



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



2019
ANNUAL REPORT



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CHAIRMAN'S STATEMENT



MODERN DENTAL AIMS TO REINFORCE ITS WORLDWIDE LEADING POSITION THROUGH OPPORTUNISTIC TRANSACTIONS AND GLOBAL DISTRIBUTION NETWORK EXPANSION.

Chan Kwun Fung
Chairman

Dear shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Modern Dental Group Limited (the "**Company**", stock code: 3600), I hereby present the annual results of the Company and its subsidiaries (which are collectively referred to as the "**Group**" or "**Modern Dental**") for the year ended 31 December 2019. For many reasons, 2019 was a record-breaking and overall, a great year for the Group. Profitability was at an all-time high, the Group's revenue reached USD 300 million for the first time, our Greater China market outperformed strongly and last (but not least) the MicroDental Group turned a profit. 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.

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. We have made substantial progress in turning a profit in 2019 by 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 2020. 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, resulting in very healthy returns. 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.

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 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.

Looking forward to the rest of 2020 and the challenges ahead, the Group has operated for over 30 years and has withstood various shocks within the global economy and natural disasters in the past decades, and the Group has come out stronger after each event. With the Board's extensive experience and determination to meet any short-term challenges, the Group is in an ideal position to take advantage of, and will remain opportunistic in, any business opportunities in 2020 whilst remaining cautious and prudent in safeguarding shareholders' interests.

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

30 March 2020



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.

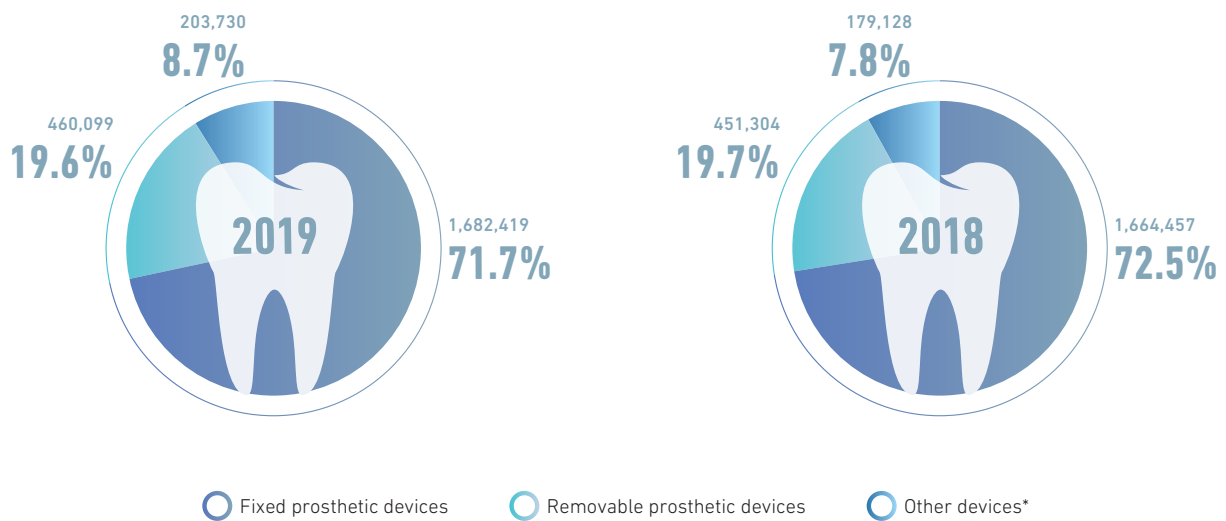
MANAGEMENT DISCUSSION AND ANALYSIS

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 2019 and 2018 respectively:

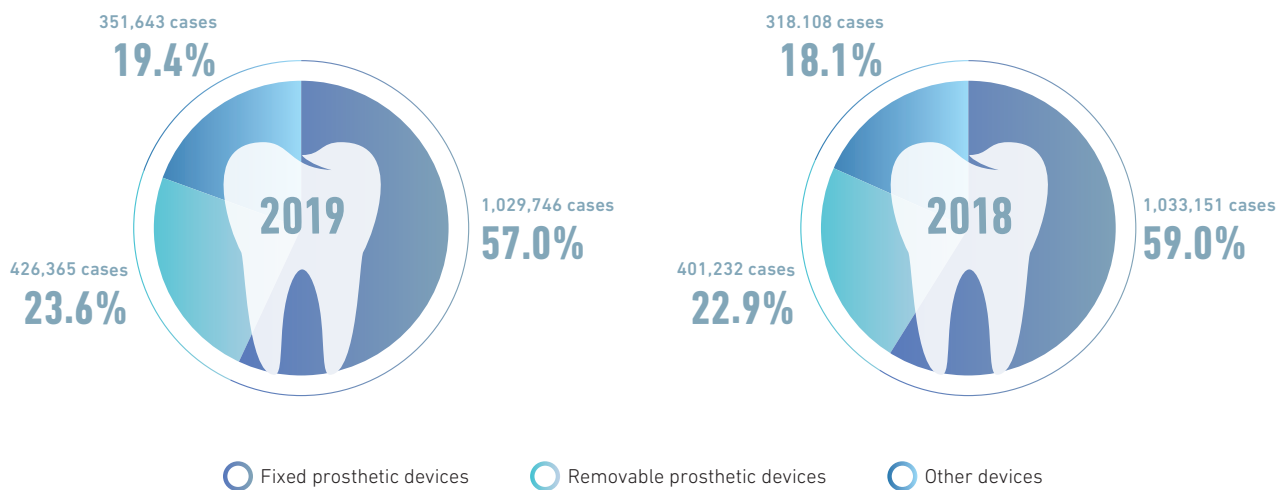
Breakdown of Revenue

(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 2019, fixed prosthetic devices business segment recorded a revenue of approximately HK\$1,682,419,000, representing an increase of approximately HK\$17,962,000 as compared with the year ended 31 December 2018. This business segment accounted for approximately 71.7% of the Group's total revenue as compared with approximately 72.5% in the year ended 31 December 2018.

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 2019, removable prosthetic devices business segment recorded a revenue of approximately HK\$460,099,000, representing an increase of approximately HK\$8,795,000 as compared with the year ended 31 December 2018. This business segment accounted for approximately 19.6% of the Group's total revenue as compared with approximately 19.7% in the year ended 31 December 2018.

Other Devices

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

During the year ended 31 December 2019, other devices business segment recorded a revenue of approximately HK\$203,730,000, representing an increase of approximately HK\$24,602,000 as compared with the year ended 31 December 2018. This business segment accounted for approximately 8.7% of the Group's total revenue as compared with approximately 7.8% in the year ended 31 December 2018.



MANAGEMENT DISCUSSION AND ANALYSIS

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 2019 and 2018 respectively:

Product category	Year ended 31 December					
	2019			2018		
	Sales Volume (number of cases)	Revenue (HK\$'000)	ASP (HK\$ per case)	Sales Volume (number of cases)	Revenue (HK\$'000)	ASP (HK\$ per case)
Fixed prosthetic devices	1,029,746	1,682,419	1,634	1,033,151	1,664,457	1,611
Removable prosthetic devices	426,365	460,099	1,079	401,232	451,304	1,125
Other devices*	351,643	203,730	579	318,108	179,128	563
Total	1,807,754	2,346,248	1,298	1,752,491	2,294,889	1,310

* 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 2019, the sales volume and ASP of the Group's products across its markets were 1,807,754 cases (Year ended 31 December 2018: 1,752,491 cases) and HK\$1,298 per case (Year ended 31 December 2018: HK\$1,310 per case), representing an increase of 3.2% and a decrease of 0.9%, respectively.

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 2019 and 2018 respectively:

Market	Original currency	2019		2018		Change in currency (%)	Organic growth rate (%)
		Conversion rate # (Original currency per HK\$)	Revenue (HK\$'000)	Conversion rate # (Original currency per HK\$)	Revenue (HK\$'000)		
Europe*	EUR	8.78	919,271	9.26	912,172	-5.2%	6.3%
North America	US\$	7.75	697,082	7.75	688,431	—	1.3%
Greater China**	RMB	1.14	512,299	1.18	464,136	-3.4%	14.2%
Australia***	AUD	5.45	198,762	5.86	216,286	-7.0%	-1.2%
Others			18,834		13,864	—	35.8%
Total			2,346,248		2,294,889		

* 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.



MANAGEMENT DISCUSSION AND ANALYSIS

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 2019.

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 (in original currency) 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 and innovative products and services, 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 2019, the European market recorded a revenue of approximately HK\$919,271,000, representing an increase of approximately HK\$7,099,000 as compared with year ended 31 December 2018. Together with the sales of dental equipment of approximately HK\$38,345,000, this geographic market accounted for 39.9 % of the Group's total revenue as compared with approximately 39.9% for the year ended 31 December 2018. The increase of revenue from the European market was attributable to the annual increment of the retail price to the dentists (in original currency) and increase in sales of dental equipment, offset by the depreciation of EUR against HK\$ of 5.2% in the year ended 31 December 2019 compared with the year ended 31 December 2018.

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 2019.

MicroDental Laboratories, Inc. and its subsidiaries ("**MicroDental Group**") contributed approximately HK\$560,122,000 (year ended 31 December 2018: HK\$500,601,000) to the Group's revenue, approximately HK\$45,657,000 (year ended 31 December 2018: HK\$5,029,000) to the Group's Adjusted EBITDA and approximately HK\$638,000 of profit (year ended 31 December 2018: HK\$17,320,000 of loss) to the Group's profit for the year ended 31 December 2019. The profit of approximately HK\$638,000 for the year ended 31 December 2019 included (i) non-cash depreciation and amortisation of approximately HK\$37,172,000; and (ii) non-recurring expenses, such as one-off costs in connection with the restructuring and reorganisations of approximately HK\$1,710,000. With new management team for North America (CEO and CFO), we are confident of effectively implementing our main strategies for MicroDental Group: (i) to increase sales through new products, implementing efficiencies and increasing 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, leverage MicroDental Group's 40-year brand history, its extensive distribution network and its very highly trained and experienced workforce; and (iv) cost restructuring, effectively leveraging existing resources and minimising 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 the customer's experience and shorten turnaround time. Our expanded North American distribution network is an effective 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, 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. The ongoing Sino-US trade tension imposed uncertainty over the global operation environment. No tariff is being imposed on the Group's products during the year. In view of the relatively small portion of products (less than one-fifth of the sales in the US) being manufactured in the PRC and supplied to the United States market and the fact that certain production facilities of the Group are strategically located outside of the PRC, it is considered that the financial performance of the Group will not be materially and adversely affected by any potential import tariffs. And it may be beneficial to our production and sale in the US in the medium to long term on the assumption that the Group would be in an ideal market position to capture the market share lost by its competitors who source their products from the PRC as a result of any potential import tariffs.

During the year ended 31 December 2019, the North American market recorded a revenue of approximately HK\$697,082,000, representing an increase of approximately HK\$8,651,000 as compared with the year ended 31 December 2018. This geographic market accounted for approximately 29.1% of the Group's total revenue as compared with approximately 29.7% in the year ended 31 December 2018. The increase of revenue from the North American market was largely attributable to the successful introduction of high-end products, the gradual phase out of lower value products and the annual increment of the retail price to the dentists.

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 2019.

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 has continued to grow in the year with a low-teens increase in revenue in original currency (HK\$ and RMB) due to the Group's strategy of expanding the coverage of our products offering and focusing on building better relationships with, and attracting new clients from, private clinics in first tier cities in the 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.

