MODERN
Dental Group

MODERN DENTAL GROUP LIMITED

現代牙科集團有限公司

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

Stock code: 3600

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CHAIRMAN'S STATEMENT

MODERN DENTAL AIMS TO REINFORCE ITS WORLDWIDE LEADING POSITION THROUGH BUSINESS EXPANSION VIA OUR GLOBAL DISTRIBUTION NETWORK.

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 2018.

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 2018, 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.

CHAIRMAN'S STATEMENT

The European market remains our key revenue and profit driver for the Group, going from strength-to-strength. 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 continued integration of MicroDental Group under leadership of our new CEO of North America. We have made substantial progress in 2018, introducing new products and new services, phasing-out lower value products and implementing new and existing plans and strategies, and we will continue to do so in 2019. 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. 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 strategic 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. 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 improving economic conditions.

Following our vital and landmark acquisitions in previous years, 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. The Group has been less active in acquisition activities in 2018 and remains cautious and prudent, given market valuation within the dental laboratories industry and other businesses within the dental industry have surged, off the back of increased demand and interest from private equity firms.

In Mainland China, we have substantially completed phase 1 of our new modernised production facilities in Dongguan and continue to 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 joint venture partners to further expand our geographical presence in Mainland China, with key strategic investors/potential strategic shareholders. In North America, we continue to integrate MicroDental Group to maximise all potential synergies, and enhance customer service through our enlarged sales and distribution network. In Europe and Australia, we will keep replicating our success via ongoing sales and marketing efforts, opportunistic acquisitions, integrating further synergies within our network and enhancing management efficiencies. Across all of our existing markets and potential new markets, we will continue to look for further opportunities that fit in with our growth strategies as well as new products (in particular, orthodontic 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

28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

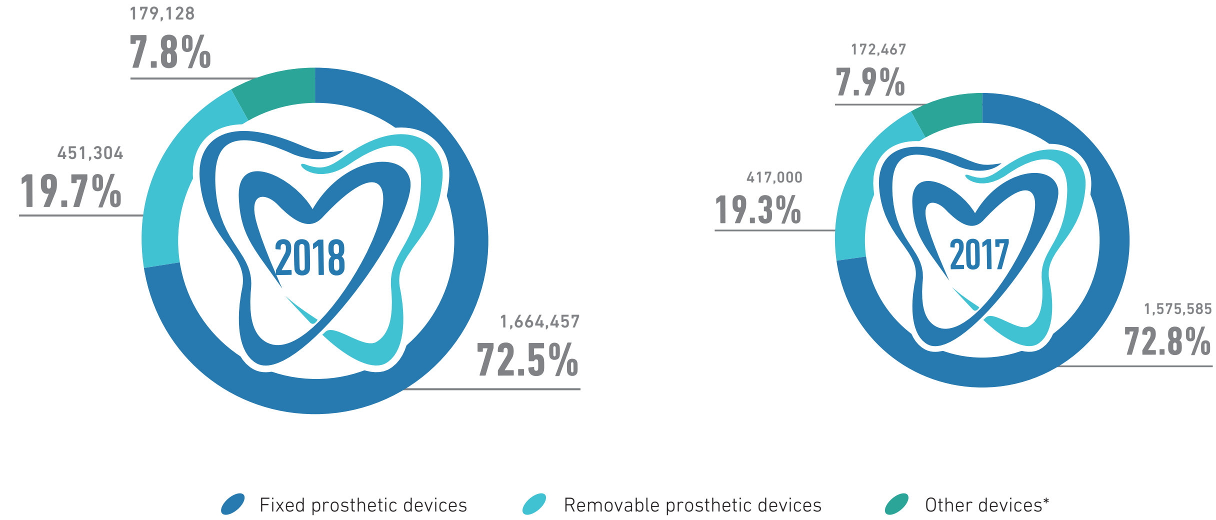
The Group is a leading global dental prosthetic device provider with a focus on providing custom-made prostheses to customers in the growing prosthetics industry. Our product portfolio is broadly categorised into three product lines: (i) fixed prosthetic devices such as crowns and bridges; (ii) removable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

Product Category

The figures below set forth the breakdown of revenue (in thousand Hong Kong dollars and percentage) by product category for the years ended 31 December 2018 and 2017 respectively:

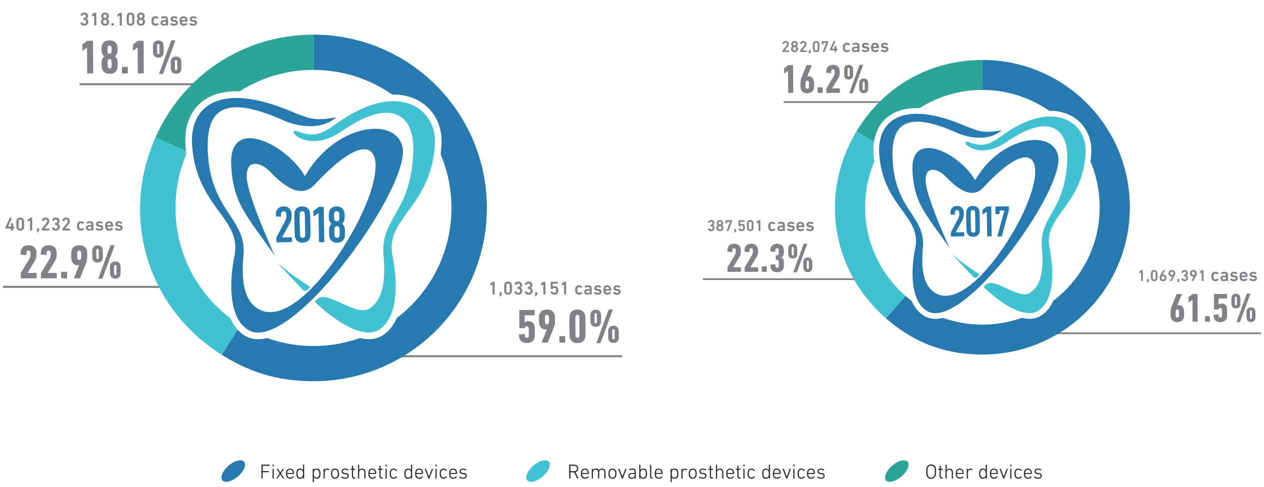
BREAKDOWN OF REVENUE

(HK$'000 and %)



BREAKDOWN OF SALES VOLUME

(no. of cases and %)



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

MANAGEMENT DISCUSSION 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 2018, fixed prosthetic devices business segment recorded a revenue of approximately HK$1,664,457,000 representing an increase of approximately HK$88,872,000 as compared with the year ended 31 December 2017. This business segment accounted for approximately 72.5% of the Group's total revenue as compared with approximately 72.8% in the year ended 31 December 2017.

Removable Prosthetic Devices

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

During the year ended 31 December 2018, removable prosthetic devices business segment recorded a revenue of approximately HK$451,304,000, representing an increase of approximately HK$34,304,000 as compared with the year ended 31 December 2017. This business segment accounted for approximately 19.7% of the Group's total revenue as compared with approximately 19.3% in the year ended 31 December 2017.

Other Devices

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

During the year ended 31 December 2018, other devices business segment recorded a revenue of approximately HK$179,128,000, representing an increase of approximately HK$6,661,000 as compared with the year ended 31 December 2017. This business segment accounted for approximately 7.8% of the Group's total revenue as compared with approximately 7.9% in the year ended 31 December 2017.

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 2018 and 2017 respectively:

	Year ended 31 December					
	2018			2017		
	Sales Volume (number of cases)	Revenue (HK$'000)	ASP (HK$ per case)	Sales Volume (number of cases)	Revenue (HK$'000)	ASP (HK$ per case)
Product category						
Fixed prosthetic devices	1,033,151	1,664,457	1,611	1,069,391	1,575,585	1,473
Removable prosthetic devices	401,232	451,304	1,125	387,501	417,000	1,076
Other devices*	318,108	179,128	563	282,074	172,467	611
Total	1,752,491	2,294,889	1,310	1,738,966	2,165,052	1,245

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

Sales volume and average selling price

For the year ended 31 December 2018, the sales volume and ASP of the Group's products across its markets were 1,752,491 cases (Year ended 31 December 2017: 1,738,966 cases) and HK$1,310 per case (Year ended 31 December 2017: HK$1,245 per case), representing an increase of 0.8% and 5.2%, respectively. Our strategy to shift our promotion focus on high value products, such as implant cases, and gradually phase out low value products, has delivered promising results in the current year and, accordingly, has driven up our average selling price with slight growth in sales volume.

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 years ended 31 December 2018 and 2017 respectively:

		Year ended 31 December			
		2018		2017	
Market	Original currency	Conversion rate # (Original currency per HK$)	Revenue (HK$'000)	Conversion rate # (Original currency per HK$)	Revenue (HK$'000)
Europe*	EUR	9.26	912,172	8.81	837,332
North America	US$	7.75	688,431	7.75	687,293
Greater China**	RMB	1.18	464,136	1.16	417,017
Australia***	AUD	5.86	216,286	5.98	208,930
Others			13,864		14,480
Total			2,294,889		2,165,052

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

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

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

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

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 2018.

Our sales and distribution network in Europe is able to reach 13 countries and we offer a portfolio of well-respected, long-established and trusted brands. Generally, the Group performed well in Europe, in particular, our PRC-made imports. This growth has been product-and customer-led, as customers are typically purchasing different products from our broad product lines. We offer comparatively more competitive prices for products of comparable quality in the market with high quality customer services.

One key strategy in Europe is to offer existing clients comprehensive 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, implant solutions, orthodontic treatments and anti-snoring appliances), on being at the forefront of continuous education and training programs, and innovations to stimulate further growth. In Europe, we have a geographically diversified business model which puts us in a strong position for seizing acquisition opportunities going forward. At the same time, we have organic growth drivers such as improved marketing and sales, brand awareness, track-record in quality and customer service, providing value-added services to our clients and in turn, consolidating our reputation as being a one-stop shop for our customers.

For the year ended 31 December 2018, the European market recorded a revenue of approximately HK$912,172,000, representing an increase of approximately HK$74,840,000 as compared with year ended 31 December 2017. Together with the sales of dental equipment of approximately HK$12,429,000, this geographic market accounted for 39.9% of the Group's total revenue as compared with approximately 38.7% for the year ended 31 December 2017. The increase in revenue from the European market was largely attributable to (i) appreciation of average rate of EUR against HK$ and (ii) 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 for the year ended 31 December 2018.

MicroDental Laboratories, Inc. (formerly known as RTFP Dental Inc.) and its subsidiaries ("**MicroDental Group**") contributed approximately HK$500,601,000 (year ended 31 December 2017: HK$494,137,000) to the Group's revenue, approximately HK$5,029,000 (year ended 31 December 2017: HK$5,054,000) to the Group's Adjusted EBITDA and approximately HK$17,320,000 (year ended 31 December 2017: HK$10,130,000) of loss to the Group's profit for the year ended 31 December 2018. The loss of approximately HK$17,320,000 for the year ended 31 December 2018 included (i) non-cash depreciation and amortisation of approximately HK$13,594,000; and (ii) non-recurring expenses, such as one-off costs in connection with the restructuring and reorganisations of approximately HK$8,250,000. With new management team for North America (CFO and CEO), we are confident of effectively implementing our main strategies for MicroDental Group: (i) to increase sales through new products and strengthen our sales and marketing team and strategies; (ii) to strategically place each of our products at the optimal price-point; (iii) to capitalise on existing and future synergies, utilise MicroDental Group's 40 year brand history, its extensive distribution network and its very experienced employees; and (iv) cost restructuring, effectively leveraging existing resources and minimizing any overlap of resources.

MANAGEMENT DISCUSSION AND ANALYSIS

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. The Group is expected to further utilise its extensive North American distribution network for its existing products as well as new products.

The dental prosthetics market in North America grew during the year 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.

During the year ended 31 December 2018, the North American market recorded a revenue of approximately HK$688,431,000, representing an increase of approximately HK$1,138,000 as compared with the year ended 31 December 2017. This geographic market accounted for approximately 29.7% of the Group's total revenue as compared with approximately 31.5% in the year ended 31 December 2017. The increase in revenue from the North American market was attributable to increase in ASP of the products from high value products and its effect was partially offset by decrease in sales volume at MicroDental Group as a result of (i) phasing out of lower end products and (ii) the temporary distortions arose from restructuring and reorganisations, such as relocation of the major production facilities and closure of inefficient locations, in the current year.

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 for the year ended 31 December 2018.

Given the significant rise in the living standards in Greater China over the years, people have become increasingly aware of the importance of oral health, which benefits the custom-made dental prosthetics domestic sales market. We offer comparatively higher prices for products with premium quality in Greater China, which appeal to the population that has a strong demand for higher quality products. The Greater China market positively rebounded in the period with a low-teens increase in revenue in Hong Kong dollars 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.

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

For the year ended 31 December 2018, the Greater China market recorded a revenue of approximately HK$464,136,000, representing an increase of approximately HK$47,119,000 as compared with year ended 31 December 2017. Together with the sales of raw materials and dental equipment of approximately HK$2,820,000, this geographic market accounted for approximately 20.2% of the Group's total revenue as compared with approximately 19.3% last year. The increase in revenue from the Greater China market was largely attributable to (i) the increase in sales of higher value products and (ii) volume growth during the year.

