group recorded goodwill and intangible assets of HK\$1,389.3 million and HK\$384.0 million, respectively, as a result of previous acquisitions. Under IFRSs, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Company performs its annual impairment test on each cash-generating unit to assess whether the goodwill might be impaired as at 31 December. In addition, each year, the Company assesses whether a change in useful life is applicable and/or whether there are any indications of impairment for intangible assets. The test and assessment are largely based on management's expectations and estimates of future results of the (group of) cash-generating units which include the entities acquired in the past. The impairment test is based on the recoverable value of the relevant cash-generating units. The key assumptions and results of the test performed are disclosed in note 16 to the consolidated financial statements.</p> <p>The accounting policies, significant accounting judgements and estimates and disclosures for goodwill and intangible assets are included in notes 3, 4, 16 and 17 to the consolidated financial statements.</p> | <p>We examined the Group's forecasted cash flows which underpin management's impairment review. We tested the basis of preparing those forecasts taking into account the historical data supporting underlying assumptions. Future cash flow assumptions were examined through comparison of current business performance, seeking corroborative evidences and enquiry with management in respect of key growth and business assumptions. The key assumptions such as the discount rate and terminal growth rate were tested with appropriate inputs from our internal valuation experts. We also tested the mathematical integrity of management's model.</p> |



## Key audit matters (continued)

| Key audit matter  | How our audit addressed the key audit matter  |
|---|---|
| <b>Trade receivables</b>  |   |
| <p>As at 31 December 2017, the Group had trade receivables of HK\$432.3 million before provision for impairment of HK\$18.6 million. The Group estimated the provision for impairment of trade receivables by assessing the recoverability based on specific factors. This required the use of estimates and judgements. The specific factors management considered included the age of the balances, nature of customers and existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. Based on such information, management determined whether a provision for impairment was required either for a specific transaction or for a customer's balance overall. We focused on this area because it requires a high level of management's judgement and due to the materiality of the amounts involved.</p> <p>The significant accounting judgements and estimates and disclosures for trade receivables are included in notes 4 and 20 to the consolidated financial statements.</p> | <p>We tested the controls over the Group's collection procedures and the Group's assessment of the impairment provision required at each period end. We evaluated the appropriateness of the impairment provision recognised taking into account the historical cash collection trends which were key considerations for each individual receivable. We checked the receipts of cash after the year end for corporate, hospital and clinic customers on a sample basis. We also assessed the assumptions used to calculate the amount of the impairment provision for the trade receivables, notably through detailed analysis of the ageing of the receivables and assessment of significant overdue individual trade receivables, and considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision amount.</p> |

## Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## 64 INDEPENDENT AUDITOR'S REPORT

### **Responsibilities of the directors for the consolidated financial statements**

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

## Auditor's responsibilities for the audit of the consolidated financial statements (continued)

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

## 66 INDEPENDENT AUDITOR'S REPORT

### **Auditor's responsibilities for the audit of the consolidated financial statements (continued)**

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Sai Yu.

#### **Ernst & Young**

*Certified Public Accountants*

Hong Kong

29 March 2018

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

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Year ended 31 December 2017

|  | Notes | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--|-------|------------------|------------------|
| REVENUE  | 6     | 2,181,292        | 1,642,176        |
| Cost of sales  |       | (1,119,780)      | (761,515)        |
| Gross profit   |       | 1,061,512        | 880,661          |
| Other income and gains   | 6     | 23,912           | 4,072            |
| Selling and distribution expenses  |       | (265,926)        | (185,222)        |
| Administrative expenses  |       | (586,525)        | (499,549)        |
| Other operating expenses   |       | (1,582)          | (18,435)         |
| Finance costs  | 8     | (28,582)         | (28,411)         |
| Share of losses of associates  |       | (1,288)          | —                |
| PROFIT BEFORE TAX  | 7     | 201,521          | 153,116          |
| Income tax expense   | 11    | (44,158)         | (50,048)         |
| PROFIT FOR THE YEAR  |       | 157,363          | 103,068          |
| ATTRIBUTABLE TO:   |       |                  |                  |
| Owners of the Company  |       | 155,371          | 101,483          |
| Non-controlling interests  |       | 1,992            | 1,585            |
|  |       | 157,363          | 103,068          |
| EARNINGS PER SHARE ATTRIBUTABLE TO<br>ORDINARY EQUITY HOLDERS OF THE COMPANY |       |                  |                  |
| Basic  | 13    | HK15.6 cents     | HK10.2 cents     |
| Diluted  | 13    | HK15.6 cents     | HK10.2 cents     |

## 68 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| PROFIT FOR THE YEAR   | 157,363          | 103,068          |
| OTHER COMPREHENSIVE INCOME  |                  |                  |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: |                  |                  |
| Exchange differences on translation of foreign operations                                     | 155,284          | (64,634)         |
| Other comprehensive income/(loss) for the year, net of tax                                    | 155,284          | (64,634)         |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR   | 312,647          | 38,434           |
| ATTRIBUTABLE TO:  |                  |                  |
| Owners of the Company   | 310,542          | 36,703           |
| Non-controlling interests   | 2,105            | 1,731            |
|   | 312,647          | 38,434           |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

|  | Notes | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>NON-CURRENT ASSETS</b>                    |       |                  |                  |
| Property, plant and equipment                | 14    | 326,703          | 173,238          |
| Prepaid land lease payments                  | 15    | 12,652           | 12,071           |
| Goodwill                                     | 16    | 1,389,250        | 1,256,356        |
| Intangible assets                            | 17    | 384,046          | 390,028          |
| Investments in associates                    | 18    | 10,325           | —                |
| Deferred tax assets                          | 27    | 9,090            | 7,482            |
| Prepayments for acquisition of subsidiaries  | 21    | —                | 41,027           |
| Long term prepayments and deposits           | 21    | 60,653           | 40,901           |
| Total non-current assets                     |       | 2,192,719        | 1,921,103        |
| <b>CURRENT ASSETS</b>                        |       |                  |                  |
| Inventories                                  | 19    | 81,861           | 74,098           |
| Trade receivables                            | 20    | 413,682          | 359,354          |
| Prepayments, deposits and other receivables  | 21    | 59,858           | 43,603           |
| Due from an associate                        | 18    | 274              | —                |
| Current tax assets                           |       | 10,709           | 5,615            |
| Pledged deposits                             | 22    | 12,467           | 3,726            |
| Cash and cash equivalents                    | 22    | 368,660          | 337,004          |
| Total current assets                         |       | 947,511          | 823,400          |
| <b>CURRENT LIABILITIES</b>                   |       |                  |                  |
| Trade payables                               | 23    | 57,195           | 73,760           |
| Other payables and accruals                  | 24    | 179,947          | 146,874          |
| Interest-bearing bank and other borrowings   | 25    | 270,360          | 190,746          |
| Tax payable                                  |       | 43,477           | 40,451           |
| Total current liabilities                    |       | 550,979          | 451,831          |
| <b>NET CURRENT ASSETS</b>                    |       | <b>396,532</b>   | <b>371,569</b>   |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |       | <b>2,589,251</b> | <b>2,292,672</b> |

## 70 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

|   | Notes | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>        |       | <b>2,589,251</b> | 2,292,672        |
| NON-CURRENT LIABILITIES                             |       |                  |                  |
| Interest-bearing bank and other borrowings          | 25    | 447,098          | 430,450          |
| Deferred tax liabilities                            | 27    | 23,379           | 31,288           |
| Other non-current liabilities                       | 24    | 13,781           | 8,704            |
| Total non-current liabilities                       |       | 484,258          | 470,442          |
| Net assets  |       | 2,104,993        | 1,822,230        |
| <b>EQUITY</b>                                       |       |                  |                  |
| <b>Equity attributable to owners of the Company</b> |       |                  |                  |
| Share capital                                       | 28    | 77,500           | 77,500           |
| Treasury shares                                     | 28    | (39)             | (304)            |
| Reserves  | 30    | 2,020,029        | 1,738,543        |
|   |       | 2,097,490        | 1,815,739        |
| Non-controlling interests                           |       | 7,503            | 6,491            |
| Total equity  |       | 2,104,993        | 1,822,230        |

**NGAI Shing Kin**  
Director

**CHAN Kwun Fung**  
Director



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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Year ended 31 December 2017

|   | Attributable to owners of the Company |               |                 |                   |                    |                    |                  |                  |           |                           |              |
|---|---------------------------------------|---------------|-----------------|-------------------|--------------------|--------------------|------------------|------------------|-----------|---------------------------|--------------|
|   | Share capital                         | Share premium | Treasury shares | Statutory reserve | Capital reserve    | Put option reserve | Exchange reserve | Retained profits | Total     | Non-controlling interests | Total equity |
|   | HK\$'000                              | HK\$'000      | HK\$'000        | HK\$'000          | HK\$'000           | HK\$'000           | HK\$'000         | HK\$'000         | HK\$'000  | HK\$'000                  | HK\$'000     |
|   | (note 28)                             | (note 28)     | (note 28)       | (note 30 (i))     | (note 29, 30 (ii)) | (note 30 (iii))    |                  |                  |           |                           |              |
| At 1 January 2016                                       | 77,500                                | 719,407       | (632)           | 1,932             | 615,953            | (28,140)           | (178,378)        | 571,896          | 1,779,538 | 8,298                     | 1,787,836    |
| Profit for the year                                     | —                                     | —             | —               | —                 | —                  | —                  | —                | 101,483          | 101,483   | 1,585                     | 103,068      |
| Other comprehensive loss for the year:                  |                                       |               |                 |                   |                    |                    |                  |                  |           |                           |              |
| Exchange differences related to foreign operations      | —                                     | —             | —               | —                 | —                  | —                  | (64,780)         | —                | (64,780)  | 146                       | (64,634)     |
| Total comprehensive income for the year                 | —                                     | —             | —               | —                 | —                  | —                  | (64,780)         | 101,483          | 36,703    | 1,731                     | 38,434       |
| Transfer from retained profits                          | —                                     | —             | —               | 4,101             | —                  | —                  | —                | (4,101)          | —         | —                         | —            |
| 2016 interim dividend (note 12)                         | —                                     | —             | —               | —                 | —                  | —                  | —                | (21,000)         | (21,000)  | —                         | (21,000)     |
| Equity-settled Pre-IPO RSUs expense (note 29)           | —                                     | —             | —               | —                 | 18,508             | —                  | —                | —                | 18,508    | —                         | 18,508       |
| Equity-settled Pre-IPO RSUs vested (note 29)            | —                                     | 20,839        | 328             | —                 | (21,167)           | —                  | —                | —                | —         | —                         | —            |
| Acquisition of non-controlling interests (note 30(iii)) | —                                     | —             | —               | —                 | (26,150)           | 28,140             | —                | —                | 1,990     | (1,129)                   | 861          |
| Dividends paid to non-controlling shareholders          | —                                     | —             | —               | —                 | —                  | —                  | —                | —                | —         | (2,409)                   | (2,409)      |
| At 31 December 2016                                     | 77,500                                | 740,246       | (304)           | 6,033             | 587,144            | —                  | (243,158)        | 648,278          | 1,815,739 | 6,491                     | 1,822,230    |

## 72 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

|  | Attributable to owners of the Company |                      |                 |                    |                      |                       |                      |           | Non-controlling interests | Total equity |
|--|---------------------------------------|----------------------|-----------------|--------------------|----------------------|-----------------------|----------------------|-----------|---------------------------|--------------|
|  | Share capital                         | Share premium        | Treasury shares | Statutory reserve  | Capital reserve      | Exchange reserve      | Retained profits     | Total     |                           |              |
|  | HK\$'000                              | HK\$'000             | HK\$'000        | HK\$'000           | HK\$'000             | HK\$'000              | HK\$'000             | HK\$'000  |                           |              |
|  | (note 28)                             | (note 28)            | (note 28)       | (note 30 (i))      | (note 29, 30 (ii))   |                       |                      |           |                           |              |
| 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 year                                  | —                                     | —                    | —               | —                  | —                    | —                     | 155,371              | 155,371   | 1,992                     | 157,363      |
| Other comprehensive income for the year:             |                                       |                      |                 |                    |                      |                       |                      |           |                           |              |
| Exchange differences related to foreign operations   | —                                     | —                    | —               | —                  | —                    | 155,171               | —                    | 155,171   | 113                       | 155,284      |
| Total comprehensive income for the year              | —                                     | —                    | —               | —                  | —                    | 155,171               | 155,371              | 310,542   | 2,105                     | 312,647      |
| Transfer from retained profits                       | —                                     | —                    | —               | 2,934              | —                    | —                     | (2,934)              | —         | —                         | —            |
| 2016 final dividend (note 12)                        | —                                     | (9,000)              | —               | —                  | —                    | —                     | —                    | (9,000)   | —                         | (9,000)      |
| 2017 interim dividend (note 12)                      | —                                     | (25,000)             | —               | —                  | —                    | —                     | —                    | (25,000)  | —                         | (25,000)     |
| Equity-settled Pre-IPO RSUs expense (note 29)        | —                                     | —                    | —               | —                  | 5,209                | —                     | —                    | 5,209     | —                         | 5,209        |
| Equity-settled Pre-IPO RSUs vested (note 29)         | —                                     | 16,823               | 265             | —                  | (17,088)             | —                     | —                    | —         | —                         | —            |
| Capital contribution by non-controlling shareholders | —                                     | —                    | —               | —                  | —                    | —                     | —                    | —         | 236                       | 236          |
| Dividends paid to non-controlling shareholders       | —                                     | —                    | —               | —                  | —                    | —                     | —                    | —         | (1,329)                   | (1,329)      |
| At 31 December 2017                                  | 77,500                                | 723,069 <sup>#</sup> | (39)            | 8,967 <sup>#</sup> | 575,265 <sup>#</sup> | (87,987) <sup>#</sup> | 800,715 <sup>#</sup> | 2,097,490 | 7,503                     | 2,104,993    |

<sup>#</sup> These reserve accounts comprise the consolidated reserves of HK\$2,020,029,000 (2016: HK\$1,738,543,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