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

For the year ended 31 December 2019, the Greater China market recorded a revenue of approximately HK\$512,299,000, representing an increase of approximately HK\$48,163,000 as compared with year ended 31 December 2018. Together with the sales of raw materials and dental equipment of approximately HK\$14,734,000, this geographic market accounted for approximately 21.9% of the Group's total revenue as compared with approximately 20.2% last year. The increase in revenue from the Greater China market was largely attributable to (i) the increase in sales of new products and (ii) volume growth during the year, however offset by the depreciation of RMB against HK\$ of 3.4% in the year ended 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

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. 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 2019, the Australian market recorded a revenue of approximately HK\$198,762,000, representing a decrease of approximately HK\$17,524,000 as compared with the year ended 31 December 2018. Together with the service revenue generated from rendering educational events and seminars of approximately HK\$221,000, this geographic market accounted for approximately 8.3% of the Group's total revenue as compared with approximately 9.6% last year. The decrease in the revenue from the Australian market was largely attributable to depreciation of AUD against HK\$ of 7.0% in the year ended 31 December 2019 when compared with the year ended 31 December 2018 and the decrease in service revenue during the year.

Others

Other markets primarily include Indian Ocean countries, Japan and Singapore. For the year ended 31 December 2019, these markets recorded a revenue of approximately HK\$18,834,000, representing an increase of approximately HK\$4,970,000 as compared with the year ended 31 December 2018. This geographic market accounted for approximately 0.8% of the Group's total revenue as compared with approximately 0.6% last year.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the revenue of the Group amounted to approximately HK\$2,399,548,000, representing an increase of approximately 3.6% as compared with approximately HK\$2,315,467,000 for the year ended 31 December 2018. The increase was mainly attributable to (i) the annual increment of retail prices to the dentists; and (ii) the organic growth in the sales, offset by depreciation of foreign currencies against HK\$ during the year.

Gross Profit and Gross Profit Margin

The gross profit for the year ended 31 December 2019 was approximately HK\$1,152,931,000, which was approximately 6.8% higher than that of last year. The increase of the gross profit margin of approximately 1.4% compared with last year was mainly attributable to the increase in sales of high-value products and strengthened control in production costs offset by the increase in sales of dental equipment, such as intra-oral scanners, with lower gross margin 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 49.2%, 47.3% and 42.0% respectively. The following table sets forth the breakdown of our gross profit and gross margin by product category.

Product category	Year ended 31 December			
	2019		2018	
	Gross profit HK\$'000	Gross margin (%)	Gross profit HK\$'000	Gross margin (%)
Fixed prosthetic devices	827,425	49.2	780,926	46.9
Removable prosthetic devices	217,661	47.3	210,203	46.6
Others	107,845	42.0	88,207	44.2
Total	1,152,931		1,079,336	

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 7.0% from approximately HK\$275,142,000 for the year ended 31 December 2018 to approximately HK\$294,352,000 for the year ended 31 December 2019, accounting for approximately 12.3% of the Group's revenue, as compared with approximately 11.9% 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, offset by depreciation of the EUR, RMB and AUD against HK\$ during the year.

Administrative Expenses

The administrative expenses decreased by approximately 2.4% to approximately HK\$615,725,000 for the year ended 31 December 2019 from approximately HK\$630,558,000 for the year ended 31 December 2018, accounting for approximately 25.7% of the Group's revenue, as compared with approximately 27.2% for last year. The decrease in the administrative expenses was primarily attributable to (i) an increase in the average salaries of our employees, offset by depreciation of average rate of the EUR, RMB and AUD against HK\$ during the year; and (ii) decrease in research and development related expenditure of new product under development by approximately HK\$6,314,000 when compared with last year.

Other Operating Expenses

The other operating expenses increased by approximately 37.1% from approximately HK\$12,533,000 for the year ended 31 December 2018 to approximately HK\$17,177,000 for the year ended 31 December 2019, accounting for approximately 0.7% of the Group's revenue, as compared with approximately 0.5% for last year. Other operating expenses mainly represented foreign exchange loss, net, of approximately HK\$16,920,000 (2018: HK\$ 12,283,000). The increase in foreign exchange loss, net, was mainly due to the depreciation of EUR, AUD and RMB during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

The finance costs decreased by approximately 26.4% from approximately HK\$51,516,000 for the year ended 31 December 2018 to approximately HK\$37,902,000 for the year ended 31 December 2019, accounting for approximately 1.6% of the Group's revenue, as compared with approximately 2.2% for last year. The decrease was primarily attributable to no one-off write-off of capitalised interest and fee and related exchange losses incurred during the year following the completion of the re-financing of bank loans of the Group in January 2018 (2018: approximately HK\$25,463,000 in aggregate) and offset by increase in the interest on lease liabilities of approximately HK\$7,033,000 due to initial application of IFRS 16 on 1 January 2019.

Income Tax Expense

Income tax expense increased by approximately 16.2% from approximately HK\$35,762,000 for the year ended 31 December 2018 to approximately HK\$41,563,000 for the year ended 31 December 2019. The increase was primarily attributable to the increase in the profit before tax.

Profit for the Year

Profit for the year increased by approximately 92.7% from approximately HK\$83,240,000 for the year ended 31 December 2018 to approximately HK\$160,445,000 for the year ended 31 December 2019. The increase in profit for the year was mainly caused by (i) the turnaround of MicroDental Group as a direct result of the Group's continued integration of, and implementation of, strategies to focus in promotions of high value products and phasing out of lower value items; (ii) an overall improvement in the Group's gross profit margin in year ended 31 December 2019; and (iii) no one-off write-off of capitalised interest and fee and related exchange losses incurred during year ended 31 December 2019 following the completion of the re-financing of bank loans of the Group in January 2018.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company for the year ended 31 December 2019 amounted to approximately HK\$161,557,000, representing an increase of approximately HK\$76,166,000, or approximately 89.2%, as compared with approximately HK\$85,391,000 for last year. The increase in profit attributable to owners of the Company for the year was mainly caused by (i) the turnaround of MicroDental Group as a direct result of the Group's continued integration of, and implementation of, strategies to focus in promotions of high value products and phasing out of lower value items; (ii) an overall improvement in the Group's gross profit margin in year ended 31 December 2019; and (iii) no one-off write-off of capitalised interest and fee and related exchange losses incurred during year ended 31 December 2019 following the completion of the re-financing of bank loans of the Group in January 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.

MANAGEMENT DISCUSSION AND ANALYSIS

EBITDA and Adjusted EBITDA

During the year ended 31 December 2019, 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 and remeasurement gain on contingent consideration.

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	
	2019 HK\$'000	2018 HK\$'000
EBITDA and Adjusted EBITDA		
Net profit	160,445	83,240
Finance costs	37,902	51,516
Tax	41,563	35,762
Depreciation of right-of-use assets	59,901	—
Depreciation of property, plant and equipment	57,551	57,439
Amortisation of intangible assets	35,452	37,777
Amortisation of prepaid land lease payments	—	262
Less:		
Bank interest income	(1,270)	(547)
EBITDA	391,544	265,449
Add:		
One-off transaction cost in connection with acquisitions and disposals	26	1,469
One-off cost in connection with restructuring and reorganisation	3,227	10,864
Less:		
Remeasurement gain on contingent consideration	—	(773)
Adjusted EBITDA*	394,797	277,009
Adjusted EBITDA Margin	16.5%	12.0%

* Following the adoption of IFRS 16 on 1 January 2019, the Group's statutory results for year ended 31 December 2019 are on a IFRS 16 basis, whereas the statutory results for the year ended 31 December 2018 are on a IAS 17 basis as previously reported. Hence, any comparison between the two different of reporting basis would not be meaningful. The Group believes that the IAS 17 basis metrics, which are not intended to be a substitute for, or superior to, the reported metrics on a IFRS 16 basis, allows a like-with-like comparison with the prior period results, and to better reflect management's view of the Group's underlying operational performance. Adjusted EBITDA before adoption of IFRS 16 is approximately HK\$329,377,000, which is comparable to Adjusted EBITDA of previous years.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the years ended 31 December 2019 and 31 December 2018 respectively:

	For the year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
Net cash flows from operating activities	342,226	204,893
Net cash flows used in investing activities	(138,586)	(142,602)
Net cash flows used in financing activities	(184,037)	(39,128)

The Group derives its working capital mainly from cash on hand, net cash generated from operating activities and financing activities. The Board expects that the Group will rely on the internally generated funds and the available 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\$393,905,000 as of 31 December 2019, 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 2019, the net cash flows from operating activities has increased to approximately HK\$342,226,000 (2018: approximately HK\$204,893,000). The increase in net cash flows from operating activities was primarily attributable to increase in cash generated from operations as a result of the increase in operating profit of the Group and the impact of adoption of IFRS 16 in the year ended 31 December 2019.

The amount of trade receivables increased from approximately HK\$380,443,000 as at 31 December 2018 to approximately HK\$423,271,000 as at 31 December 2019. The trade receivable turnover days (the average of the beginning and ending trade receivable balances/revenue \times 365 days) decreased from approximately 63 days for the year ended 31 December 2018 to approximately 61 days for the year ended 31 December 2019. The decrease in the trade receivable turnover days was mainly attributable to the increase in sales in markets with shorter turnover days.

The amount of trade payables increased from approximately HK\$64,319,000 as at 31 December 2018 to approximately HK\$70,026,000 as at 31 December 2019. The trade payable turnover days (the average of the beginning and ending trade payable balances/cost of sales \times 365 days) increased from approximately 18 days for the year ended 31 December 2018 to approximately 20 days for the year ended 31 December 2019. The general credit terms granted by suppliers normally ranged from 30–90 days.

MANAGEMENT DISCUSSION AND ANALYSIS

The amount of inventory increased from approximately HK\$110,906,000 as at 31 December 2018 to approximately HK\$115,274,000 as at 31 December 2019. The inventory turnover days (the average of the beginning and ending inventory balances/cost of sales \times 365 days) increased from approximately 28 days for the year ended 31 December 2018 to approximately 33 days for the year ended 31 December 2019 as a result of the addition of the new production facility of Dongguan.

Investing Activities

The net cash flows used in investing activities for the year ended 31 December 2019 of approximately HK\$138,586,000, of which approximately HK\$138,712,000 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\$184,037,000 for the year ended 31 December 2019. The outflow was mainly attributable to (i) repayment of bank loans of approximately HK\$29,970,000; (ii) payment of dividend of approximately HK\$44,085,000; (iii) repurchase of the Company's ordinary shares of approximately HK\$30,819,000; (iv) payment for the principal portion of lease liabilities of approximately HK\$59,961,000; and (v) payment of interest expenses of approximately HK\$35,617,000.

Capital Expenditure

During the year ended 31 December 2019, the Group's capital expenditure amounted to approximately HK\$138,712,000 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 and bank borrowings.

Bank loans and other borrowings

The Board considers that the level of borrowings at the end of the year 2019 remains healthy and sustainable. As at 31 December 2019, the Group had interest-bearing bank loans and other borrowings which amounted to approximately HK\$802,348,000. The Board considers that our borrowings during the year ended 31 December 2019 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 2019, the Group's bank loans which amounted to approximately HK\$106,336,000, approximately HK\$207,340,000 and approximately HK\$488,672,000 are repayable within one year or on demand, in the second year and in the third to fifth years (inclusive), respectively.

Details of the amount and maturity profile of borrowings during the year ended 31 December 2019 are set out in Note 26 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

Funding and treasury policies

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

Bank borrowings

Bank borrowings of the Group as of 31 December 2019 amounted to approximately HK\$802,348,000 as compared to approximately HK\$808,137,000 as of 31 December 2018. Pledged bank deposits of the Group as of 31 December 2019 amounted to approximately HK\$5,330,000 as compared to approximately HK\$11,482,000 as of 31 December 2018. As of 31 December 2019, the bank borrowings of approximately HK\$802,348,000 were denominated in HK\$. As of 31 December 2019, all bank borrowings were at floating interest rates.