Australia

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

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

For the year ended 31 December 2018, the Australian market recorded a revenue of approximately HK$216,286,000, representing an increase of approximately HK$7,356,000 as compared with the year ended 31 December 2017. Together with the service revenue generated from rendering educational events and seminars of approximately HK$5,329,000, this geographic market accounted for approximately 9.6% of the Group's total revenue as compared with approximately 9.8% last year. The increase in revenue from the Australian market was largely attributable to volume growth across all brands offset by the depreciation of Australian dollars for the year.

Others

Other markets primarily include Indian Ocean countries, Japan and Singapore. For the year ended 31 December 2018, these markets recorded a revenue of approximately HK$13,864,000, representing a decrease of approximately HK$616,000 as compared with the year ended 31 December 2017. This geographic market accounted for approximately 0.6% of the Group's total revenue as compared with approximately 0.7% last year.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the revenue of the Group amounted to approximately HK$2,315,467,000 representing an increase of approximately 6.2% as compared with approximately HK$2,181,292,000 for the year ended 31 December 2017. The increase was mainly attributable to (i) appreciation of average rate of foreign currencies; (ii) the annual increment of retail prices to the dentists; and (iii) the organic growth in the sales volume.

Gross Profit and Gross Profit Margin

The gross profit for the year ended 31 December 2018 was approximately HK$1,079,336,000, which was approximately 1.7% higher than that of last year. The decrease of the gross profit margin of approximately 2.1% compared with last year was mainly attributable to (i) the increased labor costs in Mainland China; (ii) the lower utilisation of production capacity as a result of restructuring and reorganisations activities carried out in current year; and (iii) the appreciation of average rate of RMB against HK$ in the current year.

MANAGEMENT DISCUSSION AND ANALYSIS

The gross profit margins of Fixed Prosthetic Devices business segment, Removable Prosthetic Devices business segment and Others business segment were approximately 46.9%, 46.6% and 44.2% respectively. The following table sets forth the breakdown of our gross profit and gross margin by product category.

	Year ended 31 December			
	2018		2017	
	Gross profit HK$'000	Gross margin (%)	Gross profit HK$'000	Gross margin (%)
Product category				
Fixed prosthetic devices	780,926	46.9	766,978	48.7
Removable prosthetic devices	210,203	46.6	200,646	48.1
Others	88,207	44.2	93,888	49.8
Total	1,079,336		1,061,512	

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 3.5% from approximately HK$265,926,000 for the year ended 31 December 2017 to approximately HK$275,142,000 for the year ended 31 December 2018, accounting for approximately 11.9% of the Group's revenue, as compared with approximately 12.2% for last year. The increase in the selling and distribution expenses was primarily attributable to the increase in freight and transportation cost, salaries, bonuses, commissions and other benefits for sales personnel, which resulted from the increase in the Group's sales volume and appreciation of average rate of the EUR and RMB against HK$ during the year.

Administrative Expenses

The administrative expenses increased by approximately 7.5% to approximately HK$630,558,000 for the year ended 31 December 2018 from approximately HK$586,525,000 for the year ended 31 December 2017, accounting for approximately 27.2% of the Group's revenue, as compared with approximately 26.9% for last year. The increase in the administrative expenses was primarily attributable to (i) an increase in the average salaries of our employees; (ii) appreciation of average rate of the EUR and RMB against HK$ during the year; and (iii) research and development related expenditure of new product under development of approximately HK$13,761,000 incurred during the year.

Other Operating Expenses

The other operating expenses increased by approximately 692.2% from approximately HK$1,582,000 for the year ended 31 December 2017 to approximately HK$12,533,000 for the year ended 31 December 2018, accounting for approximately 0.5% of the Group's revenue, as compared with approximately 0.1% for last year. Other operating expenses mainly represented foreign exchange loss, net, of approximately HK$12,283,000 which included foreign exchange loss of approximately HK$9,492,000 arose from translation of certain inter-company balances within the Group denominated in foreign currencies as a result of the depreciation of the foreign currencies against HK$ as at 31 December 2018.

Finance Costs

The finance costs increased by approximately 80.2% from approximately HK$28,582,000 for the year ended 31 December 2017 to approximately HK$51,516,000 for the year ended 31 December 2018, accounting for approximately 2.2% of the Group's revenue, as compared with approximately 1.3% for last year. The increase was primarily attributable to re-financing of the bank loans of the Group in January 2018 that resulted in the one-off write-off of capitalised interest and fee and related exchange losses of approximately HK$25,463,000 in aggregate.

Income Tax Expense

Income tax expense decreased by approximately 19.0% from approximately HK$44,158,000 for the year ended 31 December 2017 to approximately HK$35,762,000 for the year ended 31 December 2018. The decrease was primarily attributable to the decrease in the profit before tax.

Profit for the Year

Profit for the year decreased by approximately 47.1% from approximately HK$157,363,000 for the year ended 31 December 2017 to approximately HK$83,240,000 for the year ended 31 December 2018. The decrease in profit for the year was mainly caused by (i) re-financing of the bank loans of the Group in January 2018 that resulted in the one-off write-off of capitalised interest and fee and related exchange losses of approximately HK$25,463,000 in aggregate; (ii) research and development related expenditure of new product under development of approximately HK$13,761,000 incurred during the year; and (iii) foreign exchange loss of approximately HK$9,492,000 arose from translation of certain inter-company balances within the Group denominated in foreign currencies as a result of the depreciation of the foreign currencies against HK$ as at 31 December 2018.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company for the year ended 31 December 2018 amounted to approximately HK$85,391,000, representing a decrease of approximately HK$69,980,000, or approximately 45.0%, as compared with approximately HK$155,371,000 for last year. The decrease in profit attributable to owners of the Company was mainly caused by (i) re-financing of the bank loans of the Group in January 2018 that resulted in the one-off write-off of capitalised interest and fee and related exchange losses of approximately HK$25,463,000 in aggregate; (ii) research and development related expenditure of new product under development of approximately HK$13,761,000 incurred during the year; and (iii) foreign exchange loss of approximately HK$9,492,000 arose from translation of certain inter-company balances within the Group denominated in foreign currencies as a result of the depreciation of the foreign currencies against HK$ as at 31 December 2018.

Non-IFRS Measures

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

EBITDA and Adjusted EBITDA

During the year ended 31 December 2018, 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, one-off cost in connection with restructuring and reorganisation, the Pre-IPO RSU Scheme (as defined below) related expenses, remeasurement gain/loss on contingent consideration and write-back of consideration payable.

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 31 December	
	2018	2017
	HK$'000	HK$'000
EBITDA and Adjusted EBITDA		
Net profit	**83,240**	157,363
Finance costs	**51,516**	28,582
Tax	**35,762**	44,158
Depreciation	**57,439**	53,183
Amortisation of intangible assets	**37,777**	36,820
Amortisation of prepaid land lease payments	**262**	256
Less:		
Bank interest income	**(547)**	(443)
EBITDA	**265,449**	319,919
Add:		
One-off transaction cost in connection with acquisitions and disposals	**1,469**	18,141
One-off cost in connection with restructuring and reorganisation	**10,864**	—
Pre-IPO RSU Scheme related expenses	**—**	5,414
Remeasurement loss on contingent consideration	**—**	1,096
Less:		
Remeasurement gain on contingent consideration	**(773)**	—
Write-back of consideration payable	**—**	(3,610)
Adjusted EBITDA	**277,009**	340,960
Adjusted EBITDA Margin	**12.0%**	15.6%

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the years ended 31 December 2018 and 31 December 2017 respectively:

	For the year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Net cash flows from operating activities	204,893	194,673
Net cash flows used in investing activities	(142,602)	(211,767)
Net cash flows (used in)/from financing activities	(39,128)	28,061

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 in the absence of unforeseen circumstances. There were no material changes in the funding and financial policies of the Group.

The Group's balance of cash and cash equivalents was approximately HK$380,393,000 as of 31 December 2018, which was mainly denominated in HK$, RMB, US$, EUR and 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 2018, the net cash flows from operating activities has increased to approximately HK$204,893,000 (Year ended 31 December 2017: approximately HK$194,673,000). The increase in net cash flows from operating activities was primarily attributable to increase in cash generated from operations as a result of the continual growth in sales of the Group.

The amount of trade receivables decreased from approximately HK$413,682,000 as at 31 December 2017 to approximately HK$380,443,000 as at 31 December 2018. The trade receivable turnover days (the average of the beginning and ending trade receivable balances/revenue × 365 days) decreased from approximately 65 days for the year ended 31 December 2017 to approximately 63 days for the year ended 31 December 2018. 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 increased from approximately HK$57,195,000 as at 31 December 2017 to approximately HK$64,319,000 as at 31 December 2018. The trade payable turnover days (the average of the beginning and ending trade payable balances/cost of sales × 365 days) decreased from approximately 21 days for the year ended 31 December 2017 to approximately 18 days for the year ended 31 December 2018. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

The amount of inventory increased from approximately HK$81,861,000 as at 31 December 2017 to approximately HK$110,906,000 as at 31 December 2018. The inventory turnover days (the average of the beginning and ending inventory balances/cost of sales × 365 days) increased from approximately 25 days for the year ended 31 December 2017 to approximately 28 days for the year ended 31 December 2018.

Investing Activities

The net cash flows used in investing activities for the year ended 31 December 2018 of approximately HK$142,602,000, of which approximately HK$141,725,000 was used primarily for the expansion of our production facilities and upgrade of our computer-aided/manufacturing production equipment.

Financing Activities

The Group recorded a net cash flows used in financing activities of approximately HK$39,128,000 for the year ended 31 December 2018. The outflow was mainly attributable to payment of (i) dividend of approximately HK$40,000,000; (ii) interest expenses of approximately HK$23,962,000; (iii) repurchase of the Company's ordinary shares of approximately HK$16,420,000; and (iv) acquisition of non-controlling interest of approximately HK$20,591,000. The outflow was partially offset by net advancement of bank loans of approximately HK$62,493,000 during the year.

Capital Expenditure

During the year ended 31 December 2018, the Group's capital expenditure amounted to approximately HK$141,725,000 which was mainly used for expansion of our production facilities and improvement in our production equipment. All of the capital expenditure was financed by internal resources, bank borrowings and previously unutilised net proceeds from the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 15 December 2015 (the "**Listing**").

Bank loans and other borrowings

The Board considers that the level of borrowings at the end of the year 2018 remains healthy and sustainable. As at 31 December 2018, the Group had interest-bearing bank loans and other borrowings which amounted to approximately HK$809,243,000. The Board considers that our borrowings during the year ended 31 December 2018 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 2018, the Group's bank loans which amounted to approximately HK$29,682,000, approximately HK$82,443,000 and approximately HK$696,012,000 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$489,000, approximately HK$302,000 and approximately HK$315,000 are repayable within one year, in the second year and in the third to fifth years (inclusive), respectively.

Details of the amount and maturity profile of borrowings and finance lease payables during the year ended 31 December 2018 are set out in Notes 25 and 26 to the consolidated financial statements.

CAPITAL STRUCTURE

Funding and treasury policies

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

Bank borrowings

Bank borrowings of the Group as of 31 December 2018 amounted to approximately HK$808,137,000 as compared to approximately HK$716,561,000 as of 31 December 2017. Pledged bank deposits of the Group as of 31 December 2018 amounted to approximately HK$11,482,000 as compared to approximately HK$12,467,000 as of 31 December 2017. As of 31 December 2018, the bank borrowings of approximately HK$808,137,000 were denominated in HK$. As of 31 December 2018, all bank borrowings were at floating interest rates.

Finance lease payables

Finance lease payables of the Group as of 31 December 2018 amounted to approximately HK$1,106,000 as compared to approximately HK$897,000 as of 31 December 2017. As of 31 December 2018, the finance lease payables of approximately HK$6,000, approximately HK$366,000 and approximately HK$734,000 were denominated in HK$, AUD and CAD, respectively. As of 31 December 2018, all finance lease payables were at fixed interest rates.

Cash and cash equivalents

The amount in which cash and cash equivalents were held are set out in the paragraph headed "Liquidity and Financial Resources" on page 16 in 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 Company) plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, other payables and accruals, other non-current liabilities, less cash and cash equivalents and pledged deposits. As of 31 December 2018, the gearing ratio of the Group was approximately 25%, reflecting that the Group's financial position was at a sound level.

Debt securities

As of 31 December 2018, the Group did not have any debt securities.

Contingent liabilities

The Group has a contingent liability in respect of potential claims of US$1 million (equivalent to HK$7.8 million) by an employee, who is also a non-controlling shareholder of a subsidiary of the Group. Subsequent to the year ended 31 December 2018, the employee filed a case to the labour tribunal for the claim. The Group denied the liability in respect of the non-performance of the terms of the contract, based on legal advice, the directors of the Company consider that the risk of the claim at the labour tribunal is reasonably low. No provision has therefore been made in respect of this claim.

The Group has no significant contingent liabilities as at 31 December 2017.

CHARGE OF GROUP ASSETS

During the year ended 31 December 2018, Modern Dental Holding Limited, a subsidiary of the Company, entered into three bank loans facility agreements (the "**Facility Agreements**") for certain term loans and a revolving credit, secured by corporate guarantees of the Company and certain of its subsidiaries. Pursuant to the Facility Agreements, if the aggregate shareholding of Mr. Chan Kwun Fung, Mr. Chan Kwun Pan, Dr. Chan Ronald Yik Long, Ms. Chan Yik Yu, Mr. Ngai Chi Ho Alwin and Mr. Ngai Shing Kin, directly or indirectly, in the Company's share capital ceases to be at least 50%, the commitment under the Facility Agreements will be cancelled and all the outstanding amounts under the Facility Agreements will become immediately due and payable.