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Year ended 31 December 2017

|   | Notes | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |       |                  |                  |
| Profit before tax   |       | 201,521          | 153,116          |
| Adjustments for:  |       |                  |                  |
| Finance costs   | 8     | 28,582           | 28,411           |
| Bank interest income  | 6,7   | (443)            | (701)            |
| Gain on disposal of items of property, plant and equipment, net                                       | 6,7   | (95)             | —                |
| Fair value loss on forward foreign exchange contracts   | 7     | —                | 4,182            |
| Remeasurement loss on contingent consideration  | 7     | 1,096            | 196              |
| Write-back of consideration payable   | 7     | (3,610)          | —                |
| Fair value loss on call options and put options measured at<br>fair value through profit or loss, net | 7     | —                | 372              |
| Write-off of property, plant and equipment  | 7     | 895              | 140              |
| Depreciation and amortisation   | 7     | 90,003           | 70,506           |
| Amortisation of prepaid land lease payments   | 7     | 256              | 86               |
| Impairment of goodwill  | 7     | —                | 9,832            |
| Share of losses of associates   |       | 1,288            | —                |
| Equity-settled Pre-IPO RSUs expense   | 29    | 5,209            | 18,508           |
|   |       | <b>324,702</b>   | <b>284,648</b>   |
| Increase in inventories   |       | (2,556)          | (6,355)          |
| Increase in trade receivables   |       | (32,194)         | (19,433)         |
| (Increase)/decrease in prepayments, deposits and other receivables                                    |       | (26,224)         | 1,903            |
| Increase in an amount due from a related party  |       | (90)             | (11)             |
| Increase in an amount due from an associate   |       | (274)            | —                |
| Decrease in trade payables  |       | (20,005)         | (10,829)         |
| Increase/(decrease) in other payables and accruals  |       | 6,358            | (20,415)         |
| Increase/(decrease) in amounts due to related parties   |       | 1,002            | (557)            |
| Cash generated from operations  |       | <b>250,719</b>   | <b>228,951</b>   |
| Interest received   |       | 443              | 701              |
| Income tax paid   |       | (56,489)         | (47,956)         |
| Net cash flows from operating activities  |       | <b>194,673</b>   | <b>181,696</b>   |

## 74 CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

|  | Notes | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |       |                  |                  |
| Purchases of items of property, plant and equipment and other intangible assets  |       | (191,360)        | (86,889)         |
| Prepaid land lease payments  | 15    | —                | (12,402)         |
| Loss from forward foreign exchange contracts   |       | —                | (9,214)          |
| Proceeds from disposal of items of property, plant and equipment   |       | 1,506            | 2,563            |
| Net cash inflow/(outflow) from acquisition of subsidiaries   | 31    | 1,563            | (533,107)        |
| Prepayments for acquisition of subsidiaries  |       | —                | (41,027)         |
| Prepayment for purchase of items of property, plant and equipment  |       | (2,347)          | —                |
| Settlement of contingent consideration   | 38    | (775)            | (775)            |
| Capital contribution for investments in associates   |       | (11,613)         | —                |
| Increase in pledged deposits   |       | (8,741)          | (366)            |
| <b>Net cash flows used in investing activities</b>   |       | <b>(211,767)</b> | <b>(681,217)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |       |                  |                  |
| New bank loans and other borrowings  | 32    | 206,895          | —                |
| Repayment of bank loans and other borrowings   | 32    | (118,602)        | (30,299)         |
| Dividend paid  |       | (34,000)         | (21,000)         |
| Dividend paid to non-controlling shareholders  |       | (1,329)          | (2,409)          |
| Interest paid  |       | (25,139)         | (22,794)         |
| Capital contribution by non-controlling shareholders   |       | 236              | —                |
| Acquisition of non-controlling interests   |       | —                | (4,635)          |
| <b>Net cash flows from/(used in) financing activities</b>  |       | <b>28,061</b>    | <b>(81,137)</b>  |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>  |       |                  |                  |
| Effect of foreign exchange rate changes, net   |       | 20,689           | (28,027)         |
| Cash and cash equivalents at beginning of year   |       | 337,004          | 945,689          |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>  |       | <b>368,660</b>   | <b>337,004</b>   |
| <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>   |       |                  |                  |
| Cash and bank balances   | 22    | 348,015          | 318,245          |
| Non-pledged time deposits with original maturity of less than three months when acquired   | 22    | 20,645           | 18,759           |
| Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows | 22    | 368,660          | 337,004          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

## 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 principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the production and distribution of dental prosthetic devices.

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

### Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

| Company name   | Place and date of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company |          | Principal activities  |
|--|---|--|--|----------|---|
|  |   |  | Direct   | Indirect |   |
| Modern Dental Holding Limited  | British Virgin Islands<br>1 August 2012                               | US\$50,000   | 100%   | —        | Investment holding  |
| Modern Dental Laboratory Company Limited <sup>#</sup>                          | Hong Kong<br>18 March 1988  | HK\$10,000   | —  | 100%     | Trading of dental prosthetic devices in Hong Kong; sourcing arm for the People Republic of China ("PRC") manufactures |
| Yangzhijin Dental Laboratory (Shenzhen) Co., Ltd. <sup>*#</sup>                | PRC/Mainland China<br>20 July 1998                                    | US\$6,190,000  | —  | 100%     | Manufacture and trading of dental prosthetic devices  |
| Modern Dental Laboratory (Shenzhen) Company Limited <sup>*#</sup>              | PRC/Mainland China<br>17 May 2012                                     | RMB40,000,000  | —  | 100%     | Manufacture of dental prosthetic devices  |
| Modern Dental International (Macao Commercial Offshore) Limited <sup>#</sup>   | Macau<br>12 August 2012   | MOP100,000   | —  | 100%     | Trading of dental prosthetic devices to overseas markets  |
| Modern Dental and Medical Instruments (DongGuan) Company Limited <sup>*#</sup> | PRC/Mainland China<br>12 August 2015                                  | RMB75,000,000  | —  | 100%     | Manufacture and trading of dental prosthetic devices  |

## 76 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

## 1. CORPORATE AND GROUP INFORMATION (continued)

## Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

| Company name                                   | Place and date of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company |          | Principal activities  |
|--|---|--|--|----------|---|
|  |   |  | Direct   | Indirect |   |
| Modern Dental Laboratory USA, LLC <sup>#</sup> | United States<br>17 August 2009                                       | US\$3,728,570  | —  | 100%     | Manufacture and trading of dental prosthetic devices in the United States markets (other than Arizona and Georgia) and managing five service centers located at Seattle, Los Angeles, Boston, Chicago and Wilmington, and a digital centre in Troy, the United States |
| Quantum Dental Laboratory Inc. <sup>#</sup>    | Canada<br>1 July 2013   | CAD100   | —  | 70%      | Manufacture and trading of dental prosthetic devices  |
| Sundance Dental Laboratory, LLC <sup>#</sup>   | United States<br>21 April 2014  | US\$2,571,714  | —  | 100%     | Manufacture and trading of dental prosthetic devices  |
| Permadental GmbH                               | Germany<br>2 March 2010   | EUR25,000  | —  | 100%     | Trading of dental prosthetic devices  |
| Elysee Dental Belgium BVBA                     | Belgium<br>9 June 2008  | EUR18,550  | —  | 100%     | Manufacture of facilities and trading of dental prosthetics devices   |
| Elysee Dental Solutions B.V.                   | The Netherlands<br>10 October 2001                                    | EUR18,000  | —  | 100%     | Manufacture of facilities and trading of dental prosthetic devices  |
| Elysee Dental ApS                              | Denmark<br>4 March 2004   | DKK125,000   | —  | 100%     | Manufacture of facilities and trading of dental prosthetics devices   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 77

31 December 2017

## 1. CORPORATE AND GROUP INFORMATION (continued)

## Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

| Company name                                    | Place and date of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company |          | Principal activities                                 |
|---|---|--|--|----------|--|
|   |   |  | Direct   | Indirect |  |
| Labocast SAS                                    | France<br>31 December 1986  | EUR 100,000  | —  | 100%     | Trading of dental prosthetic devices                 |
| Labo Ocean Indien SA                            | Madagascar<br>17 May 1996   | MGA10,000,000  | —  | 100%     | Manufacture and trading of dental prosthetic devices |
| Pavona Pty Limited                              | Australia<br>20 January 1984  | AUD2   | —  | 100%     | Trading of dental prosthetic devices                 |
| Southern Cross Dental Laboratories (NZ) Limited | New Zealand<br>20 April 2012  | NZD1,080,010   | —  | 100%     | Trading of dental prosthetic devices                 |
| RTFP Dental Inc.                                | United States<br>6 May 2016   | US\$0.1  | —  | 100%     | Trading of dental prosthetic devices                 |
| MicroDental Holdings, Inc.                      | United States<br>24 May 2016  | US\$0.01   | —  | 100%     | Trading of dental prosthetic devices                 |
| Schmidt Dentalkeramik ApS                       | Denmark<br>1 July 1987  | DKK 299  | —  | 100%     | Trading of dental prosthetic devices                 |
| CDI Dental AB                                   | Sweden<br>12 September 2005   | SEK 500  | —  | 100%     | Trading of dental prosthetic devices                 |
| CDI Supply AB                                   | Sweden<br>22 May 2009   | SEK 100  | —  | 100%     | Trading of dental prosthetic devices                 |

\* The subsidiaries are registered as wholly-foreign-owned enterprises under PRC law.

# Not audited by Ernst &amp; Young, Hong Kong or another member firm of the Ernst &amp; Young global network.

During the year, the Group acquired Schmidt Dentalkeramik ApS and CDI Dental AB and CDI Supply AB from independent third parties. Further details of these acquisitions are included in note 31 to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 78 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), (which include all International Financial Reporting Standards, International Accounting Standards ("IASs"), and Interpretations) issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for contingent consideration payable which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 79

31 December 2017

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

|  |   |
|--|---|
| Amendments to IAS 7  | <i>Disclosure Initiative</i>  |
| Amendments to IAS 12   | <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>                             |
| Amendments to IFRS 12 included in<br><i>Annual Improvements to IFRSs 2014-2016 Cycle</i> | <i>Disclosure of Interests in Other Entities: Clarification of the<br/>Scope of IFRS 12</i> |

None of the above amendments to IFRSs has had a significant financial effect on the financial statements. Disclosure has been made in note 32 to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not early applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

|  |  |
|--|--|
| Amendments to IFRS 2                       | <i>Classification and Measurement of Share-based Payment Transactions</i> <sup>1</sup>   |
| Amendments to IFRS 4<br>IFRS 9             | <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> <sup>1</sup><br><i>Financial Instruments</i> <sup>1</sup> |
| Amendments to IFRS 9                       | <i>Prepayment Features with Negative Compensation</i> <sup>2</sup>   |
| Amendments to IFRS 10 and IAS 28           | <i>Sale or Contribution of Assets between an Investor and its Associate or<br/>Joint Venture</i> <sup>4</sup>                          |
| IFRS 15                                    | <i>Revenue from Contracts with Customers</i> <sup>1</sup>  |
| Amendments to IFRS 15                      | <i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i> <sup>1</sup>  |
| IFRS 16                                    | <i>Leases</i> <sup>2</sup>   |
| IFRS 17                                    | <i>Insurance Contracts</i> <sup>3</sup>  |
| Amendments to IAS 19                       | <i>Plan Amendment, Curtailment or Settlement</i> <sup>2</sup>  |
| Amendments to IAS 28                       | <i>Long-term Interests in Associates and Joint Ventures</i> <sup>2</sup>   |
| Amendments to IAS 40                       | <i>Transfers of Investment Property</i> <sup>1</sup>   |
| IFRIC 22                                   | <i>Foreign Currency Transactions and Advance Consideration</i> <sup>1</sup>  |
| IFRIC 23                                   | <i>Uncertainty over Income Tax Treatments</i> <sup>2</sup>   |
| <i>Annual Improvements 2014-2016 Cycle</i> | Amendments to IFRS 1 and IAS 28 <sup>1</sup>   |
| <i>Annual Improvements 2015-2017 Cycle</i> | Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 <sup>2</sup>  |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> No mandatory effective date yet determined but available for adoption

## 80 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Further information about those IFRSs that are expected to be applicable to the Group is described below. Of those standards, IFRS 9 and IFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

#### (a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value.

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### 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

#### (b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in IFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of IFRS 15 will not be material. During 2017, the Group has performed an assessment on the impact of the adoption of IFRS 15 and expects that the adoption of IFRS 15 will have no impact on the timing of the revenue recognition but additional disclosures on the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers will be required.

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### 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 16, issued in January 2016, replaces IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IFRS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 34 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK\$160,976,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short-term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 83

31 December 2017

### 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Amendments to IAS 40, issued in December 2016, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC 22, issued in December 2016, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

IFRIC 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated statement of other comprehensive income, respectively.

In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred.

Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

#### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 85**

31 December 2017

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Business combinations and goodwill (continued)**

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

## 86 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Fair value measurement

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 87

31 December 2017

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);

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31 December 2017

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Related parties (continued)**

- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

|                        |           |
|------------------------|-----------|
| Land and buildings     | 2% - 10%  |
| Leasehold improvements | 3% - 25%  |
| Furniture and fixtures | 10% - 33% |
| Plant and machinery    | 10% - 33% |
| Motor vehicles         | 10% - 30% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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31 December 2017

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

**Software**

Software is amortised on the straight-line basis over the estimated useful life of 10 years.

**Customer relationship**

Customer relationship is amortised on the sum-of-the-years' digits basis over its estimated useful life of 5 to 10 years.

**Trademark**

Trademark is an intangible with an indefinite useful life and is not amortised. It is tested for impairment annually. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the indefinite useful life assessment continues to be supportable.

**Non-compete agreement**

Non-compete agreement is amortised on the straight-line basis over the estimated useful life of 1 to 5 years.

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31 December 2017

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

#### Investments and other financial assets

##### Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

##### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 91

31 December 2017

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment of financial assets (continued)

##### Financial assets carried at amortised cost (continued)

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

#### Financial liabilities

##### Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include interest-bearing bank loans, trade payables, finance lease payable, other payables and accruals and an amount due to related parties.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** 93

31 December 2017

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial liabilities (continued)****Subsequent measurement**

The subsequent measurement of financial liabilities depends on their classification as follows:

**Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

**Loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

## 94 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### Derivative financial instruments

##### Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts to hedge its foreign currency risk. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The derivative instruments entered into by the Group do not qualify for hedge accounting, and changes in the fair value of these derivative instruments are recognised in the consolidated statement of profit or loss.

##### Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows). Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

#### Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.



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31 December 2017

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

## 96 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 97

31 December 2017

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

#### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when the services are rendered;
- (c) rental income, on a time proportion basis over the lease terms; and
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

#### Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is based on the business enterprise value of the Group, further details of which are given in note 29 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Share-based payments (continued)**

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

**Employee benefits****Pension schemes**

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. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 99

31 December 2017

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits (continued)

#### Pension schemes (continued)

The employees of the Group's subsidiaries which operate in Australia are required settle the liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months after the reporting date. The liability for annual leave and long service leave not expected to be settled within 12 months after the reporting date is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to be expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

The employees of the Group's subsidiaries which operate in Europe participate in dental technicians (CAOT and tandtechniek) defined contribution pension plans, all of which require contributions to be made to separately administered funds. All annual pension costs are charged to the profit or loss.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

## 100 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 101**

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**4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

**Judgements**

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

**Recognition of a deferred tax liability for withholding taxes**

The Group does not rely on dividends paid by overseas subsidiaries for financing requirements. The Group determines that no dividends to be distributed from overseas subsidiaries to the Company or to any subsidiary outside the jurisdiction of those overseas entities in the foreseeable future could give rise to the recognition of withholding taxes. Therefore, no deferred tax liability for withholding taxes was recognised in these financial statements.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

**Impairment of goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was HK\$1,389,250,000 (2016: HK\$1,256,356,000). Further details are given in note 16 to the financial statements.