Cash and cash equivalents

The amount in which cash and cash equivalents were held are set out in the paragraph headed "Liquidity and Financial Resources" on page 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, lease liabilities, other non-current liabilities, less cash and cash equivalents and pledged deposits. As of 31 December 2019, the gearing ratio of the Group was approximately 30% (31 December 2018: 25%), reflecting that the Group's financial position was at a sound level. The increase was due to initial application of IFRS 16 in 1 January 2019, lead to increase in the lease liabilities and net debt.

Debt securities

As of 31 December 2019, the Group did not have any debt securities.

Contingent liabilities

As of 31 December 2019, the Group did not have any contingent liabilities.

Charge of group assets

During the year ended 31 December 2019, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2019, the Group has paid approximately RMB18,839,000 and approximately RMB125,225,000 for the acquisition of land and construction in progress, respectively, and the remaining commitments was approximately RMB101,936,000.

Save as disclosed above, the Group had no other significant capital commitments as of 31 December 2019.

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

The Group had no material acquisitions, disposal of subsidiaries, associates and joint ventures for the year ended 31 December 2019.

FUTURE PROSPECTS AND STRATEGIES

The Board expects the long-term global demand for dental prosthetics to continue to be stable and growing due to the growing global population and the aging population, notwithstanding any short term challenges the global economy may face in 2020.

The Board is of the view that through further acquisitions, continuing organic growth, joint ventures and new products, the Group will go from strength-to-strength in consolidating its status as the leading global dental prosthetic device provider. In particular, the Board is of the view that with the following strategies, the Group is expected to outperform its competitors in the industry:

- (i) The continued integration of MicroDental Group under new leadership that has brought in renewed energy and optimism. The Group has delivered a turnaround of MicroDental Group and delivered a net profit in 2019, which the Group will look to improve and increase in 2020.
- (ii) The unique global distribution network of the Group brings additional opportunities to the Group, including:
 - (a) additional distribution and joint venture arrangements with upstream suppliers; and
 - (b) new products, such as orthodontic devices.

The Group has operated over 30 years and has withstood various shocks within the global economy and natural disasters in the past decades, and the Group has come out stronger after the occurrence of each event. With the Board's extensive experience and determination to meet any short-term challenges, the Group is in an ideal position to take advantage of, and will remain opportunistic in, any business opportunities in 2020 whilst remaining cautious and prudent in safeguarding shareholders' interests.

The Board is of the opinion that the financial position of the Group is solid and healthy. The Board believes the proposed share buy-back and subsequent cancellation of the repurchased ordinary shares could enhance the value of the ordinary shares thereby improving the return to shareholders of the Company. In addition, the Board believes that the proposed share buy-back reflects the Group's confidence in its long term business prospects and would ultimately benefit the Company and is in the interests of the Company and the shareholders of the Company as a whole.

The Board is highly appreciative of the enormous efforts of our people, customers and suppliers during this difficult time, as they work relentlessly to fulfil targets and maintaining daily operations.

Save as disclosed in this Annual Report, there were no significant investments held by the Company for the year ended 31 December 2019, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

OFF-BALANCE SHEET TRANSACTIONS

As of 31 December 2019, the Group did not enter into any material off-balance sheet transactions.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

- (i) Subsequent to the end of the reporting period, the Company repurchased 4,600,000 of its Shares on the Hong Kong Stock Exchange (the “**Stock Exchange**”) at an aggregate consideration of approximately HK\$6,867,000 (before expenses). Together with 14,569,000 Shares of approximately HK\$21,757,000 (before expenses) repurchased in year end 31 December 2019, 19,169,000 repurchased Shares of approximately HK\$ 28,624,000 (before expenses) were cancelled subsequently in February and March 2020.
- (ii) The outbreak of 2019 Novel Coronavirus (“**COVID-19**”) has grown into a global pandemic during the first quarter of 2020. The Group is closely monitoring and evaluating its potential impact, and is taking precautionary and necessary measures to mitigate its impact on the financial position and operating results of the Group. The outbreak of COVID-19 is expected to have at least, a short-term negative impact on the global economic environment which in turn, is likely to affect the Group’s revenue and profit in the first half of 2020. How effective government measures are, in the countries that the Group operates, and how quickly global economies recover from the negative impact of this pandemic, may have an effect on the Group’s financial results for the year ending 2020. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future.

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 and Cross Countries Operations

As a global business, the Group is exposed to the development of the global economy and continued changes in government policies, political, social, legal and regulatory requirements 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 economy and operating environment of markets in which it operates. 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. For instance, the ongoing Sino-US trade tension imposed uncertainty over the global operation environment. No tariff is being imposed on the Group’s products during the year. In view of the small portion of products being manufactured in the PRC and supplied to the United States market and the fact that certain production facilities of the Group are strategically located outside of the PRC, it is considered that the financial performance of the Group will not be materially and adversely affected by the potential import tariffs. And it may be beneficial to our production and sale in the United States in the medium to long term on the assumption that the Group would be in an ideal market position to capture the market share lost by its competitors who source their products from the PRC as a result of any potential import tariffs applied to the industry.

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 (2019: ranged between 11% and 21%; 2018: ranged between 11% and 33%); the budgeted sales growth rates (2019: ranged between 5% and 12%; 2018: ranged between 5% and 13%); and budgeted EBITDA margins (2019: ranged between 2% and 31%; 2018: ranged between 2% and 38%), 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Centralisation of Production Facilities

In the past, the production of the Group relied heavily on its existing production facilities in Shenzhen, Mainland China. If there were disruptions to the production sites in Shenzhen, the Group may suffer from interruptions to its business. During the year ended 31 December 2019, the management has completed the opening of the new production site in Dongguan to share the production of the Group. As such, the risk arising from centralised production facilities in Shenzhen is 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, and will continue to explore opportunities around the world.

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 2019, the interest rates on floating-rate bank loans were approximately HIBOR+1.60% per annum for term loans and HIBOR+1.10% 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.

Liquidity Risk

Our policy is to maintain sufficient cash and cash equivalents and to have available funding through bank borrowings. Details of the liquidity risk are set out in the paragraph headed "Liquidity and Financial Resources" on page 16 in this Annual Report.

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 6,139 dedicated full-time employees at our production facilities, service centers, points of sales and other sites as of 31 December 2019, mainly including 4,552 production staff members, 521 general management staff members and 361 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, 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



**CHAN KWUN FUNG,
MICHAEL**

BOARD OF DIRECTORS

As at 31 December 2019, 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.

Executive Directors

Mr. CHAN Kwun Fung (陳冠峰先生), aged 65, 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 62, 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).

DIRECTORS AND SENIOR MANAGEMENT



**NGAI SHING KIN,
GODFREY**

Mr. NGAI Shing Kin (魏聖堅先生), aged 71, 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 52 years of experience in the dental prosthesis field. Prior to joining the Group, Mr. Ngai was a student dental technician and a dental technician in Department of Health, the Government of the Hong Kong Special Administrative Region (formerly known as Medical and Health Department, the Government of Hong Kong) from 1967 to 1970 and from 1970 to 1979, respectively. From 1979 to 1981, he was a lecturer at The Hong Kong Polytechnic University (formerly known as The Hong Kong Polytechnic) and was primarily responsible for teaching dental technology. From 1981 to 1998, he was an instructor dental technologist at the Faculty of Dentistry, The University of Hong Kong and was primarily responsible for teaching dental technology. Mr. Ngai is the co-author of "A Colour Atlas of Resin Bond Retained Prosthesis – A practical guide", a book published in 1989.

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

DIRECTORS AND SENIOR MANAGEMENT



**NGAI CHI HO,
ALWIN**

Mr. NGAI Chi Ho, Alwin (魏志豪先生), aged 42, 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 13 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).

DIRECTORS AND SENIOR MANAGEMENT



**CHAN CHI YUEN,
ALEX**

Mr. CHAN Chi Yuen (陳志遠先生), aged 35, 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 33, 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, a master's degree in business administration with distinction from Edinburgh Business School, Heriot-Watt University in the United Kingdom in June 2015 and a master's science degree in Restoration Aesthetic Dentistry from The University of Manchester in July 2019.

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. He is also a part-time lecturer employed by The University of Hong Kong since June 2019.

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).

DIRECTORS AND SENIOR MANAGEMENT



**CHAN YIK YU,
EDITH**

Ms. CHAN Yik Yu (陳奕茹女士), aged 32, 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 9 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 83, 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 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 is 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 68, 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.

DIRECTORS AND SENIOR MANAGEMENT

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 (黄河清博士), aged 72, 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 65, 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 has been the vice-chair of the Education Committee of the FDI World Dental Federation since August 2018.

SENIOR MANAGEMENT

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

Mr. August Wilhelm Torsten Schwafert, aged 55, 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 27 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 45, 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.

DIRECTORS AND SENIOR MANAGEMENT

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 20 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 47, 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 12 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.

Ms. Laura Kelly, aged 57, is the chief executive officer of MicroDental Laboratories, Inc., which is a Company's subsidiary.

Ms. L. Kelly is responsible for leading the business development and operations of the Group in North America. Ms. L. Kelly joined the Group in January 2019.

Ms. L. Kelly completed the Executive Studies Program of Stanford University in the United States in 2002. She has been an accredited technician of the American Academy of Cosmetic Dentistry since 1993.

Ms. L. Kelly has over 30 years in the dental field. Prior to joining our Group, Ms. L. Kelly served as Vice President and Senior Vice President of Dental Services Group, being a group of dental prosthesis laboratories, from 2015 to 2019 and was responsible for building and managing marketing sales teams and dental technicians, operations and communications. Prior to that, she was the Founder and President of LK Dental Studio, being a dental prosthesis laboratory which was later acquired by the Dental Services Group in 2015, from 2008 to 2015. Ms. L. Kelly was the President of American Academy of Cosmetic Dentistry from 2006 to 2009. She was the Vice President of sales of MicroDental Laboratories, Inc. from 1995 to 2002.

DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Mr. KWAN Ngai Kit (關毅傑先生), aged 40, has been the chief financial officer, authorised representative and the company secretary of the Company since 26 October 2016. Mr. Kwan, has over 13 years of experience in auditing, accounting and corporate management 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 2019.

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 2019 is set out in Note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss on page 67 of this Annual Report.

DIVIDENDS

An interim dividend of HK3.1 cents per ordinary share was paid to the Shareholders on 10 October 2019. The Board recommended a final dividend of HK2.2 cents (2018: HK1.4 cents) per ordinary share, out of the share premium account, for the year ended 31 December 2019 (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 28 May 2020, the Proposed Final Dividend will be paid on 26 June 2020 to Shareholders whose names appear on the Register of Members of the Company as at the close of business on 5 June 2020.

CLOSURE OF REGISTER OF MEMBERS

To determine the entitlement to attend and vote at the AGM to be held on 28 May 2020, the Register of Members of the Company will be closed from Monday, 25 May 2020 to Thursday, 28 May 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 22 May 2020, 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 Wednesday, 3 June 2020 to Friday, 5 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 2 June 2020.

DIRECTORS' REPORT

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 is set out on page 151 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 2019, the purchase amounts placed with the Group's five largest suppliers accounted for 30.6% (2018: 29.0%) of the Group's total purchases and the purchase amount placed with our single largest supplier accounted for 15.4% (2018: 13.3%) of the Group's total purchases.

The relationship between the Group and our customers has been stable. For the year ended 31 December 2019, the revenue amounts from the Group's five largest customers accounted for 1.9% (2018: 2.2%) of the Group's total revenue and the revenue amount from our single largest customer accounted for 0.5% (2018: 0.6%) of the Group's total revenue.