Commitments

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

As of 31 December 2018, the Group has paid approximately RMB11,094,000 and approximately RMB90,630,000 for the acquisition of land and construction in progress, respectively, and the remaining commitments was approximately RMB144,276,000.

Save as disclosed above, the Group had no other significant capital commitments as of 31 December 2018.

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

The Group had no material acquisitions, disposal of subsidiaries, associates and joint ventures for the year ended 31 December 2018.

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 of the Company dated 3 December 2015 (the "**Prospectus**").

The new headquarter has a total site area of 27,522 square meters and the construction is divided into two phases. In phase 1, a production factory and an employee dormitory have been built on a 16,575 square meters land, with a total floor area of 47,707 square meters. Total investment for the phase 1 is estimated to be RMB137 million with the business commencement date expected to be in mid 2019.

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

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

The Company repurchased 11,469,000 of its ordinary shares on the Stock Exchange during the year ended 31 December 2018. These shares were subsequently cancelled in January and February 2019. Moreover, subsequent to the end of the reporting period, the Company repurchased and cancelled 1,785,000 of its ordinary shares on the Stock Exchange at an aggregate consideration of approximately HK$2,360,000 (before expenses).

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, Brilliant Appraisal Limited, to assess the impairment of material goodwill and intangible assets and no material changes in key assumptions have been made in the current year. The key assumptions, such as the pre-tax discount rates (2018: ranged between 11% and 33%; 2017: ranged between 13% and 30%); the budgeted sales growth rates (2018: ranged between 5% and 13%; 2017: ranged between 5% and 16%); and budgeted EBITDA margins (2018: ranged between 2% and 38%; 2017: ranged between 4% and 36%), are determined with reference to historical performance of the Group; market research of the prosthetic devices industry and the specific business plans of the Group.

Centralization of Production Facilities

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

Interest Rate Risk

Our exposure to the interest rate risk relates primarily to our long-term debt obligations with floating interest rates. We manage our interest rate exposure with a focus on reducing our overall cost of debt and exposure to changes in interest rate. Our management continues to monitor the cash flows of our operation and the debt markets, where we would expect to refinance these borrowings with a lower cost of debt when desirable. For the year ended 31 December 2018, the interest rates on floating-rate bank loans were approximately HIBOR+1.60% per annum for term loans and HIBOR+1.70% per annum for a revolving credit. The Group had not entered into any type of interest rate agreements or derivative transactions to hedge against the fluctuations in interest rates.

Foreign Currency Risk

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

Credit Risk

The credit risk of our other financial assets, which comprise trade receivables, financial assets included in prepayments, deposits and other receivables, amount due from a related party, amount due from an associate, pledged 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.

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 6,432 dedicated full-time employees at our production facilities, service centers, points of sales and other sites as of 31 December 2018, mainly including 4,902 production staff members, 557 general management staff members and 359 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.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

As at 31 December 2018, 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.

CHAN KWUN FUNG, MICHAEL

Mr. CHAN Kwun Fung (陳冠峰先生), aged 64, is the chairman of the Board and an executive Director. He is also the director, the chairman, the legal representative, and/or the supervisor of certain subsidiaries of the Company. 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

CHAN KWUN PAN, BEN

Mr. CHAN Kwun Pan (陳冠斌先生), aged 61, is the founder of the Group, the vice chairman of the Board and an executive Director. He is also the director, and/or the supervisor of certain subsidiaries of the Company. 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. Mr. Chan was a member of the Political Consultative Committee of Nanshan District, Shenzhen in the PRC between October 2006 and October 2016.

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).

NGAI SHING KIN, GODFREY

Mr. NGAI Shing Kin (魏聖堅先生), aged 70, is an executive Director, the chief executive officer and a member of the remuneration committee of the Company. He is also the director, the president, the manager, and/or the supervisor of certain subsidiaries of the Company. 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 51 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 Prostheses – 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

NGAI CHI HO, ALWIN

Mr. NGAI Chi Ho, Alwin (魏志豪先生), aged 41, is an executive Director, the chief operating officer and a member of the nomination committee of the Company. He is also the director, the chairman, the general manager, and/or the legal representative of certain subsidiaries of the Company. 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 an executive master of business administration (EMBA) degree from the City University of Hong Kong in October 2018, 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 12 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, ISO/TC106/SC2 Prosthodontic Materials and affiliate of the International College of Prosthodontists.

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

CHAN CHI YUEN, ALEX

Mr. CHAN Chi Yuen (陳志遠先生), aged 34, is an executive Director. He is also the director, the chairman, the general manager, the legal representative, the vice chairman, and/or the vice general manager of certain subsidiaries of the Company. 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).

DIRECTORS AND SENIOR MANAGEMENT

CHAN YIK LONG, RONALD

Dr. CHAN Ronald Yik Long (陳奕朗醫生), aged 32, is an executive Director and a member of the nomination committee of the Company. He is also the director, the vice chairman, and/or the general manager of certain subsidiaries of the Company. 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.

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).

CHAN YIK YU, EDITH

Ms. CHAN Yik Yu (陳奕茹女士), aged 31, 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 a subsidiary of the Company. 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 8 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).

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 82, 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, 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 and a member of each of the audit committee and corporate governance committee 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) and 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), 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 an independent non-executive director of China Taifeng Beddings Holdings Limited (stock Code: 873) and formerly 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), which are listed on the Main Board 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 67, 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 Holdings 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 a 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). All of the above companies are listed on the Main Board of the Stock Exchange.

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 71, 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.

DIRECTORS AND SENIOR MANAGEMENT

Dr. CHEUNG Wai Man William (張偉民博士), aged 64, is an independent non-executive Director and a member of the nomination committee and the remuneration committee of the Company. 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 was the member (since September 2016) and is currently vice-chair (since August 2018) of the Education Committee of the FDI World Dental Federation 2018-2019.

SENIOR MANAGEMENT

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

Mr. August Wilhelm Torsten Schwafert, aged 54, is the chief executive officer of Modern Dental Europe B.V., which is a Company's subsidiary.

Mr. Schwafert is also the director of certain subsidiaries of the Company. 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 26 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.

Mr. Gregory Scialom, aged 44, is the president of Labocast SAS, which is a Company's subsidiary.

Mr. G. Scialom is also the director, substitute director and/or the legal representative of certain subsidiaries of the Company. 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 19 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 46, is the chief executive officer of Modern Dental Pacific Pty Ltd, which is a Company's subsidiary.

Mr. J. Squirrell is also the director of certain subsidiaries of the Company. 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.

COMPANY SECRETARY

Mr. KWAN Ngai Kit (關毅傑先生), aged 39, 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 Rare Earth Magnesium Technology Group Holdings Limited (formerly known as Group Sense (International) Limited) (stock code: 601); Leyou Technologies Holdings Limited (stock code: 1089); A & S Group (Holdings) 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

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 2018.

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 2018 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 to utilise HK$'000	Utilised as at 31 December 2018 HK$'000	Unutilised as at 31 December 2018 HK$'000
Financing the strategic acquisitions and new facilities establishment of the Company in Mainland China	125,000	125,000	—
Financing the strategic acquisitions and new facilities establishment of the Company in overseas	375,000	375,000	—
Financing the marketing and promotion activities to enhance the brand awareness of the Company	41,483	41,483	—
Implementing the Long Term Development Plan	100,000	100,000	—
Replenishing the working capital of the Company and other general corporate purpose	6,000	6,000	—
	647,483	647,483	—

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 71 of this Annual Report.

DIVIDENDS

An interim dividend of HK1.9 cents per ordinary share was paid to the Shareholders on 8 October 2018. The Board recommended a final dividend of HK1.4 cents (2017: HK2.1 cents) per ordinary share, out of the share premium account, for the year ended 31 December 2018 (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 23 May 2019, the Proposed Final Dividend will be paid on 24 June 2019 to Shareholders whose names appear on the Register of Members of the Company as at the close of business on 3 June 2019.

CLOSURE OF REGISTER OF MEMBERS

To determine the entitlement to attend and vote at the AGM to be held on 23 May 2019, the Register of Members of the Company will be closed from Monday, 20 May 2019 to Thursday, 23 May 2019, 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 Friday, 17 May 2019, for the purpose of effecting the share transfers.

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, 30 May 2019 to Monday, 3 June 2019, 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, 29 May 2019.

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 2018, the purchase amounts placed with the Group's five largest suppliers accounted for 29.0% (2017: 34.6%) of the Group's total purchases and the purchase amount placed with our single largest supplier accounted for 13.3% (2017: 15.9%) of the Group's total purchases.

The relationship between the Group and our customers has been stable. For the year ended 31 December 2018, the revenue amounts from the Group's five largest customers accounted for 2.2% (2017: 2.1%) of the Group's total revenue and the revenue amount from our single largest customer accounted for 0.6% (2017: 0.5%) 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 Group during the year ended 31 December 2018 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 2018 are set out in Note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company had distributable reserves of approximately HK$564,364,000 (2017: approximately HK$632,393,000) 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$683,069,000 (2017: approximately HK$723,069,000).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2018 are set out in the section headed "Management Discussion and Analysis" in this Annual Report and Note 25 to the consolidated financial statements.

DIRECTORS

The Directors who held office during the year ended 31 December 2018 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, Mr. Chan Kwun Fung, Mr. Chan Kwun Pan, Mr. Ngai Shing Kin and Mr. Ngai Chi Ho Alwin 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 22 to 32 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 2018 and up to the date of this Annual Report, changes in the information of the Directors are as follows:

1. Dr. Chan Yue Kwong Michael has been ceased to be the chairman of the Business Enterprise Management Centre of the Hong Kong Management Association and the member of the Business Facilitation Advisory Board since 1 July 2018.

2. Dr. Cheung Wai Bun Charles J.P. has been appointed as a member of each of the audit committee and corporate goverance committee of Galaxy Entertainment Group Limited (stock Code:27) on 14 June 2018, the shares of the company is listed on the Main Board of the Stock Exchange.

   Dr. Cheung Wai Bun Charles J.P. has been resigned as an independent non-executive director of China Taifeng Beddings Holding Limited (stock code: 873) on 31 July 2018, and resigned as an independent non-executive director of China Financial International Investments Limited (formerly known as Sunshine Capital Investments Group Limited) (stock Code:721) on 24 September 2018, the shares of the companies are listed on the Main Board of the Stock Exchange.

3. Dr. Cheung Wai Man William has been appointed as vice-chair of the Education Committee of the FDI World Dental Federation 2018-2019 since August 2018.

4. Mr. Ngai Chi Ho Alwin obtained an executive master of business administration (EMBA) degree from the City University of Hong Kong in October 2018.

5. The annual director's fee payable to each of Dr. Cheung Wai Man William, Dr. Cheung Wai Bun Charles J.P., Dr. Chan Yue Kwong Michael and Dr. Wong Ho Ching was increased to HK$249,000 commencing from May 2018.

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 a term of three years commencing from 15 December 2015 (the "**Listing Date**") and renewed on 15 December 2018.

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 and the letter of appointment was further reviewed for a further term of three years and commenced on 15 December 2018.

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.

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 2018.

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 2018.

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, respectively.

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 2018. 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 alloted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Group must not exceed 30% of the issued share capital of the Company from time to time. No options may be granted under the Share Option Scheme or any other share option schemes adopted by the Group if the grant of such option exceeds the limit.

The total number of Shares which may be alloted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes adopted by the Group as from the Share Option Scheme Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of all issued share capital of the Company upon the Listing Date (i.e. 100,000,000 Shares, representing 10% of the issued share capital of the Company as at the date of this 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 2018, no options had been granted, agreed to be granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme and therefore the total number of Shares available for grant under the Share Option Scheme was 100,000,000 Shares, representing 10% of the issued share capital of the Company as of the date of this Annual 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.

As of 31 December 2018, no outstanding restricted share units were granted or vested pursuant to the Pre-IPO RSU Scheme.

MANDATORY PROVIDENT FUND RETIREMENT BENEFIT SCHEME

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

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

As of 31 December 2018, the interests and short positions of the Directors in the Shares, underlying Shares and debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") were as follows:

Long Positions in Shares and Underlying Shares of the Company

Name of Director	Capacity	Number of Shares and underlying Shares interested		Total number of Shares and underlying Shares interested	Approximate percentage of shareholding
Mr. Chan Kwun Fung	Beneficial owner	466,000	(Note 1)	474,118,263	47.41%
	Other	3,450,000	(Note 1)		
	Interest of controlled Corporation	470,202,263	(Note 1)		
Mr. Chan Kwun Pan	Beneficial owner	3,450,000	(Note 1)	474,118,263	47.41%
	Other	466,000	(Note 1)		
	Interest of controlled corporation	470,202,263	(Note 1)		
Mr. Ngai Shing Kin	Beneficial owner	4,191,345		98,040,998	9.80%
	Interest of controlled corporation	93,849,653	(Note 2)		
Mr. Ngai Chi Ho Alwin	Beneficial owner	277,934		63,122,304	6.31%
	Interest of controlled corporation	62,844,370	(Note 3)		

Notes:

1. Mr. Chan Kwun Fung and Mr. Chan Kwun Pan signed a confirmation letter on 10 August 2015 confirming their acting-in-concert arrangement whereby they operate the Group collectively, through discussions, and reached consensus between themselves before making any commercial decisions for the Group on 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 470,202,263 Shares owned by Triera Holdings Limited, (ii) Mr. Chan Kwun Fung is deemed to be interested in the 3,450,000 Shares owned by Mr. Chan Kwun Pan, and (iii) Mr. Chan Kwun Pan is deemed to be interested in the 466,000 Shares owned by Mr. Chan Kwun Fung.