**Impairment of non-financial assets (other than goodwill)**

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

## 102 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

#### Estimation uncertainty (continued)

##### Provision for impairment of trade and other receivables

The Group estimates the provision for impairment of trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment allowances at the end of each year. At 31 December 2017, provisions for impairment of trade receivables were HK\$18,577,000 (2016: HK\$14,400,000) and provisions for impairment of other receivables were HK\$2,407,000 (2016: HK\$5,617,000). Further details are given in notes 20 and 21 to the financial statements respectively.

##### Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, competitor actions in response to severe industry cycles or unforeseeable change in legal enforcement rights in future. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

##### Useful lives of intangible assets

The Group determines the estimated useful lives and related amortisation charges for its intangible assets. This estimate is based on the historical experience of the actual useful life of intangible assets of similar functions. It could change significantly as a result of technical innovations. Management reassesses the useful lives at each reporting date.

##### Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 27 to the financial statements.

### 5. OPERATING SEGMENT INFORMATION

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

- (a) The fixed prosthetic devices segment is a supplier of restorative dental procedures, such as crowns, bridge and implants.
- (b) The removable prosthetic devices segment produces full dentures and partial dentures. Dentures can be further classified as dentures with metal frameworks and dentures without metal frameworks.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 103

31 December 2017

**5. OPERATING SEGMENT INFORMATION (continued)**

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

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

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

|                              | 2017                |                           |                          | 2016                |                           |                          |
|------------------------------|---------------------|---------------------------|--------------------------|---------------------|---------------------------|--------------------------|
|                              | Revenue<br>HK\$'000 | Cost of sales<br>HK\$'000 | Gross profit<br>HK\$'000 | Revenue<br>HK\$'000 | Cost of sales<br>HK\$'000 | Gross profit<br>HK\$'000 |
| Fixed prosthetic devices     | 1,575,585           | 808,607                   | 766,978                  | 1,133,792           | 507,436                   | 626,356                  |
| Removable prosthetic devices | 417,000             | 216,354                   | 200,646                  | 355,890             | 169,950                   | 185,940                  |
| Others                       | 188,707             | 94,819                    | 93,888                   | 152,494             | 84,129                    | 68,365                   |
| <b>Total</b>                 | <b>2,181,292</b>    | <b>1,119,780</b>          | <b>1,061,512</b>         | <b>1,642,176</b>    | <b>761,515</b>            | <b>880,661</b>           |

**Geographical information****(a) Revenue from external customers**

|               | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---------------|------------------|------------------|
| Europe        | 843,598          | 753,465          |
| North America | 687,293          | 277,096          |
| Greater China | 421,365          | 398,224          |
| Australia     | 214,556          | 201,085          |
| Others        | 14,480           | 12,306           |
|               | <b>2,181,292</b> | <b>1,642,176</b> |

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

As no revenue derived from sales to any single customer of the Group has accounted for 10% or more of the Group's total revenue during the year, no information about major customers is presented.

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31 December 2017

## 5. OPERATING SEGMENT INFORMATION (continued)

## Geographical information (continued)

## (b) Non-current assets

|               | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---------------|------------------|------------------|
| Europe        | 786,535          | 678,631          |
| North America | 627,253          | 580,291          |
| Greater China | 211,480          | 138,840          |
| Australia     | 484,947          | 449,436          |
| Others        | 73,414           | 66,423           |
|               | <b>2,183,629</b> | <b>1,913,621</b> |

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

## 6. 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:

|  | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--|------------------|------------------|
| <b>Revenue</b>   |                  |                  |
| Sale of goods  | 2,181,292        | 1,642,176        |
| <b>Other income</b>  |                  |                  |
| Bank interest income   | 443              | 701              |
| Government subsidies*  | 3,032            | 2,437            |
| Others   | 5,357            | 934              |
|  | <b>8,832</b>     | <b>4,072</b>     |
| <b>Gains</b>   |                  |                  |
| Foreign exchange gains, net                                      | 14,985           | —                |
| Gains on disposal of items of property, plant and equipment, net | 95               | —                |
|  | <b>15,080</b>    | <b>—</b>         |
| Other income and gains   | <b>23,912</b>    | <b>4,072</b>     |

\* 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 CONSOLIDATED FINANCIAL STATEMENTS 105

31 December 2017

## 7. PROFIT BEFORE TAX

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

|  | Notes | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--|-------|------------------|------------------|
| Cost of inventories sold <sup>#</sup>  |       | 1,119,780        | 761,515          |
| Depreciation   | 14    | 53,183           | 34,346           |
| Amortisation of intangible assets  | 17    | 36,820           | 36,160           |
| Minimum lease payments under operating leases  |       | 65,259           | 40,755           |
| Amortisation of prepaid land lease payments  | 15    | 256              | 86               |
| Auditors' remuneration   |       | 12,129           | 10,809           |
| Employee benefit expense (excluding directors' and chief executive's remuneration (note 9)): |       |                  |                  |
| Wages and salaries   |       | 885,616          | 637,975          |
| Pension scheme contributions   |       | 133,736          | 68,896           |
| Equity-settled Pre-IPO RSUs expense  |       | 2,667            | 9,069            |
|  |       | 1,022,019        | 715,940          |
| Impairment of goodwill*  | 16    | —                | 9,832            |
| Bank interest income   |       | (443)            | (701)            |
| Gains on disposal of items of property, plant and equipment, net                             |       | (95)             | —                |
| Fair value loss, net:  |       |                  |                  |
| Call options and put options*  | 38    | —                | 372              |
| Forward foreign exchange contracts*  |       | —                | 4,182            |
| Remeasurement loss on contingent consideration*  | 38    | 1,096            | 196              |
| Write-back of consideration payable*   |       | (3,610)          | —                |
| Write-off of property, plant and equipment*  | 14    | 895              | 140              |
| Allowance for impairment of trade and other receivables, net                                 | 20,21 | 811              | 7,666            |
| Foreign exchange (gain)/loss, net**  |       | (14,985)         | 3,487            |

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

\*\* Foreign exchange gain, net, is included in "other income and gains" in the consolidated statement of profit or loss. Foreign exchange loss, net, is included in "other operating expenses" in the consolidated statement of profit or loss.

# Cost of inventories sold includes HK\$669,391,000 (2016: HK\$443,766,000) relating to employee benefit expense, minimum lease payments under operating leases and depreciation, which are also included in the respective total amounts disclosed above for each of these types of expenses.

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**8. FINANCE COSTS**

|  | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--|------------------|------------------|
| Interest on bank loans, overdrafts and other loans | 24,976           | 22,630           |
| Less: amount capitalised on qualifying assets      | (2,995)          | —                |
|  | 21,981           | 22,630           |
| Finance charges on bank loans                      | 6,438            | 5,617            |
| Interest on finance leases                         | 163              | 164              |
|  | <b>28,582</b>    | 28,411           |

**9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION**

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of information about Benefits of Directors) Regulation, is as follows:

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| Fees                                      | 940              | 920              |
| Other emoluments:                         |                  |                  |
| Salaries, allowances and benefits in kind | 12,366           | 11,727           |
| Equity-settled Pre-IPO RSUs expense       | 2,542            | 9,439            |
| Pension scheme contributions              | 72               | 87               |
|   | 14,980           | 21,253           |
|   | <b>15,920</b>    | 22,173           |

At 19 June 2015, three directors were granted restricted share units (the "RSUs") in respect of their services to the Group, under the RSU scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of RSUs, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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## 9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

## (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

|                                  | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|----------------------------------|------------------|------------------|
| Mr. Cheung Wai Man, William      | 235              | 230              |
| Mr. Cheung Wai Bun, Charles J.P. | 235              | 230              |
| Mr. Wong Ho Ching                | 235              | 230              |
| Mr. Chan Yue Kwong, Michael      | 235              | 230              |
|                                  | 940              | 920              |

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

## (b) Executive directors and the chief executive

|                          | Salaries,<br>allowances and<br>benefits in kind<br>HK\$'000 | Equity-settled<br>Pre-IPO<br>RSUs expense<br>HK\$'000 | Pension<br>scheme<br>contributions<br>HK\$'000 | Total<br>HK\$'000 |
|--------------------------|---|---|--|-------------------|
| 2017                     |   |   |  |                   |
| Executive directors:     |   |   |  |                   |
| Mr. Chan Kwun Fung       | 1,661   | —   | —  | 1,661             |
| Mr. Chan Kwun Pan        | 1,661   | —   | —  | 1,661             |
| Mr. Ngai Shing Kin       | 2,784   | 2,118   | —  | 4,902             |
| Mr. Chan Chi Yuen        | 1,300   | —   | 18   | 1,318             |
| Mr. Chan Ronald Yik Long | 1,300   | —   | 18   | 1,318             |
| Ms. Chan Yik Yu          | 1,300   | —   | 18   | 1,318             |
| Mr. Ngai Chi Ho Alwin    | 2,360   | 424   | 18   | 2,802             |
|                          | 12,366  | 2,542   | 72   | 14,980            |

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## 9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

## (b) Executive directors and the chief executive (continued)

|                          | Salaries,<br>allowances and<br>benefits in kind<br>HK\$'000 | Equity-settled<br>Pre-IPO<br>RSUs expense<br>HK\$'000 | Pension<br>scheme<br>contributions<br>HK\$'000 | Total<br>HK\$'000 |
|--------------------------|---|---|--|-------------------|
| 2016                     |   |   |  |                   |
| Executive directors:     |   |   |  |                   |
| Mr. Chan Kwun Fung       | 1,551   | —   | —  | 1,551             |
| Mr. Chan Kwun Pan        | 1,551   | —   | —  | 1,551             |
| Mr. Ngai Shing Kin       | 2,585   | 6,608   | —  | 9,193             |
| Mr. Chan Chi Yuen        | 917   | —   | 18   | 935               |
| Mr. Chan Ronald Yik Long | 1,040   | —   | 18   | 1,058             |
| Ms. Chan Yik Yu          | 932   | —   | 18   | 950               |
| Mr. Cheung Ting Pong*    | 1,348   | 1,510   | 15   | 2,873             |
| Mr. Ngai Chi Ho Alwin    | 1,803   | 1,321   | 18   | 3,142             |
|                          | 11,727  | 9,439   | 87   | 21,253            |

\* The director resigned on 26 October 2016.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2016: three) directors (including the chief executive), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining three (2016: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| Salaries, allowances and benefits in kind | 8,158            | 4,792            |
| Performance related bonuses               | 2,710            | 3,963            |
| Pension scheme contributions              | 1,697            | 2,263            |
|   | 12,565           | 11,018           |

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**10. FIVE HIGHEST PAID EMPLOYEES (continued)**

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

|                                | 2017 | 2016 |
|--------------------------------|------|------|
| HK\$3,500,001 to HK\$4,000,000 | 1    | 1    |
| HK\$4,000,001 to HK\$4,500,000 | 1    | —    |
| HK\$4,500,001 to HK\$5,000,000 | 1    | —    |
| HK\$7,000,001 to HK\$7,500,000 | —    | 1    |
|                                | 3    | 2    |

**11. INCOME TAX EXPENSE**

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempt from the payment of the Cayman Islands income tax.

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any tax in the British Virgin Islands.

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Pursuant to the PRC Income Tax Law and the respective regulations, the companies which operate in Mainland China are subject to Corporate Income Tax ("CIT") at the rate of 25% on the taxable income for the years ended 31 December 2017 and 2016.

Pursuant to the rules and regulations of the United States, the companies, except limited liability companies ("LLC"), which operate in the United States are subject to a top rate of 39% at the federal level, and are also subject to the statutory application state CIT. LLC are generally treated as flow-through entities ("FTE"), where income "flows through" to investors or owners, which are not subject to CIT.

Pursuant to the Macau Offshore Company Law and the respective regulations, the operation of offshore companies and their activities in Macau is not subject to CIT.

The companies which operate in Europe are subject to income tax on their respective assessable profit at the prevailing rates in the jurisdictions in which they operate.

Pursuant to the rules and regulations of Australia, the companies which operate in Australia are subject to income tax at the rate of 30% on their respective taxable income.

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## 11. INCOME TAX EXPENSE (continued)

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

|                    | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--------------------|------------------|------------------|
| Current            | 53,088           | 54,022           |
| Deferred (note 27) | (8,930)          | (3,974)          |
|                    | <b>44,158</b>    | 50,048           |

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

|  | 2017          |             | 2016     |       |
|--|---------------|-------------|----------|-------|
|  | HK\$'000      | %           | HK\$'000 | %     |
| Profit before tax  | 201,521       |             | 153,116  |       |
| Tax at the statutory tax rate  | 33,630        | 16.7        | 44,067   | 28.8  |
| Adjustment in respect of current tax<br>of previous period           | 1,469         | 0.7         | —        | —     |
| Income not subject to tax  | (2,224)       | (1.1)       | (1,432)  | (0.9) |
| Expenses not deductible for tax                                      | 9,592         | 4.8         | 5,179    | 3.4   |
| Tax losses not recognised  | 1,484         | 0.7         | 2,638    | 1.7   |
| Tax effect of utilisation of tax losses<br>not previously recognised | —             | —           | (404)    | (0.3) |
| Others   | 207           | 0.1         | —        | —     |
| Tax charge at the Group's effective rate                             | <b>44,158</b> | <b>21.9</b> | 50,048   | 32.7  |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 111

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## 12. DIVIDENDS

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| Interim – HK2.5 cents (2016: HK2.1 cents) per ordinary share        | 25,000           | 21,000           |
| Proposed final – HK2.1 cents (2016: HK0.9 cents) per ordinary share | 21,000           | 9,000            |

The interim dividend of HK\$25,000,000 has been paid on 6 October 2017.

On 29 March 2018, the Board recommended a final dividend of HK2.1 cents per ordinary share for the year ended 31 December 2017. The proposed final dividend for the year ended 31 December 2017 is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 996,234,160 (2016: 992,036,535) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| <b>Earnings</b>   |                  |                  |
| Profit attributable to ordinary equity holders of the company, used in the basic earnings per share calculation | 155,371          | 101,483          |

## 112 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

|   | Number of shares   |             |
|---|--------------------|-------------|
|   | 2017               | 2016        |
| <b>Shares</b>   |                    |             |
| Weighted average number of ordinary shares in issue during the years used in the basic earnings per share calculation | 996,234,160        | 992,036,535 |
| Effect of dilution – weighted average number of ordinary shares:  |                    |             |
| Pre-IPO RSU Scheme  | 2,286,048          | —*          |
|   | <b>998,520,208</b> | 992,036,535 |

\* No adjustment had been made to the basic earnings per share amount presented for the year ended 31 December 2016 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 amount presented.