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2019 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 2019 are set out in Note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company had distributable reserves of approximately HK\$463,968,000 (2018: approximately HK\$564,364,000) 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\$614,924,000 (2018: approximately HK\$683,069,000).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2019 are set out in the section headed "Management Discussion and Analysis" in this Annual Report and Note 26 to the consolidated financial statements.

DIRECTORS' REPORT

DIRECTORS

The Directors who held office during the year ended 31 December 2019 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 Chi Yuen, Dr. Chan Ronald Yik Long, Ms. Chan Yik Yu and Dr. Chan Yue Kwong Michael 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 33 of this Annual Report.

DIRECTORS' REPORT

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

During the year ended 31 December 2019 and up to the date of this Annual Report, changes in the information of the Directors are as follows:

1. Dr. Chan Ronald Yik Long has been employed by The University of Hong Kong as a part-time lecturer since June 2019 and he also obtained a master of science degree in Restoration Aesthetic Dentistry from the University of Manchester in July 2019.
2. 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\$261,000 commencing from May 2019.

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 2019.

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 2019.

DIRECTORS' REPORT

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 2019. 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 the ordinary shares of the Company (the "**Shares**") which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by the Group must not exceed 30% of the issued share capital of the Company from time to time. No options may be granted under the Share Option Scheme or any other share option schemes adopted by the Group if the grant of such option exceeds the limit.

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes adopted by the Group as from the Share Option Scheme Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of all issued share capital of the Company upon the Listing Date (i.e. 100,000,000 Shares, representing 10.2% 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.

DIRECTORS' REPORT

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 2019, 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 10.2% 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 30 to the consolidated financial statements.

As of 31 December 2019, 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 2019, 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:

DIRECTORS' REPORT

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 <i>(Note 1)</i>	474,118,263	48.30%
	Other	3,450,000 <i>(Note 1)</i>		
	Interest of controlled corporation	470,202,263 <i>(Note 1)</i>		
Mr. Chan Kwun Pan	Beneficial owner	3,450,000 <i>(Note 1)</i>	474,118,263	48.30%
	Other	466,000 <i>(Note 1)</i>		
	Interest of controlled corporation	470,202,263 <i>(Note 1)</i>		
Mr. Ngai Shing Kin	Beneficial owner	4,191,345	98,040,998	9.99%
	Interest of controlled corporation	93,849,653 <i>(Note 2)</i>		
Mr. Ngai Chi Ho Alwin	Beneficial owner	277,934	63,122,304	6.43%
	Interest of controlled corporation	62,844,370 <i>(Note 3)</i>		

Notes:

- Mr. Chan Kwun Fung and Mr. Chan Kwun Pan signed a confirmation letter on 10 August 2015 confirming their acting-in-concert arrangement whereby they operate the Group collectively, through discussions, and reached consensus between themselves before making any commercial decisions for the Group on a unanimous basis. As such and by virtue of the SFO, (i) each of Mr. Chan Kwun Fung and Mr. Chan Kwun Pan is deemed to be interested in the 470,202,263 Shares owned by Trieria 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.
- These Shares were held by Prosperity Worldwide Investment Holdings Limited, which is wholly owned by Mr. Ngai Shing Kin.
- 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 2019, 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' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' Interests and Short Positions in Shares and underlying Shares and Debentures of the Company or any of its Associated Corporations" in this Annual Report, at no time during the year ended 31 December 2019 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 2019, 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	47.90%
Prosperity Worldwide Investment Holdings Limited ^(Note 2)	Beneficial owner	93,849,653	9.56%
NCHA Holdings Limited ^(Note 3)	Beneficial owner	62,844,370	6.40%

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 2019, 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 Corporations" 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.

DIRECTORS' REPORT

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

During the year ended 31 December 2019, the Company repurchased 21,454,000 of its Shares on the Stock Exchange at an aggregate consideration of approximately HK\$30,819,000 (before expenses), details of the repurchase are summarised as follows:

Month	Number of Shares repurchased	Price per Share		Aggregate consideration paid (before expenses) HK\$'000
		Highest HK\$	Lowest HK\$	
January 2019	1,785,000	1.36	1.24	2,360
March 2019	100,000	1.34	1.33	133
April 2019	1,000,000	1.39	1.33	1,352
May 2019	2,100,000	1.38	1.29	2,801
June 2019	1,900,000	1.30	1.24	2,416
July 2019	2,000,000	1.31	1.28	2,589
September 2019	3,000,000	1.69	1.24	4,341
October 2019	3,705,000	1.70	1.43	5,844
November 2019	1,664,000	1.80	1.61	2,818
December 2019	4,200,000	1.54	1.38	6,165
	21,454,000			30,819

Out of 21,454,000 repurchased Shares, 6,885,000 Shares of approximately HK\$9,062,000 (before expenses) were cancelled during the year ended 31 December 2019, while the remaining 14,569,000 Shares of approximately HK\$21,757,000 (before expenses) were recognised as treasury shares as at 31 December 2019 and subsequently cancelled in February and March 2020.

The repurchase of the Shares were effected by the directors, pursuant to the mandate from Shareholders received at the annual general meeting on 23 May 2019, with a view to benefiting Shareholders as a whole by enhancing the net assets value per share and earnings per share of the Group.

Save as disclosed above, during the year ended 31 December 2019, 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' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2019, none of the Directors or their respective associates (as defined in the Listing Rules) had engaged in or had any interest in any business which competes or may compete with the businesses of the Group as required to be disclosed pursuant to the Listing Rules.

NON-COMPETITION UNDERTAKING

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

An annual confirmation has been received from each of the Controlling Shareholders on compliance with each of their respective 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 2019. 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 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.
- (ii) 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.

DIRECTORS' REPORT

- (iii) 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.
- (iv) 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.
- (v) 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.
- (vi) 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.

For details of the tenancy agreements disclosed above, 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 2019 is contained in Note 37 to the consolidated financial statements. The transactions referred to in item (a), (b), (c), (d), (e), (f) and (h) of Note 37(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 2019.

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.

DIRECTORS' REPORT

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 THE REPORTING PERIOD

- (i) Subsequent to the end of the reporting period, the Company repurchased 4,600,000 of its Shares on the Stock Exchange at an aggregate consideration of approximately HK\$6,867,000 (before expenses). Together with 14,569,000 Shares of approximately HK\$21,757,000 (before expenses) repurchased in year end 31 December 2019, 19,169,000 repurchased Shares of approximately HK\$ 28,624,000 (before expenses) were cancelled subsequently in February and March 2020.
- (ii) The outbreak of COVID-19 has grown into a global pandemic during the first quarter of 2020. The Group is closely monitoring and evaluating its potential impact, and is taking precautionary and necessary measures to mitigate its impact on the financial position and operating results of the Group. The outbreak of COVID-19 is expected to have at least, a short-term negative impact on the global economic environment which in turn, is likely to affect the Group's revenue and profit in the first half of 2020. How effective government measures are, in the countries that the Group operates, and how quickly global economies recover from the negative impact of this pandemic, may have an effect on the Group's financial results for the year ending 2020. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future.

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 2019.

DEBENTURE ISSUED

The Group has not issued any debenture during the year ended 31 December 2019.

DIRECTORS' REPORT

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 2019 and an indication of likely development of the Group are set out on pages 5 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 2019 amounted to approximately HK\$1,332,000. Part of the Donations, which amounted to approximately HK\$160,000, 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,
30 March 2020

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 2019, (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.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Board Composition

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

Name of Director	Membership of Board Committee(s)
<i>Executive Directors:</i>	
Mr. Chan Kwun Fung (<i>Chairman</i>)	—
Mr. Chan Kwun Pan (<i>Vice-Chairman</i>)	—
Mr. Ngai Shing Kin (<i>Chief Executive Officer</i>)	Member of Remuneration Committee
Mr. Ngai Chi Ho Alwin (<i>Chief Operating Officer</i>)	Member of Nomination Committee
Mr. Chan Chi Yuen	—
Dr. Chan Ronald Yik Long	Member of Nomination Committee
Ms. Chan Yik Yu (<i>Chief Marketing Officer</i>)	Member of Remuneration Committee
<i>Independent Non-executive Directors:</i>	
Dr. Cheung Wai Bun Charles J.P.	Chairman of Audit Committee 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 33 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.

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

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}
<i>Executive Directors</i>	
Chan Kwun Fung	B
Chan Kwun Pan	B
Ngai Shing Kin	B
Ngai Chi Ho Alwin	A and B
Chan Chi Yuen	B
Chan Ronald Yik Long	A and B
Chan Yik Yu	A and B
<i>Independent Non-executive Directors</i>	
Cheung Wai Bun Charles	A and B
Chan Yue Kwong Michael	A and B
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

CORPORATE GOVERNANCE REPORT

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 2019, 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.

CORPORATE GOVERNANCE REPORT

The remuneration by band of members of the senior management (excluding Directors) of the Group for the year ended 31 December 2019 is set out below:

Remuneration	Number of person
HK\$2,000,001 to HK\$2,500,000	3
HK\$4,000,001 to HK\$4,500,000	1
HK\$4,500,001 to HK\$5,000,000	1

Details of the fees and other emoluments paid or payable to the Directors and the details of the five highest paid employees for the year ended 31 December 2019 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.

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

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 REPORT

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 2019 is set out in the table below:

Name of Director	Attendance/Number of Meetings				Annual General Meeting
	Board	Audit Committee	Remuneration Committee	Nomination Committee	
Chan Kwun Fung	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	1/1	1/1
Chan Chi Yuen	4/4	N/A	N/A	N/A	0/1
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.	4/4	3/3	1/1	1/1	1/1
Chan Yue Kwong Michael	4/4	3/3	N/A	1/1	1/1
Wong Ho Ching	4/4	3/3	1/1	N/A	1/1
Cheung Wai Man William	4/4	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 2019.

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

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 2019.

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 2019. Such review is conducted annually and cycles reviewed are under rotation basis. The scope of review was previously determined and approved by the Board. The Adviser has reported findings and areas for improvement to the Audit Committee and management. The Audit Committee are of the view that there are no material internal control defeats noted. All recommendations from the Adviser are properly followed up by the Group to ensure that they are implemented within a reasonable period of time. The Board therefore considered that the risk management and internal control systems are effective and adequate.

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

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

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

DIRECTORS’ RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2019.

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

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

CORPORATE GOVERNANCE 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 2019 is set out below:

Service Category	Fees Paid/Payable HK\$
Audit Services	6,960,000
Non-audit Services	2,853,000
	9,813,000

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.

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

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 2019.

INDEPENDENT AUDITOR'S REPORT



Ernst & Young
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To the shareholders of Modern Dental Group Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Modern Dental Group Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 67 to 150, which comprise the consolidated statement of financial position as at 31 December 2019 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 2019, 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.