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

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

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executives of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' Interests and Short Positions in Shares and underlying Shares and Debentures of the Company or any of its Associated Corporations" in this Annual Report, at no time during the year ended 31 December 2018 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate, or had exercised any such right.

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

As of 31 December 2018, the persons other than the Directors, whose interests have been disclosed in the above section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations", had an interest or short position in the Shares and underlying Shares 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 *(Note 1)*	Beneficial owner	470,202,263	47.02%
Prosperity Worldwide Investment Holdings Limited *(Note 2)*	Beneficial owner	93,849,653	9.38%
NCHA Holdings Limited *(Note 3)*	Beneficial owner	62,844,370	6.28%

Notes:

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

Save as disclosed herein, as at 31 December 2018, no person, other than the Directors whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporation" above, had any interests or short positions in the Shares or underlying Shares 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 2018, the Company repurchased 11,469,000 of its Shares on the Stock Exchange at an aggregate consideration of approximately HK$16,420,000 (before expenses), details of the repurchase are summarised as follows:

Month	Number of Shares repurchased	Price per Share Highest HK$	Lowest HK$	Aggregate consideration paid (before expenses) HK$'000
September 2018	4,444,000	1.75	1.37	6,853
October 2018	3,516,000	1.42	1.28	4,733
November 2018	1,763,000	1.48	1.37	2,515
December 2018	1,746,000	1.38	1.28	2,319
	11,469,000			16,420

The repurchased Shares were cancelled subsequently in January and February 2019 and were recognised as treasury shares as at 31 December 2018.

The repurchase of the Company's Shares were effected by the directors, pursuant to the mandate from Shareholders received at the annual general meeting on 24 May 2018, with a view to benefiting Shareholders as a whole by enhancing the net assets value per share and earnings per share of the Group.

Saved as disclosed above, during the year ended 31 December 2018, neither the Company nor any of its subsidiaries had 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 2018, 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, Triera 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 undertaking 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 2018. 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.

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.

    On 30 August 2018, MDLCL renew MDLCL Tenancy Agreement with Most Wealth International Limited for a term of twenty eight months from 1 September 2018 to 31 December 2020 at a monthly rent of HK$324,000. For details, please refer to the announcement of the Company dated 30 August 2018.

(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.

(xvii) For the purposes of residential use, on 30 August 2018, MDLSZ, a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "**Residential Tenancy Agreements I**") with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan, executive directors and substantial shareholders of the Company. Pursuant to the Residential Tenancy Agreements I, Mr. Chan Kwun Fung and Mr. Chan Kwun Pan shall lease premises to MDLSZ for a term of two years from 1 January 2019 to 31 December 2020 at a monthly rent of RMB91,764. For details, please refer to the announcement of the Company dated 30 August 2018.

(xviii) For the purposes of residential use, on 30 August 2018, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreements II**") with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan, executive directors and substantial shareholders of the Company, and Landlord C. Pursuant to the Residential Tenancy Agreements II, 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 2019 to 31 December 2020 at a monthly rent of RMB194,148. For details, please refer to the announcement of the Company dated 30 August 2018.

(xix) For the purposes of residential use, on 30 August 2018, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement III**") with Landlord B. Pursuant to the Residential Tenancy Agreement III, Landlord B shall lease premises to MDLSZ for a term of two years from 1 January 2019 to 31 December 2020 at a monthly rent of RMB14,016. For details, please refer to the announcement of the Company dated 30 August 2018.

(xx) For the purposes of residential use, on 30 August 2018, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement IV**") with Landlord C. Pursuant to the Residential Tenancy Agreement IV, Landlord C shall lease premises to MDLSZ for a term of two years from 1 January 2019 to 31 December 2020 at a monthly rent of RMB10,512. For details, please refer to the announcement of the Company dated 30 August 2018.

(xxi) For the purposes of residential use, on 30 August 2018, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement V**") with Landlord A. Pursuant to the Residential Tenancy Agreement V, Landlord A shall lease premises to MDLSZ for a term of two years from 1 January 2019 to 31 December 2020 at a monthly rent of RMB31,536. For details, please refer to the announcement of the Company dated 30 August 2018.

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. On 1 January 2018, 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 2018 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) to the consolidated financial statements 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 2018.

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 the findings and 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 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 PERIOD

The Company repurchased 11,469,000 of its Shares on the Stock Exchange during the year ended 31 December 2018. These Shares were subsequently cancelled in January and February 2019. Moreover, subsequent to the end of the reporting period, the Company repurchased and cancelled 1,785,000 of its Shares on the Stock Exchange at an aggregate consideration of approximately HK$2,360,000 (before expenses).

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 2018.

DEBENTURE ISSUED

The Group has not issued any debenture during the year ended 31 December 2018.

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 2018 and an indication of likely development of the Group are set out on pages 4 to 21 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.

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 2018 amounted to approximately HK$787,000. Part of the Donations, which amounted to approximately HK$155,000, was made by donating free dental products to charitable organisations*(Note)*.

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,
28 March 2019

CORPORATE GOVERNANCE REPORT

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 Listing Rules.

The Board is of the view that throughout the year ended 31 December 2018, (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.

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)
Executive Directors:	
Mr. Chan Kwun Fung *(Chairman)*	—
Mr. Chan Kwun Pan *(Vice-Chairman)*	—
Mr. Ngai Shing Kin *(Chief Executive Officer)*	Member of Remuneration Committee
Mr. Ngai Chi Ho Alwin *(Chief Operating Officer)*	Member of Nomination Committee
Mr. Chan Chi Yuen	—
Dr. Chan Ronald Yik Long	Member of Nomination Committee
Ms. Chan Yik Yu *(Chief Marketing Officer)*	Member of Remuneration Committee
Independent Non-executive Directors:	
Dr. Cheung Wai Bun Charles J.P.	Chairman of Audit Committee Member of Remuneration Committee Member of Nomination Committee
Dr. Chan Yue Kwong Michael	Chairman of Nomination Committee Member of Audit Committee
Dr. Wong Ho Ching	Chairman of Remuneration Committee Member of Audit Committee
Dr. Cheung Wai Man William	Member of Remuneration Committee 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 22 to 32 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, Accountabilities and Contributions of the Board and Management

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.

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** *Note*
Executive Directors	
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	A and B
Chan Yik Yu	B
Independent Non-executive Directors	
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 three meetings to review, in respect of the year ended 31 December 2018, 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 2018 is set out below:

Remuneration	Number of person
HK$2,000,001 to HK$2,500,000	1
HK$3,000,001 to HK$3,500,000	1
HK$5,000,001 to HK$5,500,000	1
HK$6,000,001 to HK$6,500,000	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 2018 are set out in details in Notes 9 and 10 to the audited consolidated financial statements contained in this Annual Report, respectively.

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.

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 reviewing and 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 The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend to the Board for adoption.

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.

Board Diversity Policy

The Company recognizes and embraces the benefits of diversity in the boardroom and is committed to enhancing equality of opportunity in all aspects of its business. The Board Diversity Policy are summarized as follows:

The Company endeavours to ensure that its Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective.

The Company endeavours to identify and implement programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees and that, over time, will prepare them for senior management and/or board positions.

Selection of candidates for Board appointments will be based on merit and candidates will be considered against a range of objective criteria, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge, with due regard for the benefits of diversity on the Board.

The Nomination Committee shall identify suitably qualified candidates to become members of the Board and, in carrying out this responsibility, will give adequate consideration to the Board Diversity Policy.

The Company will disclose details of the Board Diversity Policy, and the measurable objectives, if any, in the Corporate Governance Report which forms part of the Annual Report of the Company.

The Board will review the Board Diversity Policy on a regular basis to ensure its continued effectiveness.

The Company will assess annually on diversity profile including gender balance of the Directors and senior management and their direct reports, and the progress in achieving the diversity objectives.

Director Nomination Policy

1. The Board has adopted the Director Nomination Policy setting out (i) the criteria in evaluating and selecting candidates for directorships and (ii) the nomination process.

2. In evaluating and selecting any candidate for directorship, the following criteria should be considered:

   - Character and integrity.

   - Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy.

   - Willingness to devote adequate time to discharge duties as a director, other directorships and significant commitments.

   - Independency.

   - Any measurable objectives adopted for achieving diversity on the Board.

   - Such other perspectives that are appropriate to the Company's business, succession plan, etc.

3. In identifying and selecting suitable candidates for directorships, the Nomination Committee will evaluate the candidates based on the prescribed criteria, rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable) and recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

4. For re-election of retiring director, the Nomination Committee will review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board, determine whether the retiring director continues to meet the prescribed criteria and make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

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 2018 is set out in the table below:

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

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 2018.

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.

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 2018.

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 2018. 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' RESPONSIBILTY 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 2018.

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 65 to 70 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 2018 is set out below:

Service Category	Fees Paid/Payable HK$
Audit Services	7,277,000
Non-audit Services	2,395,000
	9,672,000

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.

Contact Details

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

Address:	Room 01-07, 09-16, 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

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.

The Company has in place a Shareholders' Communication Policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

Pursuant to Code provision E.1.5 of the CG Code, the Company has adopted a dividend policy as set forth below:

- Following completion of the Global Offering, we may distribute dividends by way of cash or by other means that our Directors consider appropriate. A decision to distribute any interim dividend or recommend any final dividend would require the approval of our Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. Our Board will review our Company's dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

  – our financial results;

  – Shareholders' interests;

  – general business conditions, strategies and future expansion needs;

  – the Group's capital requirements;

  – the payment by its subsidiaries of cash dividends to the Company;

  – possible effects on liquidity and financial position of the Group;

  – other factors the Board may deem relevant.

- Our Directors may declare dividends after taking into account, among other things, our results of operations, financial condition and position, the amount of distributable profits, our Memorandum and Articles of Association, the Companies Law, applicable laws and regulations and other factors that our Directors deem relevant. Prospective investors should note that historical dividend distributions are not indicative of our future dividend distribution policy.

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 2018.

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
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1 Tim Mei Avenue
Central, Hong Kong

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香港中環添美道1號
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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 71 to 162, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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.

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
Goodwill and intangible assets impairment review	
As at 31 December 2018, the Group recorded goodwill and intangible assets of HK$1,329.5 million and HK$330.6 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. 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.	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. We considered the adequacy of the Group's disclosure about the key assumptions involved in arriving at the recoverable amount.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Trade receivables	
As at 31 December 2018, the Group had trade receivables of HK$406.1 million and allowance for impairment of HK$25.7 million. During the year, due to the adoption of a new accounting standard, a change in accounting policy on impairment assessment of trade receivables was noted. The new accounting policy for impairment assessment of trade receivables has been detailed in note 3 to the consolidated financial statements. Management used a provision matrix to calculate expected credit losses ("ECLs") for trade receivables. The matrix is initially based on the Group's historical default rates, and specific factors that management considered in the estimation of the rates including the type of customers, ageing of the balances and recent historical payment patterns. Management then calibrated the matrix to adjust the historical credit loss experience with forward-looking information, such as forecasted economic conditions. We focused on this area because it requires a high level of management's judgement and due to the materiality of the amounts involved. The significant accounting judgements and estimates and disclosures for trade receivables are included in notes 4 and 20 to the consolidated financial statements.	We tested the controls over the Group's collection procedures and the Group's estimation of expected credit losses. We evaluated the appropriateness of the allowance of doubtful debts recognised taking into account the historical cash collection trend, subsequent settlements, ageing analysis of the trade receivables and evaluated whether the historical loss rates are appropriately adjusted based on current local economic environment and forward-looking information, and considered the adequacy of the Group's disclosure about the degree of estimation involved in arriving at the allowance amount.

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.

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 HKSAs 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 HKSAs, 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.