## 14. PROPERTY, PLANT AND EQUIPMENT

|   | Land and buildings<br>HK\$'000 | Leasehold improvements<br>HK\$'000 | Furniture and fixtures<br>HK\$'000 | Plant and machinery<br>HK\$'000 | Motor vehicles<br>HK\$'000 | Construction in progress<br>HK\$'000 | Total<br>HK\$'000 |
|---|--------------------------------|------------------------------------|------------------------------------|---------------------------------|----------------------------|--------------------------------------|-------------------|
| <b>31 December 2017</b>                 |                                |                                    |                                    |                                 |                            |                                      |                   |
| At 31 December 2016 and 1 January 2017: |                                |                                    |                                    |                                 |                            |                                      |                   |
| Cost                                    | 66,864                         | 39,883                             | 51,818                             | 143,715                         | 10,235                     | 4,221                                | 316,736           |
| Accumulated depreciation                | (23,189)                       | (16,812)                           | (26,520)                           | (72,409)                        | (4,568)                    | —                                    | (143,498)         |
| Net carrying amount                     | 43,675                         | 23,071                             | 25,298                             | 71,306                          | 5,667                      | 4,221                                | 173,238           |
| At 1 January 2017,                      |                                |                                    |                                    |                                 |                            |                                      |                   |
| net of accumulated depreciation         | 43,675                         | 23,071                             | 25,298                             | 71,306                          | 5,667                      | 4,221                                | 173,238           |
| Additions                               | 41,863                         | 18,496                             | 13,007                             | 23,522                          | 2,875                      | 93,924                               | 193,687           |
| Acquisition of subsidiaries (note 31)   | —                              | 224                                | 917                                | 407                             | —                          | —                                    | 1,548             |
| Disposals                               | (70)                           | (156)                              | (251)                              | (719)                           | (192)                      | (23)                                 | (1,411)           |
| Write-off                               | —                              | —                                  | (14)                               | (881)                           | —                          | —                                    | (895)             |
| Depreciation provided during the year   | (2,762)                        | (6,993)                            | (13,925)                           | (25,990)                        | (3,513)                    | —                                    | (53,183)          |
| Exchange realignment                    | 3,451                          | 1,971                              | 2,504                              | 3,303                           | 314                        | 2,176                                | 13,719            |
| At 31 December 2017,                    |                                |                                    |                                    |                                 |                            |                                      |                   |
| net of accumulated depreciation         | 86,157                         | 36,613                             | 27,536                             | 70,948                          | 5,151                      | 100,298                              | 326,703           |
| At 31 December 2017:                    |                                |                                    |                                    |                                 |                            |                                      |                   |
| Cost                                    | 112,190                        | 59,593                             | 71,281                             | 177,195                         | 11,932                     | 100,298                              | 532,489           |
| Accumulated depreciation                | (26,033)                       | (22,980)                           | (43,745)                           | (106,247)                       | (6,781)                    | —                                    | (205,786)         |
| Net carrying amount                     | 86,157                         | 36,613                             | 27,536                             | 70,948                          | 5,151                      | 100,298                              | 326,703           |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 113

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## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

|                                       | Land and<br>buildings<br>HK\$'000 | Leasehold<br>improvements<br>HK\$'000 | Furniture<br>and fixtures<br>HK\$'000 | Plant and<br>machinery<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Construction<br>in progress<br>HK\$'000 | Total<br>HK\$'000 |
|---------------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|------------------------------------|-------------------------------|---|-------------------|
| <b>31 December 2016</b>               |                                   |                                       |                                       |                                    |                               |   |                   |
| At 1 January 2016:                    |                                   |                                       |                                       |                                    |                               |   |                   |
| Cost                                  | 69,423                            | 37,932                                | 35,193                                | 101,094                            | 6,791                         | 806                                     | 251,239           |
| Accumulated depreciation              | (21,324)                          | (14,474)                              | (13,172)                              | (60,089)                           | (3,694)                       | —                                       | (112,753)         |
| Net carrying amount                   | 48,099                            | 23,458                                | 22,021                                | 41,005                             | 3,097                         | 806                                     | 138,486           |
| At 1 January 2016,                    |                                   |                                       |                                       |                                    |                               |   |                   |
| net of accumulated depreciation       | 48,099                            | 23,458                                | 22,021                                | 41,005                             | 3,097                         | 806                                     | 138,486           |
| Additions                             | 18                                | 2,694                                 | 8,983                                 | 28,137                             | 2,068                         | 3,798                                   | 45,698            |
| Acquisition of subsidiaries (note 31) | —                                 | 2,109                                 | 5,362                                 | 20,264                             | 2,213                         | —                                       | 29,948            |
| Disposals                             | (1,958)                           | (20)                                  | (174)                                 | (301)                              | (110)                         | —                                       | (2,563)           |
| Write-off                             | —                                 | —                                     | (24)                                  | (116)                              | —                             | —                                       | (140)             |
| Reclassification                      | —                                 | 426                                   | (558)                                 | 188                                | (56)                          | —                                       | —                 |
| Depreciation provided during the year | (2,204)                           | (5,264)                               | (10,004)                              | (15,462)                           | (1,412)                       | —                                       | (34,346)          |
| Transfers                             | —                                 | —                                     | 194                                   | —                                  | —                             | (194)                                   | —                 |
| Exchange realignment                  | (280)                             | (332)                                 | (502)                                 | (2,409)                            | (133)                         | (189)                                   | (3,845)           |
| At 31 December 2016,                  |                                   |                                       |                                       |                                    |                               |   |                   |
| net of accumulated depreciation       | 43,675                            | 23,071                                | 25,298                                | 71,306                             | 5,667                         | 4,221                                   | 173,238           |
| At 31 December 2016:                  |                                   |                                       |                                       |                                    |                               |   |                   |
| Cost                                  | 66,864                            | 39,883                                | 51,818                                | 143,715                            | 10,235                        | 4,221                                   | 316,736           |
| Accumulated depreciation              | (23,189)                          | (16,812)                              | (26,520)                              | (72,409)                           | (4,568)                       | —                                       | (143,498)         |
| Net carrying amount                   | 43,675                            | 23,071                                | 25,298                                | 71,306                             | 5,667                         | 4,221                                   | 173,238           |

At 31 December 2017, the net carrying amount of the Group's property, plant and equipment held under finance leases included in the total amount of furniture and fixtures was HK\$1,212,000 (2016: HK\$2,371,000).

At 31 December 2017, certain of the Group's equipment with a net carrying amount of approximately HK\$8,354,000 (2016: HK\$5,643,000) were pledged to secure general banking facilities granted to the Group (note 25).

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## 15. PREPAID LAND LEASE PAYMENTS

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| Carrying amount at 1 January  | 12,319           | —                |
| Additions   | —                | 12,402           |
| Recognised during the year (note 7)   | (256)            | (86)             |
| Exchange realignment  | 854              | 3                |
| Carrying amount at 31 December  | 12,917           | 12,319           |
| Current portion included in prepayments, deposits and other receivables (note 21) | (265)            | (248)            |
| Non-current portion   | 12,652           | 12,071           |

## 16. GOODWILL

|   | HK\$'000  |
|---|-----------|
| At 1 January 2016:                                    |           |
| Cost  | 857,592   |
| Accumulated impairment                                | —         |
| Net carrying amount                                   | 857,592   |
| Cost at 1 January 2016, net of accumulated impairment | 857,592   |
| Acquisition of subsidiaries (note 31)                 | 432,520   |
| Impairment during the year                            | (9,832)   |
| Exchange realignment                                  | (23,924)  |
| At 31 December 2016                                   | 1,256,356 |
| At 31 December 2016:                                  |           |
| Cost  | 1,266,188 |
| Accumulated impairment                                | (9,832)   |
| Net carrying amount                                   | 1,256,356 |
| Cost at 1 January 2017, net of accumulated impairment | 1,256,356 |
| Acquisition of subsidiaries (note 31)                 | 35,060    |
| Exchange realignment                                  | 97,834    |
| At 31 December 2017                                   | 1,389,250 |
| At 31 December 2017:                                  |           |
| Cost  | 1,399,244 |
| Accumulated impairment                                | (9,994)   |
| Net carrying amount                                   | 1,389,250 |

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**16. GOODWILL (continued)****Impairment testing of goodwill**

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

|                                       | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---------------------------------------|------------------|------------------|
| Labocast SAS and Labo Ocean Indien SA | 63,714           | 56,246           |
| Quantum Dental Laboratory Inc.        | 11,449           | 10,645           |
| Permadental Holding B.V.              | 275,340          | 243,067          |
| Elysee Dental Holding B.V.            | 212,977          | 188,014          |
| Modern Dental Laboratory USA, LLC     | 15,663           | 15,663           |
| SCDL Holdings Pty Ltd.                | 343,825          | 316,887          |
| Dentrade Group*                       | 18,343           | 18,048           |
| RTFP Dental Inc.                      | 400,028          | 400,028          |
| Schmidt Dentalkeramik ApS.            | 8,320            | —                |
| CDI Dental AB & CDI Supply AB         | 31,128           | —                |
| Others**                              | 8,463            | 7,758            |
|                                       | <b>1,389,250</b> | <b>1,256,356</b> |

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## 16. GOODWILL (continued)

## Impairment testing of goodwill (continued)

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections and the growth rate used to extrapolate the cash flows of each unit beyond the five-year period are as follows:

|                                       |                | 2017      | 2016     |
|---------------------------------------|----------------|-----------|----------|
| Labocast SAS and Labo Ocean Indien SA | discount rates | 19% - 29% | 23%      |
|                                       | growth rates   | 2% - 5%   | 1%       |
| Quantum Dental Laboratory Inc.        | discount rates | 19%       | 20%      |
|                                       | growth rates   | 2%        | 2%       |
| Permidental Holding B.V.              | discount rates | 17%       | 20%      |
|                                       | growth rates   | 2%        | 2%       |
| Elysee Dental Holding B.V.            | discount rates | 17%       | 20%      |
|                                       | growth rates   | 1%        | 2%       |
| Modern Dental Laboratory USA, LLC     | discount rates | 20%       | 16%      |
|                                       | growth rates   | 2%        | 2%       |
| SCDL Holdings Pty Ltd.                | discount rates | 18%       | 19%      |
|                                       | growth rates   | 3%        | 2%       |
| Dentrade Group*                       | discount rates | 17%       | 18%      |
|                                       | growth rates   | 2% - 3%   | 3%       |
| RTFP Dental Inc.                      | discount rates | 20%       | 20%      |
|                                       | growth rates   | 2%        | 2%       |
| Schmidt Dentalkeramik ApS.            | discount rates | 16%       | —        |
|                                       | growth rates   | 2%        | —        |
| CDI Dental AB & CDI Supply AB         | discount rates | 16%       | —        |
|                                       | growth rates   | 2%        | —        |
| Others**                              | discount rates | 13% - 19% | 16 - 21% |
|                                       | growth rates   | 2% - 3%   | 2%       |

\* Dentrade Group comprises Deradent Dental GmbH & Co KG, Dental Works World Wide Limited and the business of Dentrade AS.

\*\* The others represented certain CGUs which individually form an insignificant portion of the goodwill amount of the Group.

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**16. GOODWILL (continued)****Impairment testing of goodwill (continued)**

Assumptions were used in the value in use calculation of each cash-generating unit for the years ended 31 December 2017 and 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Growth rates – The long term average growth rates of prosthetic devices industry.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Discount rates – The discount rates used are pre-tax rates based on the weighted average cost of capital ("WACC") determined using the capital asset pricing model ("CAPM"), which reflects specific current market assessments of the time value of money and the risks relating to the relevant units.

The values assigned to the key assumptions on market development of the dental prosthetic devices industry and discount rates are consistent with external information sources.

Management performed impairment testing of goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. No impairment loss was noted as at 31 December 2017. During the year ended 31 December 2016, due to reorganisations among business units which affected the recoverable amount of the cash-generating units of Gold & Ceramics Dental Laboratory Pty Ltd, which is principally engaged in the sale and production of premium locally made prosthetic devices, located in Australia, and Modern Dental Laboratory USA, LLC, which is principally engaged in the sale of imported prosthetic devices, located in North America, goodwill of approximately AUD709,000 (equivalent to HK\$4,166,000) and US\$731,000 (equivalent to HK\$5,666,000), respectively, were impaired.

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## 17. INTANGIBLE ASSETS

|  | Customer<br>relationship<br>HK\$'000 | Software<br>HK\$'000 | Trademark<br>HK\$'000 | Non-compet<br>agreement<br>HK\$'000 | Total<br>HK\$'000 |
|--|--------------------------------------|----------------------|-----------------------|-------------------------------------|-------------------|
| <b>31 December 2017</b>                                    |                                      |                      |                       |                                     |                   |
| Cost at 1 January 2017,<br>net of accumulated amortisation | 188,956                              | 1,419                | 197,825               | 1,828                               | 390,028           |
| Additions  | —                                    | 668                  | —                     | —                                   | 668               |
| Amortisation provided during the year                      | (35,643)                             | (403)                | —                     | (774)                               | (36,820)          |
| Exchange realignment                                       | 19,459                               | (142)                | 10,853                | —                                   | 30,170            |
| Net carrying amount  | 172,772                              | 1,542                | 208,678               | 1,054                               | 384,046           |
| At 31 December 2017:                                       |                                      |                      |                       |                                     |                   |
| Cost   | 325,897                              | 4,852                | 208,678               | 2,465                               | 541,892           |
| Accumulated amortisation                                   | (153,125)                            | (3,310)              | —                     | (1,411)                             | (157,846)         |
| Net carrying amount  | 172,772                              | 1,542                | 208,678               | 1,054                               | 384,046           |

|  | Customer<br>relationship<br>HK\$'000 | Software<br>HK\$'000 | Trademark<br>HK\$'000 | Non-compet<br>agreement<br>HK\$'000 | Total<br>HK\$'000 |
|--|--------------------------------------|----------------------|-----------------------|-------------------------------------|-------------------|
| <b>31 December 2016</b>                                    |                                      |                      |                       |                                     |                   |
| Cost at 1 January 2016,<br>net of accumulated amortisation | 228,836                              | 1,469                | 107,505               | 789                                 | 338,599           |
| Additions  | —                                    | 290                  | —                     | —                                   | 290               |
| Acquisition of subsidiaries (note 31)                      | —                                    | 348                  | 92,555                | 1,358                               | 94,261            |
| Amortisation provided during the year                      | (35,199)                             | (642)                | —                     | (319)                               | (36,160)          |
| Exchange realignment                                       | (4,681)                              | (46)                 | (2,235)               | —                                   | (6,962)           |
| Net carrying amount  | 188,956                              | 1,419                | 197,825               | 1,828                               | 390,028           |
| At 31 December 2016:                                       |                                      |                      |                       |                                     |                   |
| Cost   | 293,858                              | 4,005                | 197,825               | 2,465                               | 498,153           |
| Accumulated amortisation                                   | (104,902)                            | (2,586)              | —                     | (637)                               | (108,125)         |
| Net carrying amount  | 188,956                              | 1,419                | 197,825               | 1,828                               | 390,028           |



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## 18. INVESTMENTS IN ASSOCIATES

|                     | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---------------------|------------------|------------------|
| Share of net assets | 10,325           | —                |

The amount due from an associate included in the Group's current assets totaling HK\$274,000 (2016: Nil) is unsecured, interest-free and repayable on demand.