INDEPENDENT AUDITOR'S REPORT

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
<i>Goodwill and intangible assets impairment review</i>	
<p>As at 31 December 2019, the Group recorded goodwill and intangible assets of HK\$1,310.8 million and HK\$295.1 million, respectively, as a result of previous acquisitions. Under IFRSs, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Company performs its annual impairment test on each cash-generating unit to assess whether the goodwill might be impaired as at 31 December. In addition, each year, the Company assesses whether a change in useful life is applicable and/or whether there are any indications of impairment for intangible assets. The test and assessment are largely based on management's expectations and estimates of future results of the (group of) cash-generating units which include the entities acquired in the past. The impairment test is based on the recoverable value of the relevant cash-generating units. The key assumptions and results of the test performed are disclosed in note 16 to the consolidated financial statements.</p> <p>The accounting policies, significant accounting judgements and estimates and disclosures for goodwill and intangible assets are included in notes 3, 4, 16 and 17 to the consolidated financial statements.</p>	<p>We examined the Group's forecasted cash flows which underpin management's impairment review. We tested the basis of preparing those forecasts taking into account the historical data supporting underlying assumptions. Future cash flow assumptions were examined through comparison of current business performance, seeking corroborative evidences and enquiry with management in respect of key growth and business assumptions. The key assumptions such as the discount rate and terminal growth rate were tested with appropriate inputs from our internal valuation experts. We also tested the mathematical integrity of management's model. We considered the adequacy of the Group's disclosure about the key assumptions involved in arriving at the recoverable amount.</p>

INDEPENDENT AUDITOR'S REPORT

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Trade receivables	
<p>As at 31 December 2019, the Group had trade receivables of HK\$450.2 million and allowance for impairment of HK\$26.9 million.</p> <p>Management used a provision matrix to calculate expected credit losses 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.</p> <p>The significant accounting judgements and estimates and disclosures for trade receivables are included in notes 4 and 21 to the consolidated financial statements.</p>	<p>We tested the controls over the Group's collection procedures and the Group's estimation of expected credit losses.</p> <p>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.</p>

Other information included in the Annual Report

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

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

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

INDEPENDENT AUDITOR'S REPORT

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

Ernst & Young

Certified Public Accountants

Hong Kong

30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
REVENUE	6	2,399,548	2,315,467
Cost of sales		(1,246,617)	(1,236,131)
Gross profit		1,152,931	1,079,336
Other income and gains	6	14,737	11,344
Selling and distribution expenses		(294,352)	(275,142)
Administrative expenses		(615,725)	(630,558)
Other operating expenses		(17,177)	(12,533)
Finance costs	8	(37,902)	(51,516)
Share of losses of associates		(504)	(1,929)
PROFIT BEFORE TAX	7	202,008	119,002
Income tax expense	11	(41,563)	(35,762)
PROFIT FOR THE YEAR		160,445	83,240
ATTRIBUTABLE TO:			
Owners of the Company		161,557	85,391
Non-controlling interests		(1,112)	(2,151)
		160,445	83,240
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	13	HK16.5 cents	HK8.6 cents
Diluted	13	HK16.5 cents	HK8.6 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000
PROFIT FOR THE YEAR	160,445	83,240
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(37,464)	(110,681)
Other comprehensive loss for the year, net of tax	(37,464)	(110,681)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	122,981	(27,441)
ATTRIBUTABLE TO:		
Owners of the Company	124,093	(25,202)
Non-controlling interests	(1,112)	(2,239)
	122,981	(27,441)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	498,613	433,810
Prepaid land lease payments	15	—	11,817
Goodwill	16	1,310,846	1,329,523
Intangible assets	17	295,145	330,561
Right-of-use assets	18(a)	194,733	—
Investments in associates	19	9,625	8,396
Deferred tax assets	28	11,832	10,814
Long term prepayments and deposits	22	17,830	21,771
Total non-current assets		2,338,624	2,146,692
CURRENT ASSETS			
Inventories	20	115,274	110,906
Trade receivables	21	423,271	380,443
Prepayments, deposits and other receivables	22	64,739	58,294
Due from an associate	19	58	55
Current tax assets		20,040	17,796
Pledged deposits	23	5,330	11,482
Cash and cash equivalents	23	393,905	380,393
Total current assets		1,022,617	959,369
CURRENT LIABILITIES			
Trade payables	24	70,026	64,319
Other payables and accruals	25	197,839	170,440
Lease liabilities	18(b)	53,337	—
Interest-bearing bank and other borrowings	26	106,336	30,171
Tax payable		48,902	40,152
Total current liabilities		476,440	305,082
NET CURRENT ASSETS		546,177	654,287
TOTAL ASSETS LESS CURRENT LIABILITIES		2,884,801	2,800,979

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		2,884,801	2,800,979
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	696,012	779,072
Deferred tax liabilities	28	16,047	18,774
Lease liabilities	18(b)	145,132	—
Other non-current liabilities	25	5,203	10,931
Total non-current liabilities		862,394	808,777
Net assets		2,022,407	1,992,202
EQUITY			
Equity attributable to owners of the Company			
Share capital	29	76,078	77,500
Treasury shares	29	(21,796)	(16,459)
Reserves	31	1,966,538	1,935,203
		2,020,820	1,996,244
Non-controlling interests		1,587	(4,042)
Total equity		2,022,407	1,992,202

NGAI Shing Kin
Director

CHAN Kwun Fung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the Company							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Statutory reserve	Capital reserve	Exchange reserve	Retained profits			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(note 29)	(note 29)	(note 29)	(note 31 (i))	(note 31 (ii))					
At 1 January 2018	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	—	(21,000)	—	—	—	—	—	(21,000)	—	(21,000)
2018 interim dividend	—	(19,000)	—	—	—	—	—	(19,000)	—	(19,000)
Shares repurchased	—	—	(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Statutory reserve	Capital reserve	Exchange reserve	Retained profits	Total		
	HK\$'000 (note 29)	HK\$'000 (note 29)	HK\$'000 (note 29)	HK\$'000 (note 31 (i))	HK\$'000 (notes 31 (ii))	HK\$'000	HK\$'000	HK\$'000		
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
Effect of adoption of IFRS 16 (note 22)	—	—	—	—	—	—	(14,390)	(14,390)	—	(14,390)
At 1 January 2019 (restated)	77,500	683,069	(16,459)	12,722	563,332	(198,856)	860,546	1,981,854	(4,042)	1,977,812
Profit for the year	—	—	—	—	—	—	161,557	161,557	(1,112)	160,445
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	—	—	—	—	—	(37,464)	—	(37,464)	—	(37,464)
Total comprehensive income/(loss) for the year	—	—	—	—	—	(37,464)	161,557	124,093	(1,112)	122,981
Transfer from retained profits	—	—	—	4,346	—	—	(4,346)	—	—	—
2018 final dividend	—	(13,814)	—	—	—	—	—	(13,814)	—	(13,814)
2019 interim dividend	—	(30,271)	—	—	—	—	—	(30,271)	—	(30,271)
Shares repurchased (note 29(a))	—	—	(30,819)	—	—	—	—	(30,819)	—	(30,819)
Shares cancelled (note 29(a))	(1,422)	(24,060)	25,482	—	1,422	—	(1,422)	—	—	—
Acquisition of a subsidiary (note 32)	—	—	—	—	—	—	—	—	103	103
Acquisitions of non-controlling interests	—	—	—	—	(10,223)	—	—	(10,223)	4,638	(5,585)
Capital contribution by non-controlling shareholders	—	—	—	—	—	—	—	—	2,000	2,000
At 31 December 2019	76,078	614,924 [#]	(21,796)	17,068 [#]	554,531 [#]	(236,320) [#]	1,016,335 [#]	2,020,820	1,587	2,022,407

[#] These reserve accounts comprise the consolidated reserves of HK\$1,966,538,000 (2018: HK\$1,935,203,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		202,008	119,002
Adjustments for:			
Finance costs	8	37,902	51,516
Bank interest income	6	(1,270)	(547)
(Gains)/losses on disposal of items of property, plant and equipment, net	7	(487)	156
Write-off of intangible assets	7	—	86
Remeasurement gain on contingent consideration	7	—	(773)
Write-off of property, plant and equipment	7	195	430
Depreciation and amortisation	7	152,904	95,478
Share of losses of associates		504	1,929
		391,756	267,277
Increase in inventories		(6,324)	(33,194)
(Increase)/decrease in trade receivables		(45,510)	10,333
Increase in prepayments, deposits and other receivables		(3,377)	(4,052)
Decrease in an amount due from a related party		33	6
(Increase)/decrease in an amount due from an associate		(3)	219
Increase in trade payables		3,172	8,899
Increase in other payables and accruals		41,131	8,287
Decrease in amounts due to related parties		(940)	(468)
Cash generated from operations		379,938	257,307
Interest received		1,270	547
Income tax paid		(38,982)	(52,961)
Net cash flows from operating activities		342,226	204,893

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets	33(a)	(138,712)	(140,679)
Proceeds from disposal of items of property, plant and equipment		7,762	1,696
Prepayment for purchase of items of property, plant and equipment		—	(1,046)
Prepaid land lease payment	18(a)	(8,802)	—
Acquisition of a subsidiary	32	(3,224)	—
Capital contribution to an associate		(1,762)	—
Settlement of contingent consideration	39	—	(3,558)
Decrease in pledged deposits		6,152	985
Net cash flows used in investing activities		(138,586)	(142,602)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings	33(b)	20,000	805,006
Repayment of bank loans and other borrowings	33(b)	(29,970)	(742,513)
Dividend paid		(44,085)	(40,000)
Payment for the principal portion of lease liabilities	33(b)	(59,961)	—
Payment for the interest portion of lease liabilities	33(b)	(7,033)	—
Repurchase of shares		(30,819)	(16,420)
Interest paid		(28,584)	(23,962)
Capital contribution by non-controlling shareholders		2,000	169
Dividend paid to non-controlling shareholders		—	(817)
Acquisition of non-controlling interests		(5,585)	(20,591)
Net cash flows used in financing activities		(184,037)	(39,128)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Effect of foreign exchange rate changes, net		(6,091)	(11,430)
Cash and cash equivalents at beginning of year		380,393	368,660
CASH AND CASH EQUIVALENTS AT END OF YEAR			
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	393,608	380,098
Non-pledged time deposits with original maturity of less than three months when acquired	23	297	295
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows	23	393,905	380,393

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

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
Peak Dental Solutions Hong Kong Limited [#]	Hong Kong 2 September 2019	HK\$5,000,000	—	60%	Trading of implants products
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 and Medical Instruments (DongGuan) Company Limited ^{*#}	PRC/Mainland China 12 August 2015	RMB75,000,000	—	100%	Manufacture and trading of dental prosthetic devices

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1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Modern Dental Laboratory USA, LLC [#]	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 center 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	EUR100,000	—	100%	Trading of dental prosthetic devices

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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. [#]	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
DD Dental GmbH [#]	Germany 1 July 1987	EUR50,000	—	97.5%	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 2019, the Group acquired DD Dental GmbH from an independent third party. Further details of this acquisition are included in note 32 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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. 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 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to IFRSs 2015-2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 *Leases*, the adoption of the above new and revised standards did not have any significant effect on the financial position or performance of the Group.

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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of buildings, furniture and fixtures, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and presented separately as lease liabilities in the statement of financial position. The right-of-use assets were 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 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;
- using hindsight in determining the lease term where the contract contains options to extend/terminate the lease;
- excluding initial direct costs from the measurement of the right-of-use assets at the date of initial application; and
- applying a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

As a lessee – Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under IAS 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Financial impact at 1 January 2019

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 were as follows:

	Increase/ (decrease) HK\$'000
Assets	
Increase in right-of-use assets	214,055
Decrease in property, plant and equipment	(1,949)
Decrease in prepaid land lease payment	(12,070)
Increase in prepayments, other receivables and other assets	171
Increase in total assets	200,207
Liabilities	
Decrease in other payables and accruals	(10,610)
Increase in lease liabilities	226,313
Decrease in interest-bearing bank and other borrowings	(1,106)
Increase in total liabilities	214,597
Decrease in retained earnings	(14,390)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK\$'000
Operating lease commitments as at 31 December 2018	176,645
Weighted average incremental borrowing rate as at 1 January 2019	3%
Discounted operating lease commitments as at 1 January 2019	158,722
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(124)
Add: Commitments relating to leases previously classified as finance leases	1,106
Payments for optional extension periods not recognised as at 31 December 2018	66,609
Lease liabilities as at 1 January 2019	226,313

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

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	<i>Definition of a Business</i> ¹
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
IFRS 17	<i>Insurance Contracts</i> ²
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ 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. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

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

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated statement of other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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, deferred tax assets, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

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:

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	50 years
Buildings	2 to 16 years
Furniture and fixtures	2 to 6 years
Motor vehicles	2 to 6 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

- (c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

Leases (applicable before 1 January 2019)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

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" 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 ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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:

Financial assets at amortised cost (debt instruments)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (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.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, 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 and a non-controlling shareholder.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

Financial liabilities at amortised cost (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

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

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

Offsetting of financial instruments

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences and 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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 with 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.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 3.2% (2018: 3.6%) has been applied to the expenditure on the individual assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

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.