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

28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	6	**2,315,467**	2,181,292
Cost of sales		**(1,236,131)**	(1,119,780)
Gross profit		**1,079,336**	1,061,512
Other income and gains	6	**11,344**	23,912
Selling and distribution expenses		**(275,142)**	(265,926)
Administrative expenses		**(630,558)**	(586,525)
Other operating expenses		**(12,533)**	(1,582)
Finance costs	8	**(51,516)**	(28,582)
Share of losses of associates		**(1,929)**	(1,288)
PROFIT BEFORE TAX	7	**119,002**	201,521
Income tax expense	11	**(35,762)**	(44,158)
PROFIT FOR THE YEAR		**83,240**	157,363
ATTRIBUTABLE TO:			
Owners of the Company		**85,391**	155,371
Non-controlling interests		**(2,151)**	1,992
		83,240	157,363
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	13	**HK8.6 cents**	HK15.6 cents
Diluted	13	**HK8.6 cents**	HK15.6 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
PROFIT FOR THE YEAR	**83,240**	157,363
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(110,681)**	155,284
Other comprehensive income/(loss) for the year, net of tax	**(110,681)**	155,284
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(27,441)**	312,647
ATTRIBUTABLE TO:		
Owners of the Company	**(25,202)**	310,542
Non-controlling interests	**(2,239)**	2,105
	(27,441)	312,647

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	433,810	326,703
Prepaid land lease payments	15	11,817	12,652
Goodwill	16	1,329,523	1,389,250
Intangible assets	17	330,561	384,046
Investments in associates	18	8,396	10,325
Deferred tax assets	27	10,814	9,090
Long term prepayments and deposits	21	21,771	60,653
Total non-current assets		2,146,692	2,192,719
CURRENT ASSETS			
Inventories	19	110,906	81,861
Trade receivables	20	380,443	413,682
Prepayments, deposits and other receivables	21	58,294	59,858
Due from an associate	18	55	274
Current tax assets		17,796	10,709
Pledged deposits	22	11,482	12,467
Cash and cash equivalents	22	380,393	368,660
Total current assets		959,369	947,511
CURRENT LIABILITIES			
Trade payables	23	64,319	57,195
Other payables and accruals	24	170,440	179,947
Interest-bearing bank and other borrowings	25	30,171	270,360
Tax payable		40,152	43,477
Total current liabilities		305,082	550,979
NET CURRENT ASSETS		654,287	396,532
TOTAL ASSETS LESS CURRENT LIABILITIES		2,800,979	2,589,251

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		2,800,979	2,589,251
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	779,072	447,098
Deferred tax liabilities	27	18,774	23,379
Other non-current liabilities	24	10,931	13,781
Total non-current liabilities		808,777	484,258
Net assets		1,992,202	2,104,993
EQUITY			
Equity attributable to owners of the Company			
Share capital	28	77,500	77,500
Treasury shares	28	(16,459)	(39)
Reserves	30	1,935,203	2,020,029
		1,996,244	2,097,490
Non-controlling interests		(4,042)	7,503
Total equity		1,992,202	2,104,993

NGAI Shing Kin
Director

CHAN Kwun Fung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital HK$'000 (note 28)	Share premium HK$'000 (note 28)	Treasury shares HK$'000 (note 28)	Statutory reserve HK$'000 (note 30 (i))	Capital reserve HK$'000 (notes 29, 30 (ii))	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	77,500	740,246	(304)	6,033	587,144	(243,158)	648,278	1,815,739	6,491	1,822,230
Profit for the year	–	–	–	–	–	–	155,371	155,371	1,992	157,363
Other comprehensive income for the year:										
Exchange differences on translation of 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	–	(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#	(39)	8,967#	575,265#	(87,987)#	800,715#	2,097,490	7,503	2,104,993

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the Company									
	Share capital HK$'000 (note 28)	Share premium HK$'000 (note 28)	Treasury shares HK$'000 (note 28)	Statutory reserve HK$'000 (note 30 (i))	Capital reserve HK$'000 (note 30 (ii))	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 31 December 2017	77,500	723,069	(39)	8,967	575,265	(87,987)	800,715	2,097,490	7,503	2,104,993
Effect of adoption of IFRS 9 (note 2.2)	–	–	–	–	–	(276)	(7,415)	(7,691)	–	(7,691)
At 1 January 2018 (restated)	77,500	723,069	(39)	8,967	575,265	(88,263)	793,300	2,089,799	7,503	2,097,302
Profit for the year	–	–	–	–	–	–	85,391	85,391	(2,151)	83,240
Other comprehensive loss for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	(110,593)	–	(110,593)	(88)	(110,681)
Total comprehensive income/(loss) for the year	–	–	–	–	–	(110,593)	85,391	(25,202)	(2,239)	(27,441)
Transfer from retained profits	–	–	–	3,755	–	–	(3,755)	–	–	–
2017 final dividend (note 12)	–	(21,000)	–	–	–	–	–	(21,000)	–	(21,000)
2018 interim dividend (note 12)	–	(19,000)	–	–	–	–	–	(19,000)	–	(19,000)
Shares repurchased but not yet cancelled (note 28(b))	–	–	(16,420)	–	–	–	–	(16,420)	–	(16,420)
Capital contribution by non-controlling shareholders	–	–	–	–	–	–	–	–	169	169
Acquisition of non-controlling interests	–	–	–	–	(11,933)	–	–	(11,933)	(8,658)	(20,591)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(817)	(817)
At 31 December 2018	77,500	683,069#	(16,459)	12,722#	563,332#	(198,856)#	874,936#	1,996,244	(4,042)	1,992,202

These reserve accounts comprise the consolidated reserves of HK$1,935,203,000 (2017: HK$2,020,029,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		119,002	201,521
Adjustments for:			
Finance costs	8	51,516	28,582
Bank interest income	6	(547)	(443)
Loss/(gain) on disposal of items of property, plant and equipment, net	7	156	(95)
Write-off of intangible assets	7	86	—
Remeasurement (gain)/loss on contingent consideration	7	(773)	1,096
Write-back of consideration payable	7	—	(3,610)
Write-off of property, plant and equipment	7	430	895
Depreciation and amortisation	7	95,216	90,003
Amortisation of prepaid land lease payments	7	262	256
Share of losses of associates		1,929	1,288
Equity-settled Pre-IPO RSUs expense	29	—	5,209
		267,277	324,702
Increase in inventories		(33,194)	(2,556)
Decrease/(increase) in trade receivables		10,333	(32,194)
Increase in prepayments, deposits and other receivables		(4,052)	(26,224)
Decrease/(increase) in an amount due from a related party		6	(90)
Decrease/(increase) in an amount due from an associate		219	(274)
Increase/(decrease) in trade payables		8,899	(20,005)
Increase in other payables and accruals		8,287	6,358
(Decrease)/increase in amounts due to related parties		(468)	1,002
Cash generated from operations		257,307	250,719
Interest received		547	443
Income tax paid		(52,961)	(56,489)
Net cash flows from operating activities		204,893	194,673

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and other intangible assets	32(a)	**(140,679)**	(191,360)
Proceeds from disposal of items of property, plant and equipment		**1,696**	1,506
Net cash inflow from acquisition of subsidiaries	31	**—**	1,563
Prepayment for purchase of items of property, plant and equipment		**(1,046)**	(2,347)
Settlement of contingent consideration	38	**(3,558)**	(775)
Capital contribution for investments in associates		**—**	(11,613)
Decrease/(increase) in pledged deposits		**985**	(8,741)
Net cash flows used in investing activities		**(142,602)**	(211,767)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings	32(b)	**805,006**	206,895
Repayment of bank loans and other borrowings	32(b)	**(742,513)**	(118,602)
Dividend paid		**(40,000)**	(34,000)
Dividend paid to non-controlling shareholders		**(817)**	(1,329)
Interest paid		**(23,962)**	(25,139)
Capital contribution by non-controlling shareholders		**169**	236
Repurchase of shares		**(16,420)**	—
Acquisition of non-controlling interests		**(20,591)**	—
Net cash flows (used in)/from financing activities		**(39,128)**	28,061
NET INCREASE IN CASH AND CASH EQUIVALENTS		**23,163**	10,967
Effect of foreign exchange rate changes, net		**(11,430)**	20,689
Cash and cash equivalents at beginning of year		**368,660**	337,004
CASH AND CASH EQUIVALENTS AT END OF YEAR		**380,393**	368,660
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**380,098**	348,015
Non-pledged time deposits with original maturity of less than three months when acquired	22	**295**	20,645
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows	22	**380,393**	368,660

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION

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

The 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 Triera 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 1 August 2012	US$50,000	100%	—	Investment holding
Modern Dental Laboratory Company Limited#	Hong Kong 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.*#	PRC/Mainland China 20 July 1998	US$11,190,000	—	100%	Manufacture and trading of dental prosthetic devices
Modern Dental Laboratory (Shenzhen) Company Limited*#	PRC/Mainland China 17 May 2012	RMB40,000,000	—	100%	Manufacture of dental prosthetic devices
Modern Dental International (Macao Commercial Offshore) Limited#	Macau 12 August 2012	MOP100,000	—	100%	Trading of dental prosthetic devices to overseas markets
Modern Dental and Medical Instruments (DongGuan) Company Limited*#	PRC/Mainland China 12 August 2015	RMB75,000,000	—	100%	Manufacture and trading of dental prosthetic devices

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 Direct	Indirect	Principal activities
Modern Dental Laboratory USA, LLC#	United States 17 August 2009	US$3,728,570	—	100%	Manufacture and trading of dental prosthetic devices in the United States markets and managing five service centers located at Seattle, Georgia, Boston, Chicago and Wilmington, and a digital centre in Troy, the United States
Quantum Dental Laboratory Inc.#	Canada 1 July 2013	CAD100	—	100%	Manufacture and trading of dental prosthetic devices
Permadental GmbH#	Germany 2 March 2010	EUR25,000	—	100%	Trading of dental prosthetic devices
Elysee Dental Belgium BVBA #	Belgium 9 June 2008	EUR18,550	—	100%	Manufacture of facilities and trading of dental prosthetic devices
Elysee Dental Solutions B.V. #	The Netherlands 10 October 2001	EUR18,000	—	100%	Manufacture of facilities and trading of dental prosthetic devices
Elysee Dental ApS #	Denmark 4 March 2004	DKK125,000	—	100%	Manufacture of facilities and trading of dental prosthetic devices
Labocast SAS	France 31 December 1986	EUR 100,000	—	100%	Trading of dental prosthetic devices

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	
Labo Ocean Indien SA#	Madagascar 17 May 1996	MGA10,000,000	—	100%	Manufacture and trading of dental prosthetic devices
Pavona Pty Limited	Australia 20 January 1984	AUD2	—	100%	Trading of dental prosthetic devices
Southern Cross Dental Laboratories (NZ) Limited	New Zealand 20 April 2012	NZD1,080,010	—	100%	Trading of dental prosthetic devices
MicroDental Laboratories, Inc. (formerly known as RTFP Dental Inc.) #	United States 6 May 2016	US$0.1	—	100%	Manufacture and trading of dental prosthetic devices
MicroDental Holdings, Inc. #	United States 24 May 2016	US$0.01	—	100%	Trading of dental prosthetic devices
Schmidt Dentalkeramik ApS	Denmark 1 July 1987	DKK 299	—	100%	Trading of dental prosthetic devices
CDI Dental AB#	Sweden 12 September 2005	SEK 500	—	100%	Trading of dental prosthetic devices
CDI Supply AB#	Sweden 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 & Young, Hong Kong or another member firm of the Ernst & Young global network.

During the year ended 31 December 2017, 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.

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 had 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 2018. 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfer of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

Other than as explained below regarding the impact of IFRS 9 and IFRS 15 and its amendments, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

IFRS 9

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the consolidated statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 measurement				IFRS 9 measurement	
	Category	Amount HK$'000	ECL HK$'000	Other HK$'000	Amount HK$'000	Category
Financial assets						
Trade receivables	L&R[1]	413,682	(7,868)	—	405,814	AC[2]
Financial assets included in deposits and other receivables	L&R	56,278	—	—	56,278	AC
Due from a related party	L&R	103	—	—	103	AC
Due from an associate	L&R	274	—	—	274	AC
Pledged deposits	L&R	12,467	—	—	12,467	AC
Cash and cash equivalents	L&R	368,660	—	—	368,660	AC
		851,464	(7,868)	—	843,596	
Other assets						
Deferred tax assets		9,090	—	177	9,267	

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 9 (continued)

Classification and measurement (continued)

There is no impact on the Group's accounting for financial liabilities. The Group's financial liabilities previously carried at amortised costs remained to be measured at amortised cost under IFRS 9.

1 L&R: Loans and receivables
2 AC: Financial assets at amortised cost

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9. Further details are disclosed in note 20 to the financial statements.

	Impairment allowances under IAS 39 at 31 December 2017 HK$'000	Remeasurement HK$'000	ECL allowances under IFRS 9 at 1 January 2018 HK$'000
Trade receivables	18,577	7,868	26,445

Impact on reserve and retained profits

The impact of transition to IFRS 9 on reserves and retained profits is as follows:

	Exchange reserve HK$'000	Retained profits HK$'000
Balance as at 31 December 2017 under IAS 39	(87,987)	800,715
Recognition of expected credit losses for trade receivables under IFRS 9	(282)	(7,586)
Deferred tax in relation to the above	6	171
Balance as at 1 January 2018 under IFRS 9	(88,263)	793,300

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

IFRS 15 and its amendments

IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 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. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 3 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. The comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised deposit received from customers as other payables. Under IFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

The application of IFRS 15 has had no impact on the financial position or performance of the Group, except for the reclassification of deposit received from customers as other payables to contract liabilities.

Accordingly, upon the adoption of IFRS 15, the Group reclassified HK$2,320,000 from other payables to contract liabilities as at 1 January 2018 in relation to the deposit received from customers as at 1 January 2018.

As at 31 December 2018, had the Group not applied IFRS 15, contract liabilities of HK$4,236,000 in relation to the deposit received from customers for the sale of goods would have been included in other payables.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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 January 2016 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.

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

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease,* SIC 15 *Operating Leases - Incentives and* SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to 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 IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. As disclosed in note 34 to the financial statements, at 31 December 2018, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$176,645,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. The Group is currently assessing the impact of IFRS 16. Further analysis will be need to determine the amount of new right-of-use assets and lease liabilities to be recognised, including, but not limited to, incremental borrowing rate to be applied for different leases.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

IFRIC 23 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

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.

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 IFRS 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

Fair value measurement

The Group measures its contingent consideration 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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);
- (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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Business Licence

Purchased business licence is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

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 (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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 (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group may consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, 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 and payables, net of directly attributable transaction costs.