Particulars of the principal associate is as follows:

| Company name   | Particulars<br>of issued<br>shares held | Place of<br>incorporation/<br>registration<br>and business | Percentage of         |                 |                   |                       |
|--|---|--|-----------------------|-----------------|-------------------|-----------------------|
|  |   |  | Ownership<br>interest | Voting<br>power | Profit<br>sharing | Principal<br>activity |
| STM Digital Dentistry Holding Limited ("STM Digital") <sup>#</sup> | Ordinary shares                         | Hong Kong  | 51%*                  | 33%*            | 51%               | Investment holding    |

\* The Company is entitled to nominate one out of three directors in STM Digital. A board resolution is passed when two-third of the votes from the directors. Accordingly, the Company could not exercise control over STM Digital and the investments in STM Digital was classified as investments in associates.

<sup>#</sup> STM Digital is an investment holding company with its 100% held subsidiary engaged in the production of customised dental prosthetics.

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

|  | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--|------------------|------------------|
| Share of the associates' loss for the year                             | (1,288)          | —                |
| Aggregate carrying amount of the Group's investments in the associates | 10,325           | —                |

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## 19. INVENTORIES

|                  | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|------------------|------------------|------------------|
| Raw material     | 65,100           | 56,693           |
| Work in progress | 13,195           | 14,617           |
| Finished goods   | 3,566            | 2,788            |
|                  | <b>81,861</b>    | <b>74,098</b>    |

## 20. TRADE RECEIVABLES

|                   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|-------------------|------------------|------------------|
| Trade receivables | 432,259          | 373,754          |
| Impairment        | (18,577)         | (14,400)         |
|                   | <b>413,682</b>   | <b>359,354</b>   |

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 the end of the reporting period, based on the invoice date and net of provision, is as follows:

|                    | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--------------------|------------------|------------------|
| Within 1 month     | 230,243          | 211,621          |
| 1 to 2 months      | 68,439           | 54,576           |
| 2 to 3 months      | 31,311           | 24,241           |
| 3 months to 1 year | 68,662           | 63,613           |
| Over 1 year        | 15,027           | 5,303            |
|                    | <b>413,682</b>   | <b>359,354</b>   |

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**20. TRADE RECEIVABLES (continued)**

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

|                                       | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---------------------------------------|------------------|------------------|
| At 1 January                          | 14,400           | 12,812           |
| Acquisition of subsidiaries           | —                | 1,174            |
| Impairment losses recognised (note 7) | 7,055            | 2,914            |
| Impairment losses reversed (note 7)   | (3,034)          | (865)            |
| Amount written off as uncollectible   | (1,077)          | (1,334)          |
| Exchange realignment                  | 1,233            | (301)            |
| At 31 December                        | 18,577           | 14,400           |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK\$18,577,000 (2016: HK\$14,400,000) with a carrying amount before provision of HK\$22,762,000 (2016: HK\$14,400,000). The individually impaired trade receivables relate to customers that were in financial difficulties and the receivables are expected to be unrecoverable.

The aging analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

|                               | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|-------------------------------|------------------|------------------|
| Neither past due nor impaired | 261,196          | 232,864          |
| Less than 1 month past due    | 69,679           | 60,299           |
| 1 to 3 months past due        | 45,667           | 42,825           |
| 3 months to 1 year past due   | 25,610           | 19,037           |
| Over 1 year past due          | 7,345            | 4,329            |
|                               | 409,497          | 359,354          |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been any significant change in credit quality and the balances are still considered fully recoverable. Certain of the Group's trade receivables of approximately HK\$94,060,000 (2016: HK\$76,348,000) were pledged to secure general banking facilities granted to the Group (note 25).

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## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| <b>Current</b>                              |                  |                  |
| Prepayments                                 | 14,130           | 22,976           |
| Prepaid land lease payments (note 15)       | 265              | 248              |
| Deposits and other receivables              | 47,767           | 25,983           |
| Due from a related party (note 36(3))       | 103              | 13               |
|   | 62,265           | 49,220           |
| Impairment                                  | (2,407)          | (5,617)          |
|   | 59,858           | 43,603           |
| <b>Non-current</b>                          |                  |                  |
| Prepayments                                 | 49,735           | 40,901           |
| Deposits                                    | 10,918           | —                |
| Prepayments for acquisition of subsidiaries | —                | 41,027           |
|   | 60,653           | 81,928           |

The movement in provision for impairment of other receivables is as follows:

|                                       | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---------------------------------------|------------------|------------------|
| At 1 January                          | 5,617            | —                |
| Impairment losses recognised (note 7) | —                | 5,617            |
| Impairment losses reversed (note 7)   | (3,210)          | —                |
| At 31 December                        | 2,407            | 5,617            |

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of HK\$2,407,000 (2016: HK\$5,617,000) with a carrying amount before provision of HK\$5,617,000 (2016: HK\$5,617,000). Except for this other receivable of HK\$5,617,000, none of the above assets is either past due or impaired and there was no recent history of default.

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## 22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

|  | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--|------------------|------------------|
| Cash and bank balances                     | 348,015          | 318,245          |
| Time deposits                              | 33,112           | 22,485           |
|  | 381,127          | 340,730          |
| Less: Pledged deposits for bank facilities | (12,467)         | (3,726)          |
| Cash and cash equivalents                  | 368,660          | 337,004          |

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$71,646,000 (2016: HK\$76,059,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

## 23. TRADE PAYABLES

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

|                | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|----------------|------------------|------------------|
| Within 1 month | 42,862           | 32,991           |
| 1 to 2 months  | 9,285            | 17,288           |
| 2 to 3 months  | 3,146            | 10,275           |
| Over 3 months  | 1,902            | 13,206           |
|                | 57,195           | 73,760           |

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

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## 24. OTHER PAYABLES AND ACCRUALS

|                                      | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--------------------------------------|------------------|------------------|
| <b>Current</b>                       |                  |                  |
| Deferred rent                        | 420              | 296              |
| Deferred income                      | 209              | 483              |
| Consideration payable                | —                | 3,610            |
| Contingent consideration (note 38)   | 4,369            | 2,277            |
| Deposits received from customers     | 2,320            | 1,434            |
| Accruals                             | 143,543          | 117,702          |
| Other payables                       | 27,591           | 20,579           |
| Due to related parties (note 36(3))  | 1,495            | 493              |
|                                      | <b>179,947</b>   | 146,874          |
| <b>Other non-current liabilities</b> |                  |                  |
| Deferred rent                        | 10,369           | 6,004            |
| Deferred income                      | 1,045            | 1,205            |
| Other payables                       | 2,367            | —                |
| Contingent consideration (note 38)   | —                | 1,495            |
|                                      | <b>13,781</b>    | 8,704            |

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

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## 25. INTEREST-BEARING BANK AND OTHER BORROWINGS

|  | 2017  |          | 2016  |          |
|--|---|----------|---|----------|
|  | Effective/<br>contractual<br>interest rate<br>(%)                 | HK\$'000 | Effective/<br>contractual<br>interest rate<br>(%) | HK\$'000 |
| <b>Current</b>                                       |   |          |   |          |
| Finance lease payables (note 26)                     | 4.53  | 486      | 4.53-8.50   | 1,769    |
| Bank loan – secured                                  | London Interbank<br>Offered Rate<br>("LIBOR")+2.60                | 77,500   | LIBOR+2.60  | 77,500   |
| Current portion of long term bank loans –<br>secured | LIBOR+2.60/<br>Euro Interbank<br>Offered Rate<br>("EURIBOR")+2.35 | 192,374  | LIBOR+2.60  | 111,477  |
|  |   | 270,360  |   | 190,746  |
| <b>Non-current</b>                                   |   |          |   |          |
| Finance lease payables (note 26)                     | 4.53  | 411      | 4.53-8.50   | 812      |
| Long term bank loans – Secured                       | LIBOR+2.60/<br>EURIBOR+2.35                                       | 446,687  | LIBOR+2.60  | 429,638  |
|  |   | 447,098  |   | 430,450  |
|  |   | 717,458  |   | 621,196  |

## 126 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

|  | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--|------------------|------------------|
| Analysed into:                         |                  |                  |
| Bank loans repayable:                  |                  |                  |
| Within one year or on demand           | 269,874          | 188,977          |
| In the second year                     | 216,508          | 141,794          |
| In the third to fifth years, inclusive | 230,179          | 287,844          |
|  | <b>716,561</b>   | 618,615          |
| Finance lease payables (note 26):      |                  |                  |
| Within one year                        | 486              | 1,769            |
| In the second year                     | 272              | 466              |
| In the third to fifth years, inclusive | 139              | 346              |
|  | <b>897</b>       | 2,581            |
|  | <b>717,458</b>   | 621,196          |

## Notes:

- (a) On 6 November 2015, the Group drew down a US\$75 million 5-year term loan and a US\$10 million revolving credit facility, and repaid the majority of its previous bank loan facilities in the same month. The principal and interest payments for exiting loan facilities were repaid according to the loan agreements. During the year ended 31 December 2017, the Group drew down an EUR23 million term loan following the same repayment term as the US\$75 million loan. As at 31 December 2017 and 2016, all of the amounts borrowed from these facilities were guaranteed by the Company and its subsidiaries and secured by the shares of the subsidiaries as well as trade receivables of approximately HK\$94,060,000 (2016: HK\$76,348,000), floating charges over cash and cash equivalents of approximately HK\$114,722,000 (2016: HK\$81,165,000) and equipment of approximately HK\$8,354,000 (2016: HK\$5,643,000).
- (b) As at 31 December 2017, the Group's bank borrowings denominated in United States dollars ("US\$"), EURO ("EUR") and Canadian dollars ("CAD") amounted to HK\$507,026,000, HK\$209,413,000 and HK\$122,000, respectively. The Group's finance lease payables denominated in HK\$, Australian dollars ("AUD") and US\$ amounted to HK\$16,000, HK\$659,000 and HK\$222,000, respectively.

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



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**26. 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 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<br>minimum lease payments |                  |
|--|------------------------|------------------|--|------------------|
|  | 2017<br>HK\$'000       | 2016<br>HK\$'000 | 2017<br>HK\$'000                           | 2016<br>HK\$'000 |
| Amounts payable:                                       |                        |                  |  |                  |
| Within one year  | 511                    | 1,808            | 486  | 1,769            |
| In the second year                                     | 285                    | 545              | 272  | 466              |
| In the third to fifth years, inclusive                 | 140                    | 360              | 139  | 346              |
| Total minimum finance lease payments                   | 936                    | 2,713            | 897  | 2,581            |
| Future finance charges                                 | (39)                   | (132)            |  |                  |
| Total net finance lease payables                       | 897                    | 2,581            |  |                  |
| Portion classified as current liabilities<br>(note 25) | (486)                  | (1,769)          |  |                  |
| Non-current portion (note 25)                          | 411                    | 812              |  |                  |

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## 27. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

## Deferred tax liabilities

|   | Depreciation allowance in excess of related depreciation<br>HK\$'000 | Fair value adjustments arising from acquisition of subsidiaries<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|---|-------------------|
| At 1 January 2016   | 1,610  | 31,646  | 33,256            |
| Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year (note 11) | 3,007  | (4,918)   | (1,911)           |
| Exchange realignment  | (13)   | (44)  | (57)              |
| At 31 December 2016 and 1 January 2017  | 4,604  | 26,684  | 31,288            |
| Acquisition of a subsidiary (note 31)   | —  | 12  | 12                |
| Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year (note 11) | 6,074  | (4,703)   | 1,371             |
| Exchange realignment  | 39   | —   | 39                |
| Gross deferred tax liabilities at 31 December 2017  | 10,717   | 21,993  | 32,710            |

## Deferred tax assets

|   | Losses available for offsetting against future taxable profits<br>HK\$'000 |
|---|--|
| At 1 January 2016   | 5,264  |
| Acquisition of a subsidiary (note 31)   | 111  |
| Deferred tax credited to the consolidated statement of profit or loss during the year (note 11) | 2,063  |
| Exchange realignment  | 44   |
| At 31 December 2016 and 1 January 2017  | 7,482  |
| Deferred tax credited to the consolidated statement of profit or loss during the year (note 11) | 10,301   |
| Exchange realignment  | 638  |
| Gross deferred tax assets at 31 December 2017   | 18,421   |

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**27. DEFERRED TAX (continued)****Deferred tax assets (continued)**

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| Net deferred tax assets recognised in the consolidated statement of financial position      | 9,090            | 7,482            |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | (23,379)         | (31,288)         |
|   | (14,289)         | (23,806)         |

The Group has tax losses arising in Hong Kong of HK\$272,000 (2016: Nil) that are available indefinitely for offsetting against future taxable profit of the company in which the loss arose.

The Group has tax losses arising from foreign operations other than Hong Kong in aggregate amount of HK\$96,957,000 (2016: HK\$16,037,000) that are either available indefinitely or with expiry date ranged from one year to twenty years for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of the following item:

|            | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|------------|------------------|------------------|
| Tax losses | 6,779            | 3,770            |

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established outside Hong Kong. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries outside Hong Kong for which deferred tax liabilities have not been recognised totalled approximately HK\$346,755,000 at 31 December 2017 (2016: HK\$273,726,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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## 28. SHARE CAPITAL

|   | 2017<br>US\$'000 | 2016<br>US\$'000 |
|---|------------------|------------------|
| <b>Shares</b>   |                  |                  |
| Issued and fully paid:<br>1,000,000,000 (31 December 2016: 1,000,000,000)<br>ordinary shares of US\$0.01 each | 10,000           | 10,000           |
| Equivalent to HK\$'000  | 77,500           | 77,500           |

A summary of movements in the Company's share capital is as follows:

| Note  | Number of<br>shares in issue | Share capital<br>HK\$'000 | Treasury shares<br>HK\$'000 | Share premium<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------|---------------------------|-----------------------------|---------------------------|-------------------|
| At 1 January 2016                               | 1,000,000,000                | 77,500                    | (632)                       | 719,407                   | 796,275           |
| Equity-settled Pre-IPO RSUs<br>vested (note 29) | (a) —                        | —                         | 328                         | 20,839                    | 21,167            |
| At 31 December 2016 and<br>1 January 2017       | 1,000,000,000                | 77,500                    | (304)                       | 740,246                   | 817,442           |
| 2016 final dividend (note 12)                   | —                            | —                         | —                           | (9,000)                   | (9,000)           |
| 2017 interim dividend (note 12)                 | —                            | —                         | —                           | (25,000)                  | (25,000)          |
| Equity-settled Pre-IPO RSUs<br>vested (note 29) | (a) —                        | —                         | 265                         | 16,823                    | 17,088            |
| At 31 December 2017                             | 1,000,000,000                | 77,500                    | (39)                        | 723,069                   | 800,530           |

Note:

- (a) During the year, 3,417,608 RSUs were vested (2016:4,233,385 RSUs), resulting in the decrease of 3,417,608 (2016:4,233,385) treasury shares of the Company, an amount of HK\$16,823,000 (2016: HK\$20,839,000) was transferred from capital reserve to share premium as the RSUs vested.

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**29. 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 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 issued 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.