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

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 2019 was HK\$1,310,846,000 (2018: HK\$1,329,523,000). Further details are given in note 16 to the consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 21 to the financial statements.

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 28 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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:

- The fixed prosthetic devices segment is a supplier of restorative dental procedures, such as crowns, bridge and implants.
- 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.
- 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.

	2019			2018		
	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	1,682,419	854,994	827,425	1,664,457	883,531	780,926
Removable prosthetic devices	460,099	242,438	217,661	451,304	241,101	210,203
Others	257,030	149,185	107,845	199,706	111,499	88,207
Total	2,399,548	1,246,617	1,152,931	2,315,467	1,236,131	1,079,336

Geographical information

(a) Revenue from external customers

	2019 HK\$'000	2018 HK\$'000
Europe	957,616	924,601
North America	697,082	688,431
Greater China	527,033	466,956
Australia	198,983	221,615
Others	18,834	13,864
	2,399,548	2,315,467

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

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

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5. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	2019 HK\$'000	2018 HK\$'000
Europe	740,889	739,342
North America	721,281	630,329
Greater China	363,813	266,722
Australia	432,843	426,460
Others	67,966	73,025
	2,326,792	2,135,878

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:

	2019 HK\$'000	2018 HK\$'000
Revenue		
Sale of goods transferred at a point in time	2,399,548	2,315,467
Other income		
Bank interest income	1,270	547
Government subsidies*	3,982	5,545
Others	8,998	5,252
	14,250	11,344
Gains		
Gains on disposal of items of property, plant and equipment, net	487	—
	487	—
Other income and gains	14,737	11,344

* 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.

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6. REVENUE, OTHER INCOME AND GAINS (continued)

- (a) 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:

	2019 HK\$'000	2018 HK\$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	4,236	2,320

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of products

The performance obligation is satisfied upon delivery of the products, payment is generally due within 30 to 90 days from delivery for established customers and up to 180 days for major customers.

7. PROFIT BEFORE TAX

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

	Notes	2019 HK\$'000	2018 HK\$'000
Cost of inventories sold [#]		1,246,617	1,236,131
Depreciation of property, plant and equipment	14	57,551	57,439
Amortisation of intangible assets	17	35,452	37,777
Amortisation of prepaid land lease payments	15	—	262
Depreciation of right-of-use assets	18(a)	59,901	—
Minimum lease payments under operating leases		—	64,109
Lease payments not included in the measurement of lease liabilities	18(c)	1,961	—
Research and development costs ^{##}		7,447	13,761
Auditors' remuneration		9,275	9,880
Employee benefit expense (excluding directors' and chief executive's remuneration (note 9)):			
Wages and salaries		1,027,213	1,007,272
Pension scheme contributions		137,617	140,310
		1,164,830	1,147,582
Bank interest income		(1,270)	(547)
(Gains)/losses on disposal of items of property, plant and equipment, net ^{**}		(487)	156
Write-off of intangible assets [*]		—	86
Remeasurement gain on contingent consideration [*]	39	—	(773)
Write-off of property, plant and equipment [*]	14	195	430
Allowance for impairment of trade and other receivables, net	21,22	6,675	886
Foreign exchange loss, net [*]		16,920	12,283

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

7. PROFIT BEFORE TAX (continued)

- * Included in "other operating expenses" in the consolidated statement of profit or loss.
- ** Gains on disposal of items of property, plant and equipment, net are included in "other income and gains" in the consolidated statement of profit or loss. Losses on disposal of items of property, plant and equipment, net are included in "other operating expenses" in the consolidated statement of profit or loss.
- # Cost of inventories sold includes HK\$768,369,000 (2018: HK\$762,116,000) relating to employee benefit expense, lease payments not included in the measurement of lease liabilities, 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\$6,263,000 (2018: HK\$12,717,000) relating to employee benefit expense, lease payments not included in the measurement of lease liabilities, 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

	2019 HK\$'000	2018 HK\$'000
Interest on bank loans, overdrafts and other loans	28,584	23,925
Less: amount capitalised on qualifying assets	(1,896)	(1,828)
	26,688	22,097
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	4,181	3,919
Interest on lease liabilities	7,033	—
Interest on finance leases	—	37
	37,902	51,516

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:

	2019 HK\$'000	2018 HK\$'000
Fees	1,028	980
Other emoluments:		
Salaries, allowances and benefits in kind	16,012	14,972
Pension scheme contributions	72	72
	16,084	15,044
	17,112	16,024

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(a) Independent non-executive directors

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

	2019 HK\$'000	2018 HK\$'000
Mr. Cheung Wai Man, William	257	245
Mr. Cheung Wai Bun, Charles J.P.	257	245
Mr. Wong Ho Ching	257	245
Mr. Chan Yue Kwong, Michael	257	245
	1,028	980

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

(b) Executive directors and the chief executive

	Salaries, allowances and benefits in kind HK\$'000	Pension scheme contributions HK\$'000	Total HK\$'000
2019			
Executive directors:			
Mr. Chan Kwun Fung	2,230	—	2,230
Mr. Chan Kwun Pan	2,230	—	2,230
Mr. Ngai Shing Kin	3,742	—	3,742
Mr. Chan Chi Yuen	1,716	18	1,734
Mr. Chan Ronald Yik Long	1,802	18	1,820
Ms. Chan Yik Yu	1,716	18	1,734
Mr. Ngai Chi Ho Alwin	2,576	18	2,594
	16,012	72	16,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

	Salaries, allowances and benefits in kind 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

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2018: one) directors (including the chief executive), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining three (2018: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries, allowances and benefits in kind	10,095	12,218
Performance related bonuses	2,185	5,005
Pension scheme contributions	1,879	2,641
	14,159	19,864

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10. FIVE HIGHEST PAID EMPLOYEES (continued)

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

	2019	2018
HK\$3,000,001 to HK\$3,500,000	—	1
HK\$4,000,001 to HK\$4,500,000	1	—
HK\$4,500,001 to HK\$5,000,000	2	—
HK\$5,000,001 to HK\$5,500,000	—	2
HK\$6,000,001 to HK\$6,500,000	—	1
	3	4

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% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK\$2,000,000 (2018: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

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 2019 and 2018.

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% (2018: flat rate of 21%) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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.

	2019 HK\$'000	2018 HK\$'000
Current	45,488	42,549
Deferred (note 28)	(3,925)	(6,787)
Total tax charge for the year	41,563	35,762

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:

	2019		2018	
	HK\$'000	%	HK\$'000	%
Profit before tax	202,008		119,002	
Tax at the statutory tax rates	38,523	19.1	29,288	24.6
Adjustment in respect of current tax of previous periods	(2,556)	(1.2)	(4,462)	(3.7)
Income not subject to tax	(226)	(0.1)	(3,775)	(3.2)
Expenses not deductible for tax	4,934	2.4	6,771	5.7
Tax losses not recognised	3,463	1.7	8,515	7.2
Tax effect of utilisation of tax losses not previously recognised	(147)	(0.1)	(447)	(0.4)
Others	(2,428)	(1.2)	(128)	(0.1)
Tax charge at the Group's effective rate	41,563	20.6	35,762	30.1

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12. DIVIDENDS

	2019 HK\$'000	2018 HK\$'000
Interim – HK3.1 cents (2018: HK1.9 cents) per ordinary share	30,589	19,000
Proposed final – HK2.2 cents (2018: HK1.4 cents) per ordinary share	21,596	14,000

In 2019, the calculation of the interim dividend and proposed final dividend is based on 986,746,000 (2018: 1,000,000,000) ordinary shares and 981,646,000 (2018: 1,000,000,000) ordinary shares in issue respectively.

On 30 March 2020, the Board recommended a final dividend of HK2.2 cents per ordinary share for the year ended 31 December 2019. The proposed final dividend for the year ended 31 December 2019 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 980,162,330 (2018: 997,150,640) in issue during the year.

The Group had no potential dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

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

	2019 HK\$'000	2018 HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	161,557	85,391

	Number of shares	
	2019	2018
Shares		
Weighted average number of ordinary shares in issue during the years used in the basic and diluted earnings per share calculation	980,162,330	997,150,640

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14. PROPERTY, PLANT AND EQUIPMENT

	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 2019							
At 1 January 2019 (restated)							
Cost	156,920	133,960	77,745	194,836	13,991	105,362	682,814
Accumulated depreciation	(29,713)	(34,909)	(48,513)	(129,426)	(8,392)	—	(250,953)
Net carrying amount	127,207	99,051	29,232	65,410	5,599	105,362	431,861
At 31 December 2018,							
net of accumulated depreciation	127,207	101,000	29,232	65,410	5,599	105,362	433,810
Effect of adoption of IFRS 16 (note 2.2)	—	(1,949)	—	—	—	—	(1,949)
At 1 January 2019 (restated),							
net of accumulated depreciation	127,207	99,051	29,232	65,410	5,599	105,362	431,861
Additions	12,391	3,509	18,766	35,553	3,509	63,278	137,006
Disposals	—	—	(2,020)	(4,381)	(874)	—	(7,275)
Acquisition of a subsidiary (note 32)	—	584	1,273	—	66	—	1,923
Transfer from CIP	132,259	33,967	—	206	7	(166,439)	—
Write-off	—	—	(29)	(166)	—	—	(195)
Depreciation provided during the year	(7,469)	(15,953)	(11,344)	(21,184)	(1,601)	—	(57,551)
Exchange realignment	(4,837)	(1,130)	(627)	41	(123)	(480)	(7,156)
At 31 December 2019,							
net of accumulated depreciation	259,551	120,028	35,251	75,479	6,583	1,721	498,613
At 31 December 2019:							
Cost	296,574	171,013	89,707	216,548	14,032	1,721	789,595
Accumulated depreciation	(37,023)	(50,985)	(54,456)	(141,069)	(7,449)	—	(290,982)
Net carrying amount	259,551	120,028	35,251	75,479	6,583	1,721	498,613

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

	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

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.

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15. PREPAID LAND LEASE PAYMENTS

	2019 HK\$'000	2018 HK\$'000
Carrying amount at 1 January	12,070	12,917
Effect of adoption of IFRS 16 (note 2.2)	(12,070)	—
Carrying amount at 1 January (restated)	—	12,917
Recognised during the year (note 7)	—	(262)
Exchange realignment	—	(585)
Carrying amount at 31 December	—	12,070
Current portion included in prepayments, deposits and other receivables (note 22)	—	(253)
Non-current portion	—	11,817

16. GOODWILL

	HK\$'000
At 1 January 2018:	
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
Cost at 1 January 2019, net of accumulated impairment	1,329,523
Exchange realignment	(18,677)
At 31 December 2019	1,310,846
At 31 December 2019:	
Cost	1,320,377
Accumulated impairment	(9,531)
Net carrying amount	1,310,846

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. GOODWILL (continued)

Impairment testing of goodwill

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

	2019 HK\$'000	2018 HK\$'000
Labocast SAS and Labo Ocean Indien SA	59,352	60,988
Quantum Dental Laboratory Inc.	10,959	10,558
Permardental Holding B.V.	256,490	263,559
Elysee Dental Holding B.V.	198,396	203,865
Modern Dental Pacific Holdings Pty Limited	306,990	310,661
Dentrade Group*	18,170	18,235
MicroDental and Modern US**	415,692	415,692
Schmidt Dentalkeramik ApS.	7,750	7,964
CDI Dental AB & CDI Supply AB	28,997	29,796
Others***	8,050	8,205
	1,310,846	1,329,523

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. GOODWILL (continued)

Impairment testing of goodwill (continued)

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

		2019	2018
Labocast SAS and Labo Ocean Indien SA	discount rates	19% - 21%	22% - 33%
	growth rates	2% - 5%	2% - 6%
Quantum Dental Laboratory Inc.	discount rates	18%	19%
	growth rates	2%	2%
Permadental Holding B.V.	discount rates	16%	19%
	growth rates	2%	2%
Elysee Dental Holding B.V.	discount rates	16%	18%
	growth rates	2%	2%
Modern Dental Pacific Holdings Pty Limited	discount rates	18%	21%
	growth rates	2%	3%
Dentrade Group*	discount rates	11%	11%
	growth rates	2% - 3%	2% - 3%
MicroDental and Modern US**	discount rates	17%	18%
	growth rates	2%	2%
Schmidt Dentalkeramik ApS.	discount rates	16%	16%
	growth rates	2%	2%
CDI Dental AB & CDI Supply AB	discount rates	15%	16%
	growth rates	2%	2%
Others***	discount rates	16% - 17%	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., 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Assumptions were used in the value in use calculation of each cash-generating unit for the years ended 31 December 2019 and 2018. 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 2019 and 2018.