The Group's financial liabilities include interest-bearing bank and other borrowings, trade payables, other payables and accruals and amount due to related parties.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss (policies under IFRS 9 applicable from 1 January 2018)

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 incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. 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 initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Financial liabilities at fair value through profit or loss (policies under IAS 39 applicable before 1 January 2018)

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.

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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.

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.

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.

The Group provides for warranties in relation to the sale of certain products for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group 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.

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.

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 (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Other income

Interest income is recognised 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable before 1 January 2018)

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; and

(b) 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.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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 ("e**quity-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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined contribution superannuation expense

The employees of the Group's subsidiaries which operate in Australia are required to 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.

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. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of 3.6% has been applied to the expenditure on the individual assets.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 2018 was HK$1,329,523,000 (2017: HK$1,389,250,000). 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.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geographical region and customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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.

(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.

5. OPERATING SEGMENT INFORMATION (continued)

	2018			2017		
	Revenue HK$'000	Cost of sales HK$'000	Gross profit HK$'000	Revenue HK$'000	Cost of sales HK$'000	Gross profit HK$'000
Fixed prosthetic devices	1,664,457	883,531	780,926	1,575,585	808,607	766,978
Removable prosthetic devices	451,304	241,101	210,203	417,000	216,354	200,646
Others	199,706	111,499	88,207	188,707	94,819	93,888
Total	2,315,467	1,236,131	1,079,336	2,181,292	1,119,780	1,061,512

Geographical information

(a) Revenue from external customers

	2018 HK$'000	2017 HK$'000
Europe	924,601	843,598
North America	688,431	687,293
Greater China	466,956	421,365
Australia	221,615	214,556
Others	13,864	14,480
	2,315,467	2,181,292

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.

5. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	2018 HK$'000	2017 HK$'000
Europe	739,342	786,535
North America	630,329	627,253
Greater China	266,722	211,480
Australia	426,460	484,947
Others	73,025	73,414
	2,135,878	2,183,629

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:

	2018 HK$'000	2017 HK$'000
Revenue		
Sale of goods transferred at a point in time	2,315,467	2,181,292
Other income		
Bank interest income	547	443
Government subsidies*	5,545	3,032
Others	5,252	5,357
	11,344	8,832
Gains		
Foreign exchange gains, net	—	14,985
Gain on disposal of items of property, plant and equipment, net	—	95
	—	15,080
Other income and gains	11,344	23,912

* 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.

6. REVENUE, OTHER INCOME AND GAINS (continued)

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period:

	2018 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods	2,320

7. PROFIT BEFORE TAX

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

	Notes	2018 HK$'000	2017 HK$'000
Cost of inventories sold#		1,236,131	1,119,780
Depreciation	14	57,439	53,183
Amortisation of intangible assets	17	37,777	36,820
Minimum lease payments under operating leases		64,109	65,259
Amortisation of prepaid land lease payments	15	262	256
Research and development costs##		13,761	—
Auditors' remuneration		9,880	12,129
Employee benefit expense (excluding directors' and chief executive's remuneration (note 9)):			
Wages and salaries		1,007,272	885,616
Pension scheme contributions		140,310	133,736
Equity-settled Pre-IPO RSUs expense		—	2,667
		1,147,582	1,022,019
Bank interest income		(547)	(443)
Loss/(gain) on disposal of items of property, plant and equipment, net**		156	(95)
Write-off of intangible assets*		86	—
Remeasurement (gain)/loss on contingent consideration*	38	(773)	1,096
Write-back of consideration payable*		—	(3,610)
Write-off of property, plant and equipment*	14	430	895
Allowance for impairment of trade and other receivables, net	20,21	886	811
Foreign exchange loss/(gain), net**		12,283	(14,985)

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

** Loss on disposal of items of property, plant and equipment, net, and foreign exchange loss, net, are included in "other operating expenses" in the consolidated statement of profit or loss. Gain on disposal of items of property, plant and equipment, net, and foreign exchange gain, net, are included in "other income and gains" in the consolidated statement of profit or loss.

Cost of inventories sold includes HK$762,116,000 (2017: HK$669,391,000) 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.

Research and development costs includes HK$12,717,000 (2017: Nil) 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.

8. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bank loans, overdrafts and other loans	**23,925**	24,976
Less: amount capitalised on qualifying assets	**(1,828)**	(2,995)
	22,097	21,981
Write-off of capitalised finance charges upon re-financing of bank loans	**12,333**	—
Foreign exchange loss incurred upon re-financing of bank loans	**13,130**	—
Finance charges on bank loans	**3,919**	6,438
Interest on finance leases	**37**	163
	51,516	28,582

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:

	2018 HK$'000	2017 HK$'000
Fees	**980**	940
Other emoluments:		
Salaries, allowances and benefits in kind	**14,972**	12,366
Equity-settled Pre-IPO RSUs expense	**—**	2,542
Pension scheme contributions	**72**	72
	15,044	14,980
	16,024	15,920

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 had 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 prior year was included in the above directors' and chief executive's remuneration disclosures.

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:

	2018 HK$'000	2017 HK$'000
Mr. Cheung Wai Man, William	245	235
Mr. Cheung Wai Bun, Charles J.P.	245	235
Mr. Wong Ho Ching	245	235
Mr. Chan Yue Kwong, Michael	245	235
	980	940

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

(b) Executive directors and the chief executive

	Salaries, allowances and benefits in kind HK$'000	Equity-settled Pre-IPO RSUs expense HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2018				
Executive directors:				
Mr. Chan Kwun Fung	2,124	—	—	2,124
Mr. Chan Kwun Pan	2,124	—	—	2,124
Mr. Ngai Shing Kin	4,214	—	—	4,214
Mr. Chan Chi Yuen	1,352	—	18	1,370
Mr. Chan Ronald Yik Long	1,352	—	18	1,370
Ms. Chan Yik Yu	1,352	—	18	1,370
Mr. Ngai Chi Ho Alwin	2,454	—	18	2,472
	14,972	—	72	15,044

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

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

	Salaries, allowances and benefits in kind HK$'000	Equity-settled Pre-IPO RSUs expense HK$'000	Pension scheme contributions HK$'000	Total HK$'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

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 one (2017: two) director (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 four (2017: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	**12,218**	8,158
Performance related bonuses	**5,005**	2,710
Pension scheme contributions	**2,641**	1,697
	19,864	12,565

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:

	2018	2017
HK$3,000,001 to HK$3,500,000	1	—
HK$3,500,001 to HK$4,000,000	—	1
HK$4,000,001 to HK$4,500,000	—	1
HK$4,500,001 to HK$5,000,000	—	1
HK$5,000,001 to HK$5,500,000	2	—
HK$6,000,001 to HK$6,500,000	1	—
	4	3

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% (2017: 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 were subject to Corporate Income Tax ("**CIT**") at the rate of 25% on the taxable income for the years ended 31 December 2018 and 2017.

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 flat rate of 21% (2017: 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, 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 profits at the prevailing rates in the jurisdictions in which they operate.

11. INCOME TAX EXPENSE (continued)

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.

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

	2018 HK$'000	2017 HK$'000
Current	42,549	53,088
Deferred (note 27)	(6,787)	(8,930)
Total tax charge for the year	35,762	44,158

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:

	2018		2017	
	HK$'000	%	HK$'000	%
Profit before tax	119,002		201,521	
Tax at the statutory tax rates	29,288	24.6	33,630	16.7
Adjustment in respect of current tax of previous periods	(4,462)	(3.7)	1,469	0.7
Income not subject to tax	(3,775)	(3.2)	(2,224)	(1.1)
Expenses not deductible for tax	6,771	5.7	9,592	4.8
Tax losses not recognised	8,515	7.2	1,484	0.7
Tax effect of utilisation of tax losses not previously recognised	(447)	(0.4)	—	—
Others	(128)	(0.1)	207	0.1
Tax charge at the Group's effective rate	35,762	30.1	44,158	21.9

12. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Interim – HK1.9 cents (2017: HK2.5 cents) per ordinary share	19,000	25,000
Proposed final – HK1.4 cents (2017: HK2.1 cents) per ordinary share	14,000	21,000

The interim dividend of HK$19,000,000 has been paid on 8 October 2018.

On 28 March 2019, the Board recommended a final dividend of HK1.4 cents per ordinary share for the year ended 31 December 2018. The proposed final dividend for the year ended 31 December 2018 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 997,150,640 (2017: 996,234,160) 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:

	2018 HK$'000	2017 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	85,391	155,371

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

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the years used in the basic earnings per share calculation	**997,150,640**	996,234,160
Effect of dilution – weighted average number of ordinary shares:		
Pre-IPO RSU Scheme*	**—**	2,286,048
	997,150,640	998,520,208

* The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2018.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2018							
At 1 January 2018:							
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
At 1 January 2018, net of accumulated depreciation	86,157	36,613	27,536	70,948	5,151	100,298	326,703
Additions	48,767	29,519	11,900	25,442	3,575	62,028	181,231
Disposals	—	(261)	(311)	(788)	(489)	(3)	(1,852)
Transfer from CIP	—	52,349	—	148	—	(52,497)	—
Write-off	—	—	(6)	(424)	—	—	(430)
Depreciation provided during the year	(3,865)	(15,214)	(8,425)	(27,668)	(2,267)	—	(57,439)
Exchange realignment	(3,852)	(2,006)	(1,462)	(2,248)	(371)	(4,464)	(14,403)
At 31 December 2018, net of accumulated depreciation	127,207	101,000	29,232	65,410	5,599	105,362	433,810
At 31 December 2018:							
Cost	156,920	138,024	77,745	194,836	13,991	105,362	686,878
Accumulated depreciation	(29,713)	(37,024)	(48,513)	(129,426)	(8,392)	—	(253,068)
Net carrying amount	127,207	101,000	29,232	65,410	5,599	105,362	433,810

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2017							
At 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

At 31 December 2018, the net carrying amount of the Group's fixed assets held under finance leases included in the total amount of furniture and fixtures was HK$1,183,000 (2017: HK$1,212,000).

At 31 December 2018, none of the Group's equipment was pledged to secure general banking facilities granted to the Group (2017: equipments of HK$8,354,000 were pledged) (note 25).

15. PREPAID LAND LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	**12,917**	12,319
Recognised during the year (note 7)	**(262)**	(256)
Exchange realignment	**(585)**	854
Carrying amount at 31 December	**12,070**	12,917
Current portion included in prepayments, deposits and other receivables (note 21)	**(253)**	(265)
Non-current portion	**11,817**	12,652

16. GOODWILL

	HK$'000
At 1 January 2017:	
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
Cost at 1 January 2018, net of accumulated impairment	**1,389,250**
Exchange realignment	**(59,727)**
At 31 December 2018	**1,329,523**
At 31 December 2018:	
Cost	**1,339,100**
Accumulated impairment	**(9,577)**
Net carrying amount	**1,329,523**

16. GOODWILL (continued)

Impairment testing of goodwill

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

	2018 HK$'000	2017 HK$'000
Labocast SAS and Labo Ocean Indien SA	**60,988**	63,714
Quantum Dental Laboratory Inc.	**10,558**	11,449
Permadental Holding B.V.	**263,559**	275,340
Elysee Dental Holding B.V.	**203,865**	212,977
Modern Dental Pacific Holdings Pty Limited (formerly known as SCDL Holdings Pty Limited)	**310,661**	343,825
Dentrade Group*	**18,235**	18,343
MicroDental and Modern US**	**415,692**	415,692
Schmidt Dentalkeramik ApS.	**7,964**	8,320
CDI Dental AB & CDI Supply AB	**29,796**	31,128
Others***	**8,205**	8,462
	1,329,523	1,389,250

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:

		2018	2017
Labocast SAS and Labo Ocean Indien SA	discount rates	**22% - 33%**	19% - 29%
	growth rates	**2% - 6%**	2% - 5%
Quantum Dental Laboratory Inc.	discount rates	**19%**	19%
	growth rates	**2%**	2%
Permadental Holding B.V.	discount rates	**19%**	17%
	growth rates	**2%**	2%
Elysee Dental Holding B.V.	discount rates	**18%**	17%
	growth rates	**2%**	1%
Modern Dental Pacific Holdings Pty Limited	discount rates	**21%**	18%
(formerly known as SCDL Holdings Pty Limited)	growth rates	**3%**	3%
Dentrade Group*	discount rates	**11%**	13%
	growth rates	**2% - 3%**	2% - 3%
MicroDental and Modern US**	discount rates	**18%**	20%
	growth rates	**2%**	2%
Schmidt Dentalkeramik ApS.	discount rates	**16%**	16%
	growth rates	**2%**	2%
CDI Dental AB & CDI Supply AB	discount rates	**16%**	16%
	growth rates	**2%**	2%
Others***	discount rates	**13% - 19%**	13% - 19%
	growth rates	**2% - 3%**	2% - 3%

* Dentrade Group comprises Deradent Dental GmbH & Co KG and the business of Dentrade AS.

** Goodwill and intangible assets of MicroDental Laboratories, Inc. (formerly known as RTFP Dental Inc.), Sundance Dental Laboratory, LLC, and Modern Dental Laboratory USA, LLC have been aggregated and allocated to the CGU MicroDental and Modern US, following the restructuring of their businesses and the synergies in the selling and distribution networks.

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

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 2018 and 2017. 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 device 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 determined using the capital asset pricing model, which reflect 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 for the years ended 31 December 2018 and 2017.