The following RSUs were outstanding under the Pre-IPO RSU Scheme during the years ended 31 December 2017 and 31 December 2016:

|   | Exercise price | Number of RSUs     |
|---|----------------|--------------------|
| At 1 January 2016                         | —              | 8,149,038          |
| Forfeited during the year                 |                | (317,545)          |
| Vested during the year                    | —              | (4,233,385)        |
| At 31 December 2016 and at 1 January 2017 | —              | <b>3,598,108</b>   |
| Forfeited during the year                 |                | <b>(180,500)</b>   |
| Vested during the year                    | —              | <b>(3,417,608)</b> |
| At 31 December 2017                       | —              | —                  |

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 the 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 the 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\$5,209,000 during the year ended 31 December 2017 (2016: HK\$18,508,000).

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

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 the 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.

The 3,417,608 RSUs vested during the year (2016: 4,233,385 RSUs) resulted in the decrease of 3,417,608 (2016: 4,233,385), treasury shares of the Company, an amount of HK\$16,823,000 (2016: HK\$20,839,000) was transferred from capital reserve to share premium as the RSUs vested.

### 30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 71 to 72 of the financial statements.

#### (i) Statutory reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

#### (ii) Capital reserve

On 28 March 2014, 15 May 2014 and 20 March 2015, Trieria Holdings Limited, Prosperity Worldwide Investment Holdings Limited and NCHA Holdings Limited (the "Shareholders") provided interest-free shareholders' loans to the Company in amounts of HK\$287,918,000, HK\$96,000,000 and HK\$182,944,000, respectively. The shareholders' loans are measured at present value by discounting the nominal value of the loans at an effective interest rate. The total differences of HK\$41,904,000 between the nominal values and the present values of the loans represented the deemed contribution by the shareholders and were credited to capital reserve.

On 15 December 2015, the Company was granted by the Shareholders the waiver of the shareholders' loans of HK\$566,862,000. The present value of the loans as at 15 December 2015 amounting to HK\$546,315,000 was credited to capital reserve.

#### (iii) Put option reserve

The put option was the financial liabilities as defined in IAS 39. On 31 August 2016, Modern Dental Laboratory USA, LLC acquired the remaining 30% interest in Sundance Dental Laboratory, LLC ("Sundance"). The put option granted to the non-controlling shareholder was derecognised upon completion of the acquisition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 133

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## 31. BUSINESS COMBINATIONS

**Acquisition of Schmidt Dentalkeramik ApS ("Schmidt")**

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

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

|  | Notes | Fair value recognised on acquisition<br>HK\$'000 |
|--|-------|--|
| Property, plant and equipment                      | 14    | 631  |
| Inventories  |       | 136  |
| Trade receivables                                  |       | 608  |
| Prepayments, deposits and other receivables        |       | 191  |
| Cash and cash equivalents                          |       | 1,527  |
| Trade payables                                     |       | (129)  |
| Other payables and accruals                        |       | (834)  |
| Tax payable  |       | (332)  |
| Deferred tax liabilities                           | 27    | (12)   |
| <b>Total identifiable net assets at fair value</b> |       | <b>1,786</b>                                     |
| Goodwill on acquisition                            | 16    | 7,345  |
|  |       | 9,131  |
| Satisfied by:                                      |       |  |
| Cash   |       | 9,131  |

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

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

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

**134 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2017

**31. BUSINESS COMBINATIONS (continued)****Acquisition of Schmidt Dentalkeramik ApS ("Schmidt") (continued)**

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

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

Since the acquisition, Schmidt contributed HK\$8,663,000 to the Group's turnover and HK\$868,000 to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been HK\$2,181,292,000 and HK\$157,363,000, respectively.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 135

31 December 2017

**31. BUSINESS COMBINATIONS (continued)****Acquisition of CDI Dental AB and CDI Supply AB (“CDI”)**

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

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

|   | Notes | Fair value recognised on acquisition<br>HK\$’000 |
|---|-------|--|
| Property, plant and equipment               | 14    | 917  |
| Inventories                                 |       | 1,102  |
| Trade receivables                           |       | 3,199  |
| Prepayments, deposits and other receivables |       | 4,824  |
| Cash and cash equivalents                   |       | 1,289  |
| Trade payables                              |       | (1,524)  |
| Other payables and accruals                 |       | (3,250)  |
| Interest-bearing bank and other borrowings  | 32    | (117)  |
| Tax payable                                 |       | (1,006)  |
| Total identifiable net assets at fair value |       | 5,434  |
| Goodwill on acquisition                     | 16    | 27,715   |
|   |       | 33,149   |
| Satisfied by:                               |       |  |
| Cash  |       | 33,149   |

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

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

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

## 136 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

**31. BUSINESS COMBINATIONS (continued)****Acquisition of CDI Dental AB and CDI Supply AB (“CDI”) (continued)**

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

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

Since the acquisition, CDI contributed HK\$32,801,000 to the Group's turnover and HK\$1,168,000 to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the turnover and the profit of the Group for the year would have been HK\$2,183,676,000 and HK\$157,281,000, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 137

31 December 2017

**31. BUSINESS COMBINATIONS (continued)****Acquisition of Precision Dental Laboratory Limited ("PDL")**

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

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

|   | Notes | Fair value recognised on acquisition<br>HK\$'000 |
|---|-------|--|
| Property, plant and equipment               | 14    | 1,445  |
| Trade receivables                           |       | 1,032  |
| Prepayments, deposits and other receivables |       | 2,314  |
| Trade payables                              |       | (283)  |
| Other payables and accruals                 |       | (3,770)  |
| Total identifiable net assets at fair value |       | 738  |
| Goodwill on acquisition                     | 16    | 7,620  |
|   |       | 8,358  |
| Satisfied by:                               |       |  |
| Cash  |       | 5,171  |
| Contingent consideration                    | 38    | 3,187  |
|   |       | 8,358  |

The fair value of the trade receivables as at the date of acquisition amounted to HK\$1,032,000. The gross contractual amounts of trade receivables were HK\$1,032,000, none of which is expected to be uncollectible.

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

Included in the goodwill of HK\$7,620,000 recognised above are mainly skilled workforce, synergies to be realised through its local production, service and support capacity as well as reach of a broader customer base, which are not recognised separately. Because these items cannot be sold, transferred, licensed, rented or otherwise exchanged without causing disruption to the acquired business and/or are not themselves assets at the acquisition date, they are not separable and therefore they do not meet the criteria for recognition as intangible assets under IAS 38 *Intangible Assets*. None of the goodwill recognised is expected to be deductible for income tax purposes.

**138 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2017

**31. BUSINESS COMBINATIONS (continued)****Acquisition of Precision Dental Laboratory Limited ("PDL") (continued)**

As part of the purchase agreement, contingent consideration is payable, which is dependent on the earn out amount of normalised EBITDA for the financial years ended 31 December 2015 and 2016 and ending 31 December 2017. The initial amount recognised was NZD600,000 (equivalent to HK\$3,187,000). The consideration is due for final measurement and payment to the former shareholders within 10 business days of the completion of the PDL's financial audit for the relevant financial years. At the date of approval of these financial statements, no further significant changes to the consideration are expected.

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

|   | HK\$'000 |
|---|----------|
| Cash consideration  | (5,171)  |
| Net outflow of cash and cash equivalents included in cash flows from investing activities in 2016 | (5,171)  |
| Transaction costs of the acquisition included in cash flows from operating activities in 2016     | (159)    |
|   | (5,330)  |

Since the acquisition, PDL contributed HK\$7,352,000 to the Group's turnover and HK\$279,000 to the consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been HK\$1,644,114,000 and HK\$103,020,000, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 139

31 December 2017

**31. BUSINESS COMBINATIONS (continued)****Acquisition of Cenetory Pty Limited (“Cenetory”)**

On 1 June 2016, SCDL Pty Limited, a wholly-owned subsidiary of the Group, entered into a share sale and purchase agreement with Ceralius Pty Limited, Sobengu Pty Limited and NDC Australia Pty Limited to acquire a 100% equity interest of Cenetory Pty Limited at a cash consideration of AUD456,000. Cenetory is principally engaged in the sale of prosthetic devices in Australia. The acquisition was completed on 1 June 2016. The acquisition was made as part of the Group’s strategy to expand its market share of prosthetic devices in Australia.

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

|   | Notes | Fair value<br>recognised<br>on acquisition<br>HK\$'000 |
|---|-------|--|
| Property, plant and equipment               | 14    | 900  |
| Deferred tax assets                         | 27    | 111  |
| Trade receivables                           |       | 869  |
| Prepayments, deposits and other receivables |       | 256  |
| Cash and bank balances                      |       | 40   |
| Trade payables                              |       | (242)  |
| Other payables and accruals                 |       | (738)  |
| Total identifiable net assets at fair value |       | 1,196  |
| Goodwill on acquisition                     | 16    | 1,378  |
|   |       | 2,574  |
| Satisfied by:                               |       |  |
| Cash  |       | 2,574  |

The fair value of the trade receivables as at the date of acquisition amounted to HK\$869,000. The gross contractual amounts of trade receivables were HK\$869,000, none of which is expected to be uncollectible.

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

## 140 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

**31. BUSINESS COMBINATIONS (continued)****Acquisition of Cenetory Pty Limited (“Cenetory”) (continued)**

Included in the goodwill of HK\$1,378,000 recognised above are mainly skilled workforce, synergies to be realised through its local production, service and support capacity, reach of a broader customer base and a potential preferred supplier contract with a corporate dental group, which are not recognised separately. Because these items cannot be sold, transferred, licensed, rented or otherwise exchanged without causing disruption to the acquired business and/or are not themselves assets at the acquisition date, they are not separable and therefore they do not meet the criteria for recognition as intangible assets under IAS 38 *Intangible Assets*. None of the goodwill recognised is expected to be deductible for income tax purposes.

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

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

Since the acquisition, Cenetory contributed HK\$6,089,000 to the Group's revenue and HK\$246,000 to the consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been HK\$1,646,305,000 and HK\$103,087,000, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 141

31 December 2017

**31. BUSINESS COMBINATIONS (continued)****Acquisition of the business of Dentrade AS, entire partnership interest of Deradent Dental GmbH & Co. KG and all the issued shares of Dental Works World Wide Limited (“Dentrade Group”)**

On 13 September 2016, Modern Dental Europe B.V., Modern Dental Norway AS, Modern Dental Laboratory Company Limited, Permidental GmbH and Permidental B.V., wholly-owned subsidiaries of the Group, entered into the stock purchase agreement with independent third-parties, Dentrade AS, Cubond Limited, Armfar Limited, Mr. Jens Rathsack and Mrs. Andrea Graef, to acquire the business of Dentrade AS, the entire partnership interest of Deradent Dental GmbH & Co. KG and all the issued shares of Dental Works World Wide Limited at a cash consideration of EUR2,271,000. Dentrade Group is principally engaged in the trading of prosthesis devices in Germany and Norway. The acquisition was completed on 13 September 2016. The acquisition was made as part of the Group’s strategy to expand its market share of prosthesis devices in the European Union.

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

|   | Notes | Fair value<br>recognised<br>on acquisition<br>HK\$’000 |
|---|-------|--|
| Property, plant and equipment               | 14    | 60   |
| Trade receivables                           |       | 128  |
| Prepayments, deposits and other receivables |       | 443  |
| Cash and bank balances                      |       | 4,009  |
| Trade payables                              |       | (2,037)  |
| Other payables and accruals                 |       | (931)  |
| Total identifiable net assets at fair value |       | 1,672  |
| Goodwill on acquisition                     | 16    | 18,176   |
|   |       | 19,848   |
| Satisfied by:                               |       |  |
| Cash  |       | 19,848   |

The fair value of the trade receivables as at the date of acquisition amounted to HK\$128,000. The gross contractual amounts of trade receivables were HK\$128,000, none of which is expected to be uncollectible.

The Group incurred transaction costs of HK\$1,721,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

## 142 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

**31. BUSINESS COMBINATIONS (continued)****Acquisition of the business of Dentrade AS, entire partnership interest of Deradent Dental GmbH & Co. KG and all the issued shares of Dental Works World Wide Limited (“Dentrade Group”) (continued)**

Included in the goodwill of HK\$18,176,000 recognised above are mainly distribution channel and the comprehensive customer information for strategy formulation, which are not recognised separately. Because these items cannot be sold, transferred, licensed, rented or otherwise exchange without causing disruption to the acquired business and/or are not themselves assets at the acquisition date, they are not separable and therefore they do not meet the criteria for recognition as intangible assets under IAS 38 *Intangible Assets*. None of the goodwill recognised is expected to be deductible for income tax purposes.

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

|   | HK\$'000 |
|---|----------|
| Cash consideration  | (19,848) |
| Cash and bank balances acquired   | 4,009    |
| Net outflow of cash and cash equivalents included in cash flows from investing activities in 2016 | (15,839) |
| Transaction costs of the acquisition included in cash flows from operating activities in 2016     | (1,721)  |
|   | (17,560) |

Since the acquisition, Dentrade Group contributed HK\$7,044,000 to the Group's revenue and HK\$2,484,000 to the consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been HK\$1,646,027,000 and HK\$100,381,000, respectively.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 143

31 December 2017

**31. BUSINESS COMBINATIONS (continued)****Acquisition of RTFP Dental Inc. ("RTFP")**

On 6 June 2016, MDI Acquisitions Inc., a wholly-owned subsidiary of the Group, entered into a share purchase agreement with RTFP Dental Holdings Inc. to acquire a 100% equity interest of RTFP Dental Inc. at a cash consideration of US\$65,108,000. RTFP is principally engaged in the sale of prosthetic devices in USA. The acquisition was completed on 21 October 2016. The acquisition was made as part of the Group's strategy to expand its market share of prosthetic devices in the USA.

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

|   | Notes | Fair value recognised on acquisition<br>HK\$'000 |
|---|-------|--|
| Property, plant and equipment               | 14    | 27,163   |
| Inventories                                 |       | 9,259  |
| Trade receivables                           |       | 48,476   |
| Prepayments, deposits and other receivables |       | 10,550   |
| Other intangible assets                     | 17    | 348  |
| Non-compete agreement                       | 17    | 1,358  |
| Trademark                                   | 17    | 92,555   |
| Cash and bank balances                      |       | 1,891  |
| Trade payables                              |       | (48,329)   |
| Other payables and accruals                 |       | (38,714)   |
| Total identifiable net assets at fair value |       | 104,557  |
| Goodwill on acquisition                     | 16    | 400,029  |
|   |       | 504,586  |
| Satisfied by:                               |       |  |
| Cash  |       | 504,586  |

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK\$48,476,000 and HK\$10,550,000, respectively. The gross amounts of trade receivables and other receivables were HK\$49,650,000 and HK\$10,550,000, respectively, of which trade receivables of HK\$1,174,000 are expected to be uncollectible.

The Group incurred transaction costs of HK\$26,945,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

## 144 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

**31. BUSINESS COMBINATIONS (continued)****Acquisition of RTFP Dental Inc. ("RTFP") (continued)**

Included in the goodwill of HK\$400,029,000 recognised above are mainly customer network which covers approximately one fourth of the dentists in the United States, a group of talented dental technicians and expected synergies with our existing business in North America, which are not recognised separately. Because these items cannot be sold, transferred, licensed, rented or otherwise exchange without causing disruption to the acquired business and/or are not themselves assets at the acquisition date, they are not separable and therefore they do not meet the criteria for recognition as intangible assets under IAS 38 *Intangible Assets*.