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17. INTANGIBLE ASSETS

31 December 2019	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 2019, net of accumulated amortisation	127,307	1,687	199,901	446	1,220	330,561
Additions	—	4,125	—	—	—	4,125
Acquisition of a subsidiary (note 32)	—	177	—	—	—	177
Amortisation provided during the year	(33,892)	(839)	—	(446)	(275)	(35,452)
Exchange realignment	(2,261)	(67)	(1,916)	—	(22)	(4,266)
Net carrying amount	91,154	5,083	197,985	—	923	295,145
At 31 December 2019:						
Cost	302,361	8,797	197,985	2,465	1,351	512,959
Accumulated amortisation	(211,207)	(3,714)	—	(2,465)	(428)	(217,814)
Net carrying amount	91,154	5,083	197,985	—	923	295,145

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. LEASES

The Group as a lessee

The Group has lease contracts for various items of buildings, furniture and fixtures, motor vehicles and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 2 and 16 years, leases of furniture and fixtures generally have lease terms between 2 and 6 years and motor vehicles generally have lease terms between 2 and 6 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use-assets and the movements during the year are as follows:

	Leasehold land HK\$'000	Buildings HK\$'000	Furniture and fixtures HK\$'000	Motor Vehicles HK\$'000	Total HK\$'000
As at 1 January 2019	12,070	201,325	544	116	214,055
Additions	8,802	10,985	948	21,202	41,937
Depreciation for the year	(361)	(49,609)	(407)	(9,524)	(59,901)
Exchange realignment	(412)	(893)	(6)	(47)	(1,358)
As at 31 December 2019	20,099	161,808	1,079	11,747	194,733

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities HK\$'000	2018 Finance lease payables HK\$'000
Carrying amount at 1 January	226,313	897
New leases	33,135	911
Accretion of interest recognised during the year	7,033	37
Payments	(66,994)	(649)
Exchange realignment	(1,018)	(90)
Carrying amount at 31 December	198,469	1,106
Analysed into:		
Current portion	53,337	489
Non-current portion	145,132	617
	198,469	1,106

The maturity analysis of lease liabilities (2018: finance lease payables) is disclosed in note 40 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. LEASES (continued)

The Group as a lessee (continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 HK\$'000
Interest on lease liabilities	7,033
Depreciation charge of right-of-use assets	59,901
Expenses relating to low-value assets and short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	1,961
Total amount recognised in profit or loss	68,895

(d) The total cash outflow for leases and future cash outflows relating to leases are disclosed in notes 33(c) and 40, respectively, to the consolidated financial statements.

19. INVESTMENTS IN ASSOCIATES

	2019 HK\$'000	2018 HK\$'000
Share of net assets	9,625	8,396

The amount due from an associate included in the Group's current assets totaling HK\$58,000 (2018: HK\$55,000) is unsecured, non-interest-bearing and repayable on demand. As at 31 December 2019 and 2018, the loss allowance for the amount due from an associate was assessed to be minimal.

Particulars of the principal associate is as follows:

Company name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of			Principal activity
			Ownership interest	Voting power	Profit sharing	
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.

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19. INVESTMENTS IN ASSOCIATES (continued)

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

	2019 HK\$'000	2018 HK\$'000
Share of the associates' loss for the year	(504)	(1,929)
Aggregate carrying amount of the Group's investments in the associates	9,625	8,396

20. INVENTORIES

	2019 HK\$'000	2018 HK\$'000
Raw material	89,112	94,963
Work in progress	16,884	13,266
Finished goods	9,278	2,677
	115,274	110,906

21. TRADE RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade receivables	450,158	406,135
Impairment	(26,887)	(25,692)
	423,271	380,443

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. TRADE RECEIVABLES (continued)

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:

	2019 HK\$'000	2018 HK\$'000
Within 1 month	248,472	223,184
1 to 2 months	61,757	57,242
2 to 3 months	31,209	32,149
3 months to 1 year	68,513	54,400
Over 1 year	13,320	13,468
	423,271	380,443

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

	2019 HK\$'000	2018 HK\$'000
At 1 January	25,692	26,445
Acquisition of a subsidiary (note 32)	235	—
Impairment losses, net (note 7)	6,675	450
Amount written off as uncollectible	(5,469)	(367)
Exchange realignment	(246)	(836)
At 31 December	26,887	25,692

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.

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21. TRADE RECEIVABLES (continued)

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 2019

	Current	Less than 1 month	Past due			Total
			1 to 3 months	3 months to 1 year	Over 1 year past due	
Expected credit loss rate	0.20%	0.22%	2.02%	47.08%	61.23%	
Gross carrying amount (HK\$'000)	277,611	57,649	71,151	14,176	29,571	450,158
Expected credit losses (HK\$'000)	546	124	1,436	6,674	18,107	26,887

As at 31 December 2018

	Current	Less than 1 month	Past due			Total
			1 to 3 months	3 months to 1 year	Over 1 year past due	
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

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2019 HK\$'000	2018 HK\$'000
Current			
Prepayments	(a)	24,471	17,734
Prepaid land lease payments (note 15)		—	253
Deposits and other receivables		43,047	43,053
Due from a related party (note 37(3))		64	97
		67,582	61,137
Impairment allowance		(2,843)	(2,843)
		64,739	58,294
Non-current			
Prepayments		523	9,188
Deposits		17,307	12,583
		17,830	21,771

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22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

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

	2019 HK\$'000	2018 HK\$'000
At 1 January	2,843	2,407
Impairment losses recognised (note 7)	—	436
At 31 December	2,843	2,843

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.

Note:

- (a) As a result of initial application of IFRS 16, rental prepayments of HK\$171,000 included in "Prepayments, deposits and other receivables" were adjusted to the right-of-use assets and lease liabilities at 1 January 2019 (refer note 2.2 to the consolidated financial statements for further details).

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 HK\$'000	2018 HK\$'000
Cash and bank balances	393,608	380,098
Time deposits	5,627	11,777
	399,235	391,875
Less: Pledged deposits for bank facilities	(5,330)	(11,482)
Cash and cash equivalents	393,905	380,393

As at 31 December 2019, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$153,853,000 (2018: HK\$151,760,000). 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.

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24. 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:

	2019 HK\$'000	2018 HK\$'000
Within 1 month	39,271	35,890
1 to 2 months	20,578	21,334
2 to 3 months	5,100	5,047
Over 3 months	5,077	2,048
	70,026	64,319

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.

25. OTHER PAYABLES AND ACCRUALS

	Notes	2019 HK\$'000	2018 HK\$'000
Current			
Deferred rent	(b)	—	677
Contract liabilities	(a)	6,200	4,236
Accruals	(b)	173,693	144,076
Other payables		17,859	20,424
Due to related parties (note 37(3))		87	1,027
		197,839	170,440
Other non-current liabilities			
Deferred rent		—	10,719
Due to a non-controlling shareholder	(c)	4,800	—
Other payables		403	212
		5,203	10,931

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25. OTHER PAYABLES AND ACCRUALS (continued)

Notes:

- a. Details of contract liabilities are as follows:

	31 December 2019 HK\$'000	31 December 2018 HK\$'000	1 January 2018 HK\$'000
Short-term deposits received from customers			
Sale of goods	6,200	4,236	2,320

Contract liabilities represent short-term deposits received to deliver goods. The increase in contract liabilities in 2019 and 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. As a result of the initial application of IFRS 16, deferred rent and accrued lease payments totalling HK\$10,610,000 previously included in "Other payables and accruals" were adjusted to the right-of-use assets recognised at 1 January 2019 (refer to note 2.2 to the consolidated financial statements for further details).
- c. The balance is unsecured, non-interest-bearing and repayable in 2 years.
- d. Except for amount due to a non-controlling shareholder mentioned in note (c), the remaining balances are unsecured and non-interest-bearing. The carrying amounts of other payables and accruals approximate to their fair values.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective/ contractual interest rate (%)	Maturity	HK\$'000	Effective/ contractual interest rate (%)	Maturity	HK\$'000
Current						
Finance lease payables (note 27)	—	—	—	3.69 – 13.70	2019	489
Bank loans – secured	Hong Kong Interbank Offered Rate ("HIBOR") + 1.10	On demand	20,000	HIBOR+1.70	On demand	19,970
Current portion of long term bank loans – secured	HIBOR+1.60	2020	86,336	HIBOR+1.60	2019	9,712
			106,336			30,171
Non-current						
Finance lease payables (note 27)	—	—	—	3.69 – 10.34	2020-2023	617
Long term bank loans – secured	HIBOR+1.60	2021-2023	696,012	HIBOR+1.60	2020-2023	778,455
			696,012			779,072
			802,348			809,243

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

	2019 HK\$'000	2018 HK\$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	106,336	29,682
In the second year	207,340	82,443
In the third to fifth years, inclusive	488,672	696,012
	802,348	808,137
Finance lease payables (note 27):		
Within one year	—	489
In the second year	—	302
In the third to fifth years, inclusive	—	315
	—	1,106
	802,348	809,243

Notes:

- a. As at 31 December 2019 and 2018, all bank loans are secured by the corporate guarantees of the Company and certain of its subsidiaries.
- b. As at 31 December 2019, the Group's bank borrowings denominated in HK\$ amounted to HK\$802,348,000.

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.
- c. As a result of initial application of IFRS 16, finance lease payables of HK\$1,106,000 previously included in "Interest-bearing bank and other borrowings" were adjusted to lease liabilities at 1 January 2019 (refer to note 2.2 to the consolidated financial statements for further details).

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27. FINANCE LEASE PAYABLES

The Group leases certain of its furniture and fixtures for its denture business. These leases were classified as finance leases prior to IFRS 16 become effective on 1 January 2019 and had 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 HK\$'000	Present value of minimum lease payments HK\$'000
Amounts payable:		
Within one year	535	489
In the second year	325	302
In the third to fifth years, inclusive	330	315
Total minimum finance lease payments	1,190	1,106
Future finance charges	(84)	
Total net finance lease payables	1,106	
Portion classified as current liabilities (note 26)	(489)	
Non-current portion (note 26)	617	

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28. 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 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)
At 31 December 2018 and 1 January 2019	19,077	17,475	36,552
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year (note 11)	2,293	(4,987)	(2,694)
Exchange realignment	(33)	—	(33)
Gross deferred tax liabilities at 31 December 2019	21,337	12,488	33,825

Deferred tax assets

	Losses available for offsetting against future taxable profits HK\$'000
At 1 January 2018	18,598
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	10,640
Exchange realignment	(646)
At 31 December 2018 and 1 January 2019	28,592
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	1,231
Exchange realignment	(213)
Gross deferred tax assets at 31 December 2019	29,610

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28. DEFERRED TAX (continued)

Deferred tax assets (continued)

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

	2019 HK\$'000	2018 HK\$'000
Net deferred tax assets recognised in the consolidated statement of financial position	11,832	10,814
Net deferred tax liabilities recognised in the consolidated statement of financial position	(16,047)	(18,774)
	(4,215)	(7,960)

The Group has tax losses arising in Hong Kong of HK\$27,439,000 (2018: HK\$17,270,000) 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\$195,765,000 (2018: HK\$183,357,000) 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:

	2019 HK\$'000	2018 HK\$'000
Tax losses	55,165	51,849

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 2019, 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\$520,059,000 at 31 December 2019 (2018: HK\$454,189,000).