17. INTANGIBLE ASSETS

31 December 2018	Customer relationship HK$'000	Software HK$'000	Trademark HK$'000	Non-compete agreement HK$'000	Business licence HK$'000	Total HK$'000
Cost at 1 January 2018, net of accumulated amortisation	172,772	1,542	208,678	1,054	—	384,046
Additions	—	706	—	—	1,480	2,186
Write-off	—	(86)	—	—	—	(86)
Amortisation provided during the year	(36,600)	(402)	—	(608)	(167)	(37,777)
Exchange realignment	(8,865)	(73)	(8,777)	—	(93)	(17,808)
Net carrying amount	127,307	1,687	199,901	446	1,220	330,561
At 31 December 2018:						
Cost	308,101	4,489	199,901	2,465	1,381	516,337
Accumulated amortisation	(180,794)	(2,802)	—	(2,019)	(161)	(185,776)
Net carrying amount	127,307	1,687	199,901	446	1,220	330,561

31 December 2017	Customer relationship HK$'000	Software HK$'000	Trademark HK$'000	Non-compete agreement HK$'000	Total HK$'000
Cost at 1 January 2017, 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

18. INVESTMENTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Share of net assets	**8,396**	10,325

The amount due from an associate included in the Group's current assets totaling HK$55,000 (2017: HK$274,000) is unsecured, interest-free and repayable on demand.

Particulars of the principal associate is as follows:

Company name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of Ownership interest	Voting power	Profit sharing	Principal activity
STM Digital Dentistry Holding Limited ("**STM Digital**")#	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 were classified as investments in associates.

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:

	2018 HK$'000	2017 HK$'000
Share of the associates' loss for the year	**(1,929)**	(1,288)
Aggregate carrying amount of the Group's investments in the associates	**8,396**	10,325

19. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw material	**94,963**	65,100
Work in progress	**13,266**	13,195
Finished goods	**2,677**	3,566
	110,906	81,861

20. TRADE RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**406,135**	432,259
Impairment	**(25,692)**	(18,577)
	380,443	413,682

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

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2018 HK$'000	2017 HK$'000
Within 1 month	**223,184**	230,243
1 to 2 months	**57,242**	68,439
2 to 3 months	**32,149**	31,311
3 months to 1 year	**54,400**	68,662
Over 1 year	**13,468**	15,027
	380,443	413,682

20. TRADE RECEIVABLES (continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	18,577	14,400
Effect of adoption of IFRS 9	7,868	—
At 1 January (restated)	26,445	14,400
Impairment losses, net (note 7)	450	4,021
Amount written off as uncollectible	(367)	(1,077)
Exchange realignment	(836)	1,233
At 31 December	25,692	18,577

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region and customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

		Past due				
	Current	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year past due	Total
Expected credit loss rate	0.37%	0.46%	2.62%	28.98%	63.09%	
Gross carrying amount (HK$'000)	250,988	50,154	60,694	14,647	29,652	406,135
Expected credit losses (HK$'000)	920	233	1,588	4,244	18,707	25,692

20. TRADE RECEIVABLES (continued)

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above loss allowance for impairment of trade receivables, which was measured based on incurred credit loss under IAS 39, was a provision for individually impaired trade receivables of HK$18,577,000 with a carrying amount before provision of HK$22,762,000 as at 31 December 2017. The individually impaired trade receivables as at 31 December 2017 relate to customers that were in financial difficulties and the receivables are expected to be unrecoverable.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 HK$'000
Neither past due nor impaired	261,196
Less than 1 month past due	69,679
1 to 3 months past due	45,667
3 months to 1 year past due	25,610
Over 1 year past due	7,345
	409,497

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 under IAS 39 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.

As at 31 December 2018, none of the Group's trade receivables were pledged to secure general banking facilities granted to the Group (2017: trade receivables of HK$94,060,000 were pledged) (note 25).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Current		
Prepayments	17,734	14,130
Prepaid land lease payments (note 15)	253	265
Deposits and other receivables	43,053	47,767
Due from a related party (note 36(3))	97	103
	61,137	62,265
Impairment allowance	(2,843)	(2,407)
	58,294	59,858
Non-current		
Prepayments	9,188	49,735
Deposits	12,583	10,918
	21,771	60,653

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

	2018 HK$'000	2017 HK$'000
At 1 January	2,407	5,617
Impairment losses recognised (note 7)	436	—
Impairment losses reversed (note 7)	—	(3,210)
At 31 December	2,843	2,407

Impairment under IFRS 9 for the year ended 31 December 2018

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate, and the expected credit loss is insignificant to the Group.

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of HK$2,407,000 with a carrying amount before provision of HK$5,617,000 as at 31 December 2017. 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.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 **HK$'000**	2017 HK$'000
Cash and bank balances	**380,098**	348,015
Time deposits	**11,777**	33,112
	391,875	381,127
Less: Pledged deposits for bank facilities	**(11,482)**	(12,467)
Cash and cash equivalents	**380,393**	368,660

As at 31 December 2018, the cash and bank balances of the Group denominated in Renminbi ("**RMB**") amounted to HK$151,760,000 (2017: HK$71,646,000). 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. At 31 December 2017, cash and cash equivalents of HK$114,722,000 was secured by way of floating charges for banking facilities granted to the Group (note 25).

23. TRADE PAYABLES

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

	2018 **HK$'000**	2017 HK$'000
Within 1 month	**35,890**	42,862
1 to 2 months	**21,334**	9,285
2 to 3 months	**5,047**	3,146
Over 3 months	**2,048**	1,902
	64,319	57,195

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

24. OTHER PAYABLES AND ACCRUALS

	Note	2018 HK$'000	2017 HK$'000
Current			
Deferred rent		**677**	629
Contingent consideration (note 38)		**—**	4,369
Deposits received from customers		**—**	2,320
Contract liabilities	(a)	**4,236**	—
Accruals		**144,076**	143,543
Other payables		**20,424**	27,591
Due to related parties (note 36(3))		**1,027**	1,495
		170,440	179,947
Other non-current liabilities			
Deferred rent		**10,719**	11,414
Other payables		**212**	2,367
		10,931	13,781

Notes:

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 HK$'000	1 January 2018 HK$'000
Short-term deposits received from customers		
Sale of goods	4,236	2,320

Contract liabilities represent short-term deposits received to deliver goods. The increase in contract liabilities in 2018 was mainly due to the increase in short-term deposits received from customers in relation to the sale of goods at the end of the year.

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

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective/ contractual interest rate (%)	Maturity	HK$'000	Effective/ contractual interest rate (%)	Maturity	HK$'000
Current						
Finance lease payables (note 26)	3.69 – 13.70	2019	489	4.53	2018	486
Bank loans – secured	Hong Kong Interbank Offered Rate ("HIBOR")+1.70	On demand	19,970	London Interbank Offered Rate ("LIBOR")+2.60	On demand	77,500
Current portion of long term bank loans – secured	HIBOR+1.60	2019	9,712	LIBOR+2.60/ Euro Interbank Offered Rate ("EURIBOR")+2.35	2018	192,374
			30,171			270,360
Non-current						
Finance lease payables (note 26)	3.69 – 10.34	2020-2023	617	4.53	2019-2020	411
Long term bank loans – secured	HIBOR+1.60	2020-2023	778,455	LIBOR+2.60/ EURIBOR+2.35	2019-2020	446,687
			779,072			447,098
			809,243			717,458

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

	2018 HK$'000	2017 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**29,682**	269,874
In the second year	**82,443**	216,508
In the third to fifth years, inclusive	**696,012**	230,179
	808,137	716,561
Finance lease payables (note 26):		
Within one year	**489**	486
In the second year	**302**	272
In the third to fifth years, inclusive	**315**	139
	1,106	897
	809,243	717,458

Notes:

(a) As at 31 December 2018, all bank loans are secured by the corporate guarantees of the Company and certain of its subsidiaries.

(b) As at 31 December 2017, all bank loans were guaranteed by the Company and certain of its subsidiaries and secured by the shares of certain subsidiaries as well as trade receivables of HK$94,060,000, floating charge over cash and cash equivalents of HK$114,722,000 and equipment of HK$8,354,000.

(c) As at 31 December 2018, the Group's bank borrowings denominated in HK$ amounted to HK$808,137,000. The Group's finance lease payables denominated in HK$, Australian dollars ("**AUD**") and Canadian dollars ("**CAD**") amounted to HK$6,000, HK$366,000 and HK$734,000, respectively.

As at 31 December 2017, the Group's bank borrowings denominated in United States dollar ("**US$**"), EURO ("**EUR**") and CAD amounted to HK$507,026,000, HK$209,413,000 and HK$122,000, respectively. The Group's finance lease payables denominated in HK$, AUD and US$ amounted to HK$16,000, HK$659,000 and HK$222,000, respectively.

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 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**535**	511	**489**	486
In the second year	**325**	285	**302**	272
In the third to fifth years, inclusive	**330**	140	**315**	139
Total minimum finance lease payments	**1,190**	936	**1,106**	897
Future finance charges	**(84)**	(39)		
Total net finance lease payables	**1,106**	897		
Portion classified as current liabilities (note 25)	**(489)**	(486)		
Non-current portion (note 25)	**617**	411		

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 HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 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
At 31 December 2017 and 1 January 2018	10,717	21,993	32,710
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year (note 11)	8,371	(4,518)	3,853
Exchange realignment	(11)	—	(11)
Gross deferred tax liabilities at 31 December 2018	19,077	17,475	36,552

Deferred tax assets

	Losses available for offsetting against future taxable profits HK$'000
At 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
At 31 December 2017	18,421
Effect of adoption of IFRS 9	177
At 1 January 2018 (restated)	18,598
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	10,640
Exchange realignment	(646)
Gross deferred tax assets at 31 December 2018	28,592

27. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position.

	2018 HK$'000	2017 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**10,814**	9,090
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(18,774)**	(23,379)
	(7,960)	(14,289)

The Group has tax losses arising in Hong Kong of HK$17,270,000 (2017: HK$272,000) 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 an aggregate amount of HK$183,357,000 (2017: HK$96,957,000) 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:

	2018 HK$'000	2017 HK$'000
Tax losses	**51,849**	6,779

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 2018, 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$454,189,000 at 31 December 2018 (2017: HK$346,755,000).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

28. SHARE CAPITAL

	2018 US$'000	2017 US$'000
Shares		
Issued and fully paid:		
1,000,000,000 (31 December 2017: 1,000,000,000) ordinary shares of US$0.01 each	**10,000**	10,000
Equivalent to HK$'000	**77,500**	77,500

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

	Notes	Number of shares in issue	Share capital HK$'000	Treasury shares HK$'000	Share premium HK$'000	Total HK$'000
At 1 January 2017		1,000,000,000	77,500	(304)	740,246	817,442
2016 final dividend		—	—	—	(9,000)	(9,000)
2017 interim dividend (note 12)		—	—	—	(25,000)	(25,000)
Equity-settled Pre-IPO RSUs vested (note 29)	(a)	—	—	265	16,823	17,088
At 31 December 2017 and 1 January 2018		**1,000,000,000**	**77,500**	**(39)**	**723,069**	**800,530**
2017 final dividend (note 12)		**—**	**—**	**—**	**(21,000)**	**(21,000)**
2018 interim dividend (note 12)		**—**	**—**	**—**	**(19,000)**	**(19,000)**
Share repurchased but not yet cancelled	(b)	**—**	**—**	**(16,420)**	**—**	**(16,420)**
At 31 December 2018		**1,000,000,000**	**77,500**	**(16,459)**	**683,069**	**744,110**

Notes:

(a) During the year ended 31 December 2017, 3,417,608 RSUs were vested, resulting in the decrease of 3,417,608 treasury shares of the Company, an amount of HK$16,823,000 was transferred from capital reserve to share premium as the RSUs vested.

(b) On 24 May 2018, the Company's shareholders granted a general mandate (the "**Repurchase Mandate**") to the directors of the Company to repurchase shares of the Company at the annual general meeting. Pursuant to the Repurchase Mandate, the Company is allowed to repurchase up to 100,000,000 shares, being 10% of the total number of issued shares of the Company as at the date of the annual general meeting, on the Hong Kong Stock Exchange. The Company repurchased 11,469,000 of its shares on the Hong Kong Stock Exchange at an aggregate consideration of HK$16,420,000 (before expenses) during the year ended 31 December 2018. The repurchased shares were subsequently cancelled in January and February 2019.The amount paid for these 11,469,000 shares was recognized as treasury shares as at 31 December 2018.

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 2018 and 31 December 2017:

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

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$45,931,000, of which the Group recognised an employee benefit expense (credited to capital reserve) of HK$nil during the year ended 31 December 2018 (2017: HK$5,209,000).

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 ended 31 December 2017 resulted in the decrease of 3,417,608 treasury shares of the Company, an amount of HK$16,823,000 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 75 to 76 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, Triera 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.

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 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)
Total identifiable net assets at fair value		1,786
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.

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 ended 31 December 2017, the revenue and the profit of the Group for the year ended 31 December 2017 would have been HK$2,181,292,000 and HK$157,363,000, respectively.

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 in CDI Dental AB and CDI Supply AB ("**CDI**") at a cash consideration of EUR3,886,000. CDI is principally engaged in the sale of prosthetic devices in Sweden. The acquisition was completed on 7 February 2017. The acquisition was made as part of the Group's strategy to expand its market share of prosthetic devices in the European Union.

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

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	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.