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

|   | HK\$'000  |
|---|-----------|
| Cash consideration  | (504,586) |
| Cash and bank balances acquired   | 1,891     |
| Net outflow of cash and cash equivalents included in cash flows from investing activities in 2016 | (502,695) |
| Transaction costs of the acquisition included in cash flows from operating activities in 2016     | (26,945)  |
|   | (529,640) |

Since the acquisition, RTFP contributed HK\$97,707,000 to the Group's revenue and a loss of HK\$6,120,000 to the consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and the loss of the Group for the year would have been HK\$2,075,913,000 and HK\$11,630,000 respectively. Included in RTFP's 2016 financial result, there were certain expenses, such as finance cost which were no longer incurred after acquisition by the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 145

31 December 2017

**31. BUSINESS COMBINATIONS (continued)****Acquisition of Ratiodental GmbH and Zahnmanufaktur Köln Dr. M.B. GmbH (“Ratiodental and Zahnmanufaktur”)**

On 5 December 2016, Permardental GmbH, a wholly-owned subsidiary of the Group, entered into a share sale and purchase agreement with Dr. Markus Ivo Beckers and Mr. Johannes Herbert Lex to acquire a 100% equity interest of Ratiodental GmbH and Zahnmanufaktur Köln Dr. M. B. GmbH at a cash consideration of EUR1,039,000. Ratiodental and Zahnmanufaktur are principally engaged in sale of prosthetic devices in Germany. The acquisition was completed on 5 December 2016. The acquisition was made as part of the Group’s strategy to expand its market share of prosthesis products in the European Union.

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

|   | Notes | Fair value recognised on acquisition<br>HK\$'000 |
|---|-------|--|
| Property, plant and equipment               | 14    | 380  |
| Inventories                                 |       | 196  |
| Trade receivables                           |       | 1,188  |
| Prepayments, deposits and other receivables |       | 312  |
| Cash and bank balances                      |       | 1,726  |
| Trade payables                              |       | (156)  |
| Other payables and accruals                 |       | (369)  |
| Total identifiable net assets at fair value |       | 3,277  |
| Goodwill on acquisition                     | 16    | 5,317  |
|   |       | 8,594  |
| Satisfied by:                               |       |  |
| Cash  |       | 8,594  |

The fair value of the trade receivables as at the date of acquisition amounted to HK\$1,188,000. The gross contractual amounts of trade receivables were HK\$1,188,000, none of which is expected to be uncollectible.

The Group incurred transaction costs of HK\$860,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

## 146 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

## 31. BUSINESS COMBINATIONS (continued)

**Acquisition of Ratiodental GmbH and Zahnmanufaktur Köln Dr. M.B. GmbH (“Ratiodental and Zahnmanufaktur”) (continued)**

Included in the goodwill of HK\$5,317,000 recognised above are mainly distribution channel, skilled workforce with knowledge and experience in the production of high technology, high-end and complicated veneered metal crowns, bridges and model fully utilising the latest dental technology, which are not recognised separately. Because these items cannot be sold, transferred, licensed, rented or otherwise exchange without causing disruption to the acquired business and/or are not themselves assets at the acquisition date, they are not separable and therefore they do not meet the criteria for recognition as intangible assets under IAS 38 *Intangible Assets*. None of the goodwill recognised is expected to be deductible for income tax purposes.

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

|   | HK\$'000 |
|---|----------|
| Cash consideration  | (8,594)  |
| Cash and bank balances acquired   | 1,726    |
| Net outflow of cash and cash equivalents included in cash flows from investing activities in 2016 | (6,868)  |
| Transaction costs of the acquisition included in cash flows from operating activities in 2016     | (860)    |
|   | (7,728)  |

Since the acquisition, Ratiodental and Zahnmanufaktur contributed HK\$738,000 to the Group's revenue and HK\$73,000 to the consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been HK\$1,651,281,000 and HK\$104,172,000, respectively.

## 32. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities were as follows:

|   | Note | Bank loans<br>HK\$'000 | Finance<br>lease<br>payables<br>HK\$'000 |
|---|------|------------------------|--|
| At 1 January 2017                                 |      | 618,615                | 2,581                                    |
| Changes from financing cash flows                 |      | 90,179                 | (1,886)                                  |
| Non-cash flows:                                   |      |                        |  |
| Foreign exchange movement                         |      | 1,212                  | 202                                      |
| Interest expenses                                 |      | 6,438                  | —  |
| Increase arising from acquisition of subsidiaries | 31   | 117                    | —  |
| At 31 December 2017                               |      | 716,561                | 897                                      |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 147

31 December 2017

**33. CONTINGENT LIABILITIES**

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

**34. OPERATING LEASE ARRANGEMENTS****As lessee**

The Group leases certain of its office premises, staff quarters and warehouses under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 10 years.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| Within one year                         | 41,260           | 54,260           |
| In the second to fifth years, inclusive | 83,678           | 72,023           |
| After five years                        | 36,038           | 25,177           |
|   | <b>160,976</b>   | 151,460          |

**35. COMMITMENTS**

|                                   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|-----------------------------------|------------------|------------------|
| Contracted, but not provided for: |                  |                  |
| Leasehold improvement             | 2,994            | —                |
| Land and buildings                | 233,650          | 262,609          |
|                                   | <b>236,644</b>   | 262,609          |

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\$294,290,000) 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 at 31 December 2017, Modern Dental and Medical Instruments (Dongguan) Company Limited has paid RMB11,094,000 (equivalent to HK\$13,271,000) and RMB39,677,000 (equivalent to HK\$47,466,000) for the acquisition of land and construction in progress, respectively, and the remaining commitment was RMB195,229,000 (equivalent to HK\$233,553,000).

Except for such agreement, the Group did not have any other significant commitments as at 31 December 2017 and 2016.

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## 36. 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 year:

|  | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--|------------------|------------------|
| (a) Rental fee paid to Most Wealth International Limited                                     | 2,562            | 2,223            |
| (b) Rental fee paid to directors   | 1,116            | —                |
| (c) Rental fee paid to directors and an associate of a director                              | 2,016            | —                |
| (d) Rental fee paid to an associate of a director  | 177              | —                |
| (e) Rental fee paid to an associate of a director  | 133              | —                |
| (f) Rental fee paid to an associate of a director  | 398              | —                |
| (g) Training fee paid to ShenZhen Nanshan District Modern Denture Technology Training Centre | 14,567           | 11,927           |
| (h) Sales of finished goods to Trident Dental Group Limited                                  | 210              | 104              |

## Notes:

- (a) Most Wealth International Limited is controlled by Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and Mr. Ngai Shing Kin. The transactions with Most Wealth International Limited were made on prices and conditions as mutually agreed.
- (b) 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.
- (c) Rental fee was paid to Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and an associate ("Landlord C") of Mr. Ngai Shing Kin. The tenancy agreements were entered into on an prices and conditions as mutually agreed.
- (d) 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.
- (e) Rental fee was paid to Landlord C. The tenancy agreements were entered into on prices and conditions as mutually agreed.
- (f) 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.
- (g) ShenZhen Nanshan District Modern Denture Technology Training Centre (the "Centre") and the Group has a common director, Mr. Ngai Shing Kin. The transactions with the Centre were made on prices and conditions as mutually agreed.
- (h) Trident Dental Group Limited is ultimately 33.3% owned by Mr. 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 (a), (b), (c), (d), (e), (f) and (h) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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**36. RELATED PARTY TRANSACTIONS (continued)****(2) Commitments with related parties**

- (a) 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, RMB20,268, RMB19,968 and RMB19,668 respectively.
- (b) 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 an associate ("Landlord C") of Mr. Ngai Shing Kin, an executive director of the Company. 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 and RMB14,308 respectively.
- (c) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "Residential Tenancy Agreement 13") with an associate ("Landlord B") of Mr. Chan Kwun Pan, an executive director and substantial shareholder of the Company. 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.
- (d) 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.
- (e) For the purposes of residential use, on 30 December 2016, MDLSZ entered into a tenancy agreement (the "Residential Tenancy Agreement 15") with an associate ("Landlord A") of Mr. Chan Kwun Fung, an executive director and substantial shareholder of the Company. 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.
- (f) For the purpose of operating the Company's business in Hong Kong, on 26 August 2016, Modern Dental Laboratory Company Limited ("MDLCL"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "MDLCL Tenancy Agreement") with Most Wealth International Limited, which is held as to 37.5%, 37.5% and 25% by Mr. Chan Kwun Fung and Mr. Chan Kwun Pan, executive directors and substantial shareholders of the Company, and by Mr. Ngai Shing Kin, an executive director of the Company, respectively. Pursuant to the MDLCL Tenancy Agreement, Most Wealth International Limited shall lease 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.

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**36. RELATED PARTY TRANSACTIONS (continued)****(3) Balances with related parties**

At 31 December 2017, the Group's balances due from/to related parties were as follows:

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| Due from a related party:   |                  |                  |
| Trident Dental Group Limited  | 103              | 13               |
| Due to related parties:   |                  |                  |
| Shenzhen Nanshan District Modern Denture Technology Training Centre | —                | 66               |
| Most Wealth International-Limited                                   | 1,495            | 427              |
|   | 1,495            | 493              |

**(4) Compensation of key management personnel of the Group**

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| Short term employee benefits                        | 25,883           | 24,441           |
| Equity-settled Pre-IPO RSUs expense                 | 2,542            | 9,439            |
| Post-employment benefits                            | 1,787            | 2,469            |
| Total compensation paid to key management personnel | 30,212           | 36,349           |

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 151

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**37. FINANCIAL INSTRUMENTS BY CATEGORY**

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**2017****Financial assets**

|   | Loans and<br>receivables<br>HK\$'000 |
|---|--------------------------------------|
| Trade receivables   | 413,682                              |
| Financial assets included in deposits and other receivables | 56,278                               |
| Due from a related party                                    | 103                                  |
| Due from an associate                                       | 274                                  |
| Pledged deposits  | 12,467                               |
| Cash and cash equivalents                                   | 368,660                              |
| <b>Total</b>  | <b>851,464</b>                       |

**Financial liabilities**

|   | Financial liabilities<br>at amortised cost<br>HK\$'000 |
|---|--|
| Trade payables  | 57,195   |
| Financial liabilities included in other payables and accruals | 68,754   |
| Interest-bearing bank and other borrowings                    | 717,458  |
| Due to a related party  | 1,495  |
| <b>Total</b>  | <b>844,902</b>   |

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**37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)**

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:  
(continued)

2016

**Financial assets**

|   | Loans and<br>receivables<br>HK\$'000 |
|---|--------------------------------------|
| Trade receivables   | 359,354                              |
| Financial assets included in deposits and other receivables | 20,366                               |
| Due from a related party                                    | 13                                   |
| Pledged deposits  | 3,726                                |
| Cash and cash equivalents                                   | 337,004                              |
| <b>Total</b>  | <b>720,463</b>                       |

**Financial liabilities**

|   | Financial liabilities<br>at amortised cost<br>HK\$'000 |
|---|--|
| Trade payables  | 73,760   |
| Financial liabilities included in other payables and accruals | 145,663  |
| Interest-bearing bank and other borrowings                    | 621,196  |
| Due to related parties  | 493  |
| <b>Total</b>  | <b>841,112</b>   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 153

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### 38. 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      |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2017<br>HK\$'000 | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
| <b>Financial liabilities</b>               |                  |                  |                  |                  |
| Contingent consideration                   | 4,369            | 3,772            | 4,369            | 3,772            |
| Interest-bearing bank and other borrowings | 717,458          | 621,196          | 717,458          | 621,196          |
|  | <b>721,827</b>   | <b>624,968</b>   | <b>721,827</b>   | <b>624,968</b>   |

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in deposits and other receivables, amounts due from/to a related party, 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, and interest-bearing bank and other borrowings as at 31 December 2017 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.

## 154 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### Fair value hierarchy

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

#### Assets measured at fair value:

| As at 31 December 2016           | Fair value measurement using |             |              | Total<br>HK\$'000 |
|----------------------------------|------------------------------|-------------|--------------|-------------------|
|                                  | Quoted prices in             | Significant | Significant  |                   |
|                                  | active markets               | observable  | unobservable |                   |
|                                  | (Level 1)                    | inputs      | inputs       |                   |
|                                  | HK\$'000                     | HK\$'000    | HK\$'000     |                   |
| Derivative financial instruments | —                            | —           | —            | —                 |

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

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| Derivative financial instruments – call option: |                  |                  |
| At 1 January                                    | —                | 3,635            |
| Total loss recognised in profit or loss         | —                | (372)            |
| Exercise of call option                         | —                | (3,263)          |
| At 31 December                                  | —                | —                |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 155

31 December 2017

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

#### Liabilities measured at fair value:

| As at 31 December 2017 | Fair value measurement using                                |  |  | Total<br>HK\$'000 |       |       |
|------------------------|---|--|--|-------------------|-------|-------|
|                        | Quoted prices in<br>active markets<br>(Level 1)<br>HK\$'000 | Significant<br>observable<br>inputs<br>(Level 2)<br>HK\$'000 | Significant<br>unobservable<br>inputs<br>(Level 3)<br>HK\$'000 |                   |       |       |
|                        | Contingent consideration                                    | —  | —  |                   | 4,369 | 4,369 |

| As at 31 December 2016 | Fair value measurement using                                |  |  | Total<br>HK\$'000 |       |       |
|------------------------|---|--|--|-------------------|-------|-------|
|                        | Quoted prices in<br>active markets<br>(Level 1)<br>HK\$'000 | Significant<br>observable<br>inputs<br>(Level 2)<br>HK\$'000 | Significant<br>unobservable<br>inputs<br>(Level 3)<br>HK\$'000 |                   |       |       |
|                        | Contingent consideration                                    | —  | —  |                   | 3,772 | 3,772 |

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

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| Derivative financial instruments – put option |                  |                  |
| At 1 January                                  | —                | 9,108            |
| Derecognition of put option                   | —                | (9,108)          |
| At 31 December                                | —                | —                |
| Contingent consideration                      |                  |                  |
| At 1 January                                  | 3,772            | 1,362            |
| Acquisition of a subsidiary (note 31)         | —                | 3,187            |
| Settlement of contingent consideration        | (775)            | (775)            |
| Total loss recognised in profit or loss       | 1,096            | 196              |
| Exchange realignment                          | 276              | (198)            |
| At 31 December                                | 4,369            | 3,772            |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016: Nil).