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 ended 31 December 2017, the turnover and the profit of the Group for the year ended 31 December 2017 would have been HK$2,183,676,000 and HK$157,281,000, respectively.

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Non-cash transaction

During the year, additions of property, plant and equipment of HK$40,910,000 were transferred from the prepayments (2017: Nil).

(b) Changes in liabilities arising from financing activities were as follows:

2018

	Bank loans HK$'000	Finance lease payables HK$'000
At 1 January 2018	716,561	897
Changes from financing cash flows	62,194	299
Non-cash flows:		
Foreign exchange movement	—	(90)
Write-off of capitalised finance charges upon re-financing of bank loans and related exchange losses (note 8)	25,463	—
Finance charges on bank loans (note 8)	3,919	—
At 31 December 2018	808,137	1,106

2017

	Bank loans HK$'000	Finance lease payables HK$'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
Finance charges on bank loans (note 8)	6,438	—
Increase arising from acquisition of subsidiaries (note 31)	117	—
At 31 December 2017	716,561	897

33. CONTINGENT LIABILITIES

The Group has a contingent liability in respect of potential claims of US$1 million (equivalent to HK$7.8 million) by an employee, who is also a non-controlling shareholder of a subsidiary of the Group. Subsequent to the year ended 31 December 2018, the employee filed a case to the labour tribunal for the claim. The Group denied the liability in respect of the non-performance of the terms of the contract, based on legal advice, the directors of the Company consider that the risk of the claim at the labour tribunal is reasonably low. No provision has therefore been made in respect of this claim.

The Group has no significant contingent liabilities as at 31 December 2017.

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 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	38,812	41,260
In the second to fifth years, inclusive	96,125	83,678
After five years	41,108	36,038
	176,645	160,976

35. COMMITMENTS

	2018 HK$'000	2017 HK$'000
Contracted, but not provided for:		
Leasehold improvement	—	2,994
Land and buildings	164,661	233,650
	164,661	236,644

An investment agreement was entered into between Modern Dental Laboratory Company Limited and Dongguan Songshan Lake High-tech Industrial Development Zone Management Committee regarding an investment of not less than RMB246,000,000 (equivalent to HK$280,758,000) 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 2018, Modern Dental and Medical Instruments (Dongguan) Company Limited has paid RMB11,094,000 (equivalent to HK$12,661,000) and RMB90,630,000 (equivalent to HK$103,436,000) for the acquisition of land and construction in progress, respectively, and the remaining commitment was RMB144,276,000 (equivalent to HK$164,661,000).

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

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:

		2018 HK$'000	2017 HK$'000
(a)	Rental fee paid to Most Wealth International Limited	3,004	2,562
(b)	Rental fee paid to directors	1,141	1,116
(c)	Rental fee paid to directors and an associate of a director	2,060	2,016
(d)	Rental fee paid to an associate of a director	181	177
(e)	Rental fee paid to an associate of a director	135	133
(f)	Rental fee paid to an associate of a director	406	398
(g)	Training fee paid to ShenZhen Nanshan District Modern Denture Technology Training Centre	4,853	14,567
(h)	Sales of finished goods to Trident Dental Group Limited	364	210

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 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 Mr. 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.

36. RELATED PARTY TRANSACTIONS (continued)

(2) Commitments with related parties

(a) For the purposes of residential use, on 30 August 2018, Modern Dental Laboratory (Shenzhen) Company Limited ("**MDLSZ**"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "**Residential Tenancy Agreements I**") with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan, executive directors and substantial shareholders of the Company. Pursuant to the Residential Tenancy Agreements I, Mr. Chan Kwun Fung and Mr. Chan Kwun Pan shall lease premises to MDLSZ for a term of two years from 1 January 2019 to 31 December 2020 at a monthly rent of RMB91,764.

(b) For the purposes of residential use, on 30 August 2018, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreements II**") 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 II, 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 2019 to 31 December 2020 at a monthly rent of RMB194,148.

(c) For the purposes of residential use, on 30 August 2018, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement III**") 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 III, Landlord B shall lease premises to MDLSZ for a term of two years from 1 January 2019 to 31 December 2020 at a monthly rent of RMB14,016.

(d) For the purposes of residential use, on 30 August 2018, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement IV**") with Landlord C. Pursuant to the Residential Tenancy Agreement IV, Landlord C shall lease premises to MDLSZ for a term of two years from 1 January 2019 to 31 December 2020 at a monthly rent of RMB10,512.

(e) For the purposes of residential use, on 30 August 2018, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement V**") 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 V, Landlord A shall lease premises to MDLSZ for a term of two years from 1 January 2019 to 31 December 2020 at a monthly rent of RMB31,536.

(f) For the purpose of operating the Company's business in Hong Kong, on 30 August 2018, 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 twenty eight months from 1 September 2018 to 31 December 2020 at a monthly rent of HK$324,000.

36. RELATED PARTY TRANSACTIONS (continued)

(3) Balances with related parties

At 31 December 2018, the Group's balances due from/to related parties were as follows:

	2018 HK$'000	2017 HK$'000
Due from a related party (note 21):		
Trident Dental Group Limited	**97**	103
Due to related parties (note 24):		
Shenzhen Nanshan District Modern Denture Technology Training Centre	**94**	—
Most Wealth International Limited	**933**	1,495
	1,027	1,495

(4) Compensation of key management personnel of the Group

	2018 HK$'000	2017 HK$'000
Short term employee benefits	**30,535**	25,883
Equity-settled Pre-IPO RSUs expense	**—**	2,542
Post-employment benefits	**2,731**	1,787
Total compensation paid to key management personnel	**33,266**	30,212

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.

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:

2018

Financial assets

	Financial assets at amortised cost HK$'000
Trade receivables	380,443
Financial assets included in deposits and other receivables	52,793
Due from a related party	97
Due from an associate	55
Pledged deposits	11,482
Cash and cash equivalents	380,393
Total	825,263

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	64,319
Financial liabilities included in other payables and accruals	39,644
Interest-bearing bank and other borrowings	809,243
Due to related parties	1,027
Total	914,233

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:

2017

Financial assets

	Loans and receivables 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
Total	851,464

Financial liabilities

	Financial liabilities at amortised cost 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
Total	844,902

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	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities				
Contingent consideration	**—**	4,369	**—**	4,369
Interest-bearing bank and other borrowings	**809,243**	717,458	**809,243**	717,458
	809,243	721,827	**809,243**	721,827

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in deposits and other receivables, amounts due from/to related parties, an amount due from an associate , non-current deposits and financial liabilities included in other payables and accruals approximate to their carrying amounts and accordingly no disclosure of the fair values of these items is presented.

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 2018 and 2017 was assessed to be insignificant. The fair value of contingent consideration in relation to the acquisition of subsidiaries had been calculated by discounting the expected values of future payments.

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			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Contingent consideration	—	—	4,369	4,369

There were no liabilities measured at fair value as at 31 December 2018.

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

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

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 (2017: Nil).

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities for which fair values are disclosed:

As at 31 December 2018	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	—	809,243	—	809,243

As at 31 December 2017	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	—	717,458	—	717,458

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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

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/ (decrease) in interest rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity HK$'000
Year ended 31 December 2018			
HK$	**1**	**(8,200)**	**(8,200)**
HK$	**(1)**	**8,200**	**8,200**
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

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 8% and 2% of the Group's sales for the years ended 31 December 2018 and 2017 were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 10% and 9% of costs for the years ended 31 December 2018 and 2017 were denominated in currencies other than the units' functional currencies, respectively.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the EUR and AUD exchange rates, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in EUR/AUD exchange rate %	Increase/ (decrease) in profit before tax HK$'000
As at 31 December 2018		
If HK$ weakens against EUR	**5**	**10,447**
If HK$ strengthens against EUR	**(5)**	**(10,447)**
If HK$ weakens against AUD	**5**	**1,578**
If HK$ strengthens against AUD	**(5)**	**(1,578)**
As at 31 December 2017		
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)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade receivables*	—	—	—	406,135	406,135
Financial assets included in prepayments, other receivables and other assets					
- Normal**	51,219	—	—	—	51,219
- Doubtful**	—	—	4,417	—	4,417
Due from a related party					
- Normal**	97	—	—	—	97
Due from an associate					
- Normal**	55	—	—	—	55
Pledged deposits					
- Not yet past due	11,482	—	—	—	11,482
Cash and cash equivalents					
- Not yet past due	380,393	—	—	—	380,393
	443,246	—	4,417	406,135	853,798

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets, amount due from a related party and amount due from an associate is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Maximum exposure as at 31 December 2017

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.

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 2018				
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables	—	64,319	—	—	64,319
Other payables and accruals	—	39,644	—	—	39,644
Interest-bearing bank and other borrowings	19,970	—	13,889	892,842	926,701
Due to related parties	1,027	—	—	—	1,027
	20,997	103,963	13,889	892,842	1,031,691

	31 December 2017				
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Total 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
	78,995	125,952	218,955	469,687	893,589

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 2018 and 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital (equity attributable to owners of the Company) plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, other payables and accruals, other non-current liabilities, less cash and cash equivalents and pledged deposits. The gearing ratios as at the end of the reporting periods were as follows:

	2018 HK$'000	2017 HK$'000
Interest-bearing bank and other borrowings	809,243	717,458
Trade payables	64,319	57,195
Other payables and accruals	170,440	179,947
Other non-current liabilities	10,931	13,781
Less:		
Pledged deposits	(11,482)	(12,467)
Cash and cash equivalents	(380,393)	(368,660)
Net debt	663,058	587,254
Equity attributable to owners of the Company	1,996,244	2,097,490
Capital and net debt	2,659,302	2,684,744
Gearing ratio	25%	22%

40. EVENTS AFTER THE REPORTING PERIOD

The Company repurchased 11,469,000 of its ordinary shares on the Hong Kong Stock Exchange during the year ended 31 December 2018. These shares were subsequently cancelled in January and February 2019. Moreover, subsequent to the end of the reporting period, the Company repurchased and cancelled 1,785,000 of its ordinary shares on the Hong Kong Stock Exchange at an aggregate consideration of HK$2,360,000 (before expenses).

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:

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	986	34
Investments in subsidiaries	512,656	512,656
Investments in associates	8,396	10,325
Long-term prepayments	3,036	—
Total non-current assets	525,074	523,015
CURRENT ASSETS		
Due from subsidiaries	1,131,398	1,090,704
Prepayments, deposits and other receivables	3,635	1,289
Cash and cash equivalents	8,572	46,641
Total current assets	1,143,605	1,138,634
CURRENT LIABILITIES		
Other payables and accruals	4,603	4,657
Due to subsidiaries	454,728	363,195
Total current liabilities	459,331	367,852
NET CURRENT ASSETS	684,274	770,782
TOTAL ASSETS LESS CURRENT LIABILITIES	1,209,348	1,293,797
Net assets	1,209,348	1,293,797
EQUITY		
Share capital	77,500	77,500
Treasury shares	(16,459)	(39)
Reserves (note)	1,148,307	1,216,336
Total equity	1,209,348	1,293,797

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 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 and 1 January 2018	**723,069**	**588,219**	**(4,276)**	**(90,676)**	**1,216,336**
2017 final dividend	**(21,000)**	**—**	**—**	**—**	**(21,000)**
2018 interim dividend	**(19,000)**	**—**	**—**	**—**	**(19,000)**
Loss for the year	**—**	**—**	**—**	**(28,029)**	**(28,029)**
At 31 December 2018	**683,069**	**588,219**	**(4,276)**	**(118,705)**	**1,148,307**

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2019.

FINANCIAL SUMMARY

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				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**2,315,467**	2,181,292	1,642,176	1,415,620	1,192,166
Cost of sales	**(1,236,131)**	(1,119,780)	(761,515)	(654,252)	(550,097)
Gross profit	**1,079,336**	1,061,512	880,661	761,368	642,069
Other income and gains	**11,344**	23,912	4,072	2,827	19,689
Selling and distribution expenses	**(275,142)**	(265,926)	(185,222)	(147,822)	(137,742)
Administrative expenses	**(630,558)**	(586,525)	(499,549)	(434,402)	(312,597)
Other operating expenses	**(12,533)**	(1,582)	(18,435)	(5,078)	(5,506)
Finance costs	**(51,516)**	(28,582)	(28,411)	(42,337)	(30,477)
Share of losses of associates	**(1,929)**	(1,288)	—	—	—
PROFIT BEFORE TAX	**119,002**	201,521	153,116	134,556	175,436
Income tax expense	**(35,762)**	(44,158)	(50,048)	(51,550)	(44,191)
PROFIT FOR THE YEAR	**83,240**	157,363	103,068	83,006	131,245
Attributable to:					
Owners of the Company	**85,391**	155,371	101,483	81,963	120,186
Non-controlling interests	**(2,151)**	1,992	1,585	1,043	11,059
	83,240	157,363	103,068	83,006	131,245

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**3,106,061**	3,140,230	2,744,503	2,679,452	1,631,782
TOTAL LIABILITIES	**(1,113,859)**	(1,035,237)	(922,273)	(891,616)	(1,080,625)
NON-CONTROLLING INTERESTS	**4,042**	(7,503)	(6,491)	(8,298)	(7,034)
	1,996,244	2,097,490	1,815,739	1,779,538	544,123

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

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Conyers Trust Company (Cayman) Limited
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P.O. Box 2681
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
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Hong Kong

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

LEGAL ADVISER
Loeb & Loeb LLP

COMPANY WEBSITE
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STOCK CODE
3600