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38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS  
(continued)

Liabilities for which fair values are disclosed:

| As at 31 December 2017                     | Fair value measurement using                                |  |  | Total<br>HK\$'000 |
|--|---|--|--|-------------------|
|  | Quoted prices in<br>active markets<br>(Level 1)<br>HK\$'000 | Significant<br>observable<br>inputs<br>(Level 2)<br>HK\$'000 | Significant<br>unobservable<br>inputs<br>(Level 3)<br>HK\$'000 |                   |
|  |   |  |  |                   |
|  |   |  |  |                   |
| Interest-bearing bank and other borrowings | —   | 717,458  | —  | 717,458           |

| As at 31 December 2016                     | Fair value measurement using                                |  |  | Total<br>HK\$'000 |
|--|---|--|--|-------------------|
|  | Quoted prices in<br>active markets<br>(Level 1)<br>HK\$'000 | Significant<br>observable<br>inputs<br>(Level 2)<br>HK\$'000 | Significant<br>unobservable<br>inputs<br>(Level 3)<br>HK\$'000 |                   |
|  |   |  |  |                   |
|  |   |  |  |                   |
| Interest-bearing bank and other borrowings | —   | 621,196  | —  | 621,196           |

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**39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

Financial assets of the Group include trade receivables, deposits and other receivables, amounts due from a related party, an amount due from an associate, pledged deposits and cash and cash equivalents. Financial liabilities of the Group include trade payables, other payables and accruals, interest-bearing bank and other borrowings and amounts due to related parties.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

**Interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to changes in interest rates. Management continues to monitor the cash flows of the operations and the debt markets, where the Group would expect to refinance these borrowings with a lower cost of debt, when considered appropriate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

|                             | Increase/<br>(decrease) in<br>interest rate<br>% | Increase/<br>(decrease) in<br>profit<br>before tax<br>HK\$'000 | Increase/<br>(decrease)<br>in equity<br>HK\$'000 |
|-----------------------------|--|--|--|
| Year ended 31 December 2017 |  |  |  |
| United States dollar        | 1  | (5,070)  | (5,070)  |
| Euro                        | 1  | (2,094)  | (2,094)  |
| United States dollar        | (1)  | 5,070  | 5,070  |
| Euro                        | (1)  | 2,094  | 2,094  |
| Year ended 31 December 2016 |  |  |  |
| United States dollar        | 1  | (6,184)  | (6,184)  |
| United States dollar        | (1)  | 6,184  | 6,184  |

## 158 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 2% and 3% of the Group's sales for the years ended 31 December 2017 and 2016 were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 9% and 7% of costs for the years ended 31 December 2017 and 2016 were denominated in the units' functional currencies other than the units' functional currencies, respectively.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the EUR and US\$ exchange rates, with all other variables held constant, of the Group's profit before tax.

|                                  | Increase/(decrease)<br>in foreign currency<br>exchange rate<br>% | Increase/(decrease)<br>in profit before tax<br>HK\$'000 |
|----------------------------------|--|---|
| <b>As at 31 December 2017</b>    |  |   |
| If HK\$ weakens against EUR      | 5  | 4,017   |
| If HK\$ strengthens against EUR  | (5)  | (4,017)   |
| If HK\$ weakens against AUD      | 5  | 10,628  |
| If HK\$ strengthens against AUD  | (5)  | (10,628)  |
| <b>As at 31 December 2016</b>    |  |   |
| If HK\$ weakens against EUR      | 5  | (73)  |
| If HK\$ strengthens against EUR  | (5)  | 73  |
| If HK\$ weakens against US\$     | 5  | 112   |
| If HK\$ strengthens against US\$ | (5)  | (112)   |

## Credit risk

The Group trades only with recognised and creditworthy third parties. The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 90 days extending up to 180 days for major customers. The Group seeks to maintain control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group's trade receivables relate to a large number of diversified customers and are non-interest-bearing.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 159

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**39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Liquidity risk**

The Group's policy is to maintain sufficient cash and cash equivalents and have available funding through capital contribution, bank borrowings and the cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

|  | 31 December 2017      |                                |                                      |                          |                   |
|--|-----------------------|--------------------------------|--------------------------------------|--------------------------|-------------------|
|  | On demand<br>HK\$'000 | Less than 3 months<br>HK\$'000 | 3 to less than 12 months<br>HK\$'000 | 1 to 5 years<br>HK\$'000 | Total<br>HK\$'000 |
| Trade payables                             | —                     | 57,195                         | —                                    | —                        | 57,195            |
| Other payables and accruals                | —                     | 68,754                         | —                                    | —                        | 68,754            |
| Interest-bearing bank and other borrowings | 77,500                | 3                              | 218,955                              | 469,687                  | 766,145           |
| Due to a related party                     | 1,495                 | —                              | —                                    | —                        | 1,495             |
|  | <b>78,995</b>         | <b>125,952</b>                 | <b>218,955</b>                       | <b>469,687</b>           | <b>893,589</b>    |

|  | 31 December 2016      |                                |                                      |                          |                   |
|--|-----------------------|--------------------------------|--------------------------------------|--------------------------|-------------------|
|  | On demand<br>HK\$'000 | Less than 3 months<br>HK\$'000 | 3 to less than 12 months<br>HK\$'000 | 1 to 5 years<br>HK\$'000 | Total<br>HK\$'000 |
| Trade payables                             | 73,760                | —                              | —                                    | —                        | 73,760            |
| Other payables and accruals                | 144,168               | —                              | —                                    | 1,495                    | 145,663           |
| Interest-bearing bank and other borrowings | 77,500                | 349                            | 135,451                              | 462,647                  | 675,947           |
| Due to related parties                     | 493                   | —                              | —                                    | —                        | 493               |
|  | <b>295,921</b>        | <b>349</b>                     | <b>135,451</b>                       | <b>464,142</b>           | <b>895,863</b>    |

## 160 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

**39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Capital management**

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended in December 2017 and 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital (equity attributable to owners of the parent) 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. The gearing ratios as at the end of the reporting periods were as follows:

|   | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|---|------------------|------------------|
| Interest-bearing bank and other borrowings  | 717,458          | 621,196          |
| Trade payables                              | 57,195           | 73,760           |
| Other payables and accruals                 | 179,947          | 146,874          |
| Other non-current liabilities               | 13,781           | 8,704            |
| Less:                                       |                  |                  |
| Pledged deposits                            | ( 12,467)        | ( 3,726)         |
| Cash and cash equivalents                   | (368,660)        | (337,004)        |
| Net debt                                    | 587,254          | 509,804          |
| Equity attributable to owners of the parent | 2,097,490        | 1,815,739        |
| Capital and net debt                        | 2,684,744        | 2,325,543        |
| Gearing ratio                               | 22%              | 22%              |

**40. EVENTS AFTER THE REPORTING PERIOD**

On 31 January 2018, the Group drew down bank borrowings of HK\$700 million from the banks repayable by instalments over a 5-year period to repay its existing bank borrowings as of 31 December 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 161

31 December 2017

## 41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

|  | 2017<br>HK\$'000 | 2016<br>HK\$'000 |
|--|------------------|------------------|
| <b>NON-CURRENT ASSETS</b>                    |                  |                  |
| Property, plant and equipment                | 34               | 33               |
| Investments in subsidiaries                  | 512,656          | 512,656          |
| Investments in associates                    | 10,325           | —                |
| Total non-current assets                     | 523,015          | 512,689          |
| <b>CURRENT ASSETS</b>                        |                  |                  |
| Due from subsidiaries                        | 1,090,704        | 1,167,642        |
| Prepayments, deposits and other receivables  | 1,289            | 2,419            |
| Cash and cash equivalents                    | 46,641           | 65,221           |
| Total current assets                         | 1,138,634        | 1,235,282        |
| <b>CURRENT LIABILITIES</b>                   |                  |                  |
| Other payables and accruals                  | 4,657            | 3,195            |
| Due to subsidiaries                          | 363,195          | 390,041          |
| Total current liabilities                    | 367,852          | 393,236          |
| <b>NET CURRENT ASSETS</b>                    | <b>770,782</b>   | 842,046          |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> | <b>1,293,797</b> | 1,354,735        |
| Net assets                                   | 1,293,797        | 1,354,735        |
| <b>EQUITY</b>                                |                  |                  |
| Share capital                                | 77,500           | 77,500           |
| Treasury shares                              | (39)             | (304)            |
| Reserves                                     | 1,216,336        | 1,277,539        |
| Total equity                                 | 1,293,797        | 1,354,735        |

## 162 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

## 41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

|  | Share premium<br>HK\$'000 | Capital reserve<br>HK\$'000 | Exchange reserve<br>HK\$'000 | Retained profits/<br>(accumulated losses)<br>HK\$'000 | Total<br>HK\$'000 |
|--|---------------------------|-----------------------------|------------------------------|---|-------------------|
| At 1 January 2016                      | 719,407                   | 602,757                     | (4,276)                      | 13,953  | 1,331,841         |
| 2016 interim dividend                  | —                         | —                           | —                            | (21,000)  | (21,000)          |
| Equity-settled Pre-IPO RSUs expense    | —                         | 18,508                      | —                            | —   | 18,508            |
| Equity-settled Pre-IPO RSUs vested     | 20,839                    | (21,167)                    | —                            | —   | (328)             |
| Loss for the year                      | —                         | —                           | —                            | (51,482)  | (51,482)          |
| At 31 December 2016 and 1 January 2017 | 740,246                   | 600,098                     | (4,276)                      | (58,529)  | 1,277,539         |
| 2016 final dividend                    | (9,000)                   | —                           | —                            | —   | (9,000)           |
| 2017 interim dividend                  | (25,000)                  | —                           | —                            | —   | (25,000)          |
| Equity-settled Pre-IPO RSUs expense    | —                         | 5,209                       | —                            | —   | 5,209             |
| Equity-settled Pre-IPO RSUs vested     | 16,823                    | (17,088)                    | —                            | —   | (265)             |
| Loss for the year                      | —                         | —                           | —                            | (32,147)  | (32,147)          |
| At 31 December 2017                    | 723,069                   | 588,219                     | (4,276)                      | (90,676)  | 1,216,336         |

## 42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2018.

# FINANCIAL SUMMARY 163

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and the Prospectus, is set out below.

|                                   | Year ended 31 December |                  |                  |                  |                  |
|-----------------------------------|------------------------|------------------|------------------|------------------|------------------|
|                                   | 2017<br>HK\$'000       | 2016<br>HK\$'000 | 2015<br>HK\$'000 | 2014<br>HK\$'000 | 2013<br>HK\$'000 |
| <b>RESULTS</b>                    |                        |                  |                  |                  |                  |
| REVENUE                           | 2,181,292              | 1,642,176        | 1,415,620        | 1,192,166        | 777,737          |
| Cost of sales                     | (1,119,780)            | (761,515)        | (654,252)        | (550,097)        | (364,644)        |
| Gross profit                      | 1,061,512              | 880,661          | 761,368          | 642,069          | 413,093          |
| Other income and gains            | 23,912                 | 4,072            | 2,827            | 19,689           | 3,507            |
| Selling and distribution expenses | (265,926)              | (185,222)        | (147,822)        | (137,742)        | (79,435)         |
| Administrative expenses           | (586,525)              | (499,549)        | (434,402)        | (312,597)        | (157,673)        |
| Other operating expenses          | (1,582)                | (18,435)         | (5,078)          | (5,506)          | (12,110)         |
| Finance costs                     | (28,582)               | (28,411)         | (42,337)         | (30,477)         | (15,775)         |
| Share of losses on associates     | (1,288)                | —                | —                | —                | —                |
| PROFIT BEFORE TAX                 | 201,521                | 153,116          | 134,556          | 175,436          | 151,607          |
| Income tax expense                | (44,158)               | (50,048)         | (51,550)         | (44,191)         | (28,073)         |
| PROFIT FOR THE YEAR               | 157,363                | 103,068          | 83,006           | 131,245          | 123,534          |
| Attributable to:                  |                        |                  |                  |                  |                  |
| Owners of the Company             | 155,371                | 101,483          | 81,963           | 120,186          | 114,087          |
| Non-controlling interests         | 1,992                  | 1,585            | 1,043            | 11,059           | 9,447            |
|                                   | 157,363                | 103,068          | 83,006           | 131,245          | 123,534          |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

|                                  | As at 31 December |                  |                  |                  |                  |
|----------------------------------|-------------------|------------------|------------------|------------------|------------------|
|                                  | 2017<br>HK\$'000  | 2016<br>HK\$'000 | 2015<br>HK\$'000 | 2014<br>HK\$'000 | 2013<br>HK\$'000 |
| <b>TOTAL ASSETS</b>              | 3,140,230         | 2,744,503        | 2,679,452        | 1,631,782        | 1,195,186        |
| <b>TOTAL LIABILITIES</b>         | (1,035,237)       | (922,273)        | (891,616)        | (1,080,625)      | (711,184)        |
| <b>NON-CONTROLLING INTERESTS</b> | (7,503)           | (6,491)          | (8,298)          | (7,034)          | (42,731)         |
|                                  | 2,097,490         | 1,815,739        | 1,779,538        | 544,123          | 441,271          |

## 164 CORPORATE INFORMATION

### PLACE OF INCORPORATION

Cayman Islands

### BOARD OF DIRECTORS

#### Executive Directors

Mr. CHAN Kwun Fung (*Chairman*)  
Mr. CHAN Kwun Pan (*Vice-Chairman*)  
Mr. NGAI Shing Kin (*Chief Executive Officer*)  
Mr. NGAI Chi Ho Alwin (*Chief Operating Officer*)  
Ms. CHAN Yik Yu (*Chief Marketing Officer*)  
Mr. CHAN Chi Yuen  
Dr. CHAN Ronald Yik Long

#### Independent Non-Executive Directors

Dr. CHEUNG Wai Bun Charles, J.P.  
Dr. CHAN Yue Kwong Michael  
Dr. WONG Ho Ching  
Dr. CHEUNG Wai Man William

### BOARD COMMITTEES

#### Audit Committee

Dr. CHEUNG Wai Bun Charles, J.P. (*Chairman*)  
Dr. CHAN Yue Kwong Michael  
Dr. WONG Ho Ching

#### Remuneration Committee

Dr. WONG Ho Ching (*Chairman*)  
Dr. CHEUNG Wai Man William  
Dr. CHEUNG Wai Bun Charles, J.P.  
Mr. NGAI Shing Kin  
Ms. CHAN Yik Yu

#### Nomination Committee

Dr. CHAN Yue Kwong Michael (*Chairman*)  
Dr. CHEUNG Wai Bun Charles, J.P.  
Dr. CHEUNG Wai Man William  
Mr. NGAI Chi Ho Alwin  
Dr. CHAN Ronald Yik Long

### COMPANY SECRETARY

Mr. KWAN Ngai Kit

### AUTHORISED REPRESENTATIVES

Mr. NGAI Shing Kin  
Mr. KWAN Ngai Kit

### AUDITOR

Ernst & Young

### REGISTERED OFFICE

Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1716  
17/F., CEO Tower  
77 Wing Hong Street  
Cheung Sha Wan  
Kowloon, Hong Kong

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

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

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

### PRINCIPAL BANKERS

ING Bank N.V., Singapore Branch  
ING Bank N.V.  
The Hongkong and Shanghai Banking Corporation Limited  
Bank of China (Hong Kong) Limited  
Chiyu Banking Corporation Limited

### LEGAL ADVISER

Loeb & Loeb LLP

### COMPANY WEBSITE

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

### STOCK CODE

3600