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

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29. SHARE CAPITAL

	2019 US\$'000	2018 US\$'000
Shares		
Issued and fully paid:		
981,646,000 (31 December 2018: 1,000,000,000) ordinary shares of US\$0.01 each	9,816	10,000
Equivalent to HK\$'000	76,078	77,500

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

	Note	Number of shares in issue	Share capital HK\$'000	Treasury shares HK\$'000	Share premium HK\$'000	Total HK\$'000
At 1 January 2018		1,000,000,000	77,500	(39)	723,069	800,530
2017 final dividend		—	—	—	(21,000)	(21,000)
2018 interim dividend		—	—	—	(19,000)	(19,000)
Shares repurchased		—	—	(16,420)	—	(16,420)
At 31 December 2018 and 1 January 2019		1,000,000,000	77,500	(16,459)	683,069	744,110
2018 final dividend		—	—	—	(13,814)	(13,814)
2019 interim dividend		—	—	—	(30,271)	(30,271)
Shares repurchased	(a)	—	—	(30,819)	—	(30,819)
Shares cancelled	(a)	(18,354,000)	(1,422)	25,482	(24,060)	—
At 31 December 2019		981,646,000	76,078	(21,796)	614,924	669,206

Note:

- a. On 23 May 2019, 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 98,674,600 shares, being 10% of the total number of issued shares of the Company as at the date of the general meeting, on the Hong Kong Stock Exchange.

For the year ended 2019, the Company repurchased 21,454,000 of its ordinary shares on the Hong Kong Stock Exchange at an aggregate consideration of HK\$30,819,000 (before expenses). Out of 21,454,000 repurchased ordinary shares, 6,885,000 ordinary shares of HK\$9,062,000 (before expenses), together with 11,469,000 ordinary shares of HK\$16,420,000 (before expenses) repurchased during the year ended 31 December 2018, were cancelled during the year ended 31 December 2019, while the remaining 14,569,000 ordinary shares of HK\$21,757,000 (before expenses) were recognised as treasury shares as at 31 December 2019.

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30. 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.

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.

No RSUs were granted, vested and lapsed under the Pre-IPO RSU Scheme during the years ended 31 December 2019 and 31 December 2018, and no RSUs were outstanding under the Pre-IPO RSU Scheme as at 31 December 2019 and 2018.

31. RESERVES

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

i. Statutory reserve

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

ii. Capital reserve

On 28 March 2014, 15 May 2014 and 20 March 2015, Trieria Holdings Limited, Prosperity Worldwide Investment Holdings Limited and NCHA Holdings Limited (the “**Shareholders**”) provided interest-free shareholders’ loans to the Company in amounts of HK\$287,918,000, HK\$96,000,000 and HK\$182,944,000, respectively. The shareholders’ loans are measured at present value by discounting the nominal value of the loans at an effective interest rate. The total differences of HK\$41,904,000 between the nominal values and the present values of the loans represented the deemed contribution by the shareholders and were credited to capital reserve. On 15 December 2015, the Company was granted by the Shareholders the waiver of the shareholders’ loans of HK\$566,862,000. The present value of the loans as at 15 December 2015 amounting to HK\$546,315,000 was credited to capital reserve.

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32. BUSINESS COMBINATIONS

Acquisition of DD Dental GmbH ("DD Dental")

On 7 November 2019, Modern Dental Europe B.V., a wholly-owned subsidiary of the Group, entered into a share purchase agreement with an independent third party to acquire a 97.5% equity interest in DD Dental GmbH ("DD Dental") at a cash consideration of EUR 546,000. DD Dental is principally engaged in the sale of prosthetic devices in the Germany. The acquisition was completed on 7 November 2019. 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 DD Dental as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition HK\$'000
Property, plant and equipment	14	1,923
Intangible assets	17	177
Inventories		215
Trade receivables		3,947
Prepayments, deposits and other receivables		723
Cash and cash equivalents		1,533
Trade payables		(3,142)
Other payables and accruals		(516)
Total identifiable net assets at fair value		4,860
Non-controlling interests		(103)
		4,757
Satisfied by:		
Cash		4,757

The fair value of the trade receivables as at the date of acquisition amounted to HK\$3,947,000. The gross contractual amounts of trade receivables were HK\$4,182,000, of which HK\$235,000 is expected to be uncollectible.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. BUSINESS COMBINATIONS (continued)

Acquisition of DD Dental GmbH ("DD Dental") (continued)

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

	HK\$'000
Cash consideration paid in the year ended 31 December 2019	(4,757)
Cash and bank balances obtained	1,533
Net outflow of cash and cash equivalents included in cash flows from investing activities in 2019	(3,224)
Transaction costs of the acquisition included in cash flows from operating activities in 2019	(26)
	(3,250)

Since the acquisition, DD Dental contributed HK\$6,803,000 to the Group's turnover and loss of HK\$279,000 to the consolidated profit for the year ended 31 December 2019.

Had the combination taken place at the beginning of the year ended 31 December 2019, the revenue and the profit of the Group for the year ended 31 December 2019 would have been HK\$2,433,992,000 and HK\$161,838,000, respectively.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Non-cash transaction

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$33,135,000 and HK\$33,135,000, respectively, in respect of lease arrangements for buildings, fixture and furniture and motor vehicles (2018: Nil).

During the year, additions of property, plant and equipment of HK\$523,000 were transferred from the prepayments (2018: HK\$40,910,000).

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

2019

	Bank loans HK\$'000	Lease liabilities/ finance lease payables HK\$'000
At 31 December 2018	808,137	1,106
Effect of adoption of IFRS 16 (note 2.2)	—	225,207
At 1 January 2019 (restated)	808,137	226,313
Changes from financing cash flows	(9,970)	(66,994)
Non-cash flows:		
Foreign exchange movement	—	(1,018)
New leases	—	33,135
Interest on lease liabilities (note 8)	—	7,033
Finance charges on bank loans (note 8)	4,181	—
At 31 December 2019	802,348	198,469

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

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

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

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2019 HK\$'000
Within operating activities	1,961
Within investing activities	8,802
Within financing activities	66,994
	77,757

34. CONTINGENT LIABILITIES

The Group has no significant contingent liabilities as at 31 December 2019.

As at 31 December 2018, the Group had a contingent liability in respect of potential claims of US\$1 million (equivalent to HK\$7.8 million) by a former employee, who was also a non-controlling shareholder of a subsidiary of the Group. Subsequent to the year ended 31 December 2018, the former 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 considered that the risk of the claim at the labour tribunal was reasonably low. No provision had therefore been made in respect of this claim as at 31 December 2018. During the year ended 31 December 2019, the Group had settled the case with an amount of HK\$1 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. OPERATING LEASE ARRANGEMENTS

As lessee

As at 31 December 2018, the Group leased certain of its office premises, staff quarters and warehouses under operating lease arrangements. Leases for properties were 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
Within one year	38,812
In the second to fifth years, inclusive	96,125
After five years	41,708
	176,645

From 1 January 2019, the Group has recognised right-of-use assets and lease liabilities for leases. For details, please refer to note 18 to the consolidated financial statements.

36. COMMITMENTS

	2019 HK\$'000	2018 HK\$'000
Contracted, but not provided for:		
Leasehold improvement	2,428	—
Land and buildings	113,795	164,661
	116,223	164,661

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\$274,621,000) 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 2019, the Group has paid RMB18,839,000 (equivalent to HK\$21,031,000) and RMB125,225,000 (equivalent to HK\$139,795,000) for the acquisition of land and construction in progress, respectively, and the remaining commitment was RMB101,936,000 (equivalent to HK\$113,795,000).

Except for such agreement, the Group did not have any other significant commitments as at 31 December 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. 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:

	2019 HK\$'000	2018 HK\$'000
(a) Rental fee paid to Most Wealth International Limited	3,888	3,004
(b) Rental fee paid to directors	1,251	1,141
(c) Rental fee paid to directors and an associate of a director	2,648	2,060
(d) Rental fee paid to an associate of a director	191	181
(e) Rental fee paid to an associate of a director	143	135
(f) Rental fee paid to an associate of a director	430	406
(g) Training fee paid to ShenZhen Nanshan District Modern Denture Technology Training Centre	3,587	4,853
(h) Sales of finished goods to Trident Dental Group Limited	370	364

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

37. 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.

The lease commitments listed above have been recorded as lease liabilities on the consolidated statement of financial position as at 31 December 2019 in accordance with IFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

37. RELATED PARTY TRANSACTIONS (continued)

(3) Balances with related parties

At 31 December 2019, the Group's balances due from/to related parties were as follows:

	2019 HK\$'000	2018 HK\$'000
Due from a related party (note 22):		
Trident Dental Group Limited	64	97
Due to related parties (note 25):		
Shenzhen Nanshan District Modern Denture Technology Training Centre	87	94
Most Wealth International Limited	—	933
	87	1,027

The amounts due from/to related parties are unsecured, non-interest-bearing and repayable on demand.

(4) Compensation of key management personnel of the Group

	2019 HK\$'000	2018 HK\$'000
Short term employee benefits	31,329	30,535
Post-employment benefits	2,151	2,731
Total compensation paid to key management personnel	33,480	33,266

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38. 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:

2019**Financial assets**

	Financial assets at amortised cost HK\$'000
Trade receivables	423,271
Financial assets included in deposits and other receivables	52,638
Due from a related party	64
Due from an associate	58
Pledged deposits	5,330
Cash and cash equivalents	393,905
Total	875,266

Financial liabilities

	Financial liabilities at amortised cost HK\$'000
Trade payables	70,026
Financial liabilities included in other payables and accruals	47,191
Interest-bearing bank borrowings	802,348
Lease liabilities	198,469
Due to a non-controlling shareholder	4,800
Due to a related party	87
Total	1,122,921

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:
(continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

39. 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	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Financial liabilities				
Interest-bearing bank and other borrowings	802,348	809,243	802,348	809,243

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, an amount due to a non-controlling shareholder, 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 changes in fair value as a result of the Group's own non-performance risk for finance lease payables, and interest-bearing bank and other borrowings as at 31 December 2019 and 2018 were assessed to be insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Liabilities measured at fair value:

There were no liabilities measured at fair value as at 31 December 2019 and 2018.

The movements in fair value measurements within Level 3 during the year ended 31 December 2018 were as follows:

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

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 (2018: Nil).

Liabilities for which fair values are disclosed:

As at 31 December 2019	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Interest-bearing bank borrowings	—	802,348	—	802,348

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial assets of the Group include trade receivables, deposits and other receivables, an amount 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, lease liabilities and amounts due to related parties and a non-controlling shareholder.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to changes in interest rates. Management continues to monitor the cash flows of the operations and the debt markets, where the Group would expect to refinance these borrowings with a lower cost of debt, when considered appropriate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in interest rate %	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity HK\$'000
Year ended 31 December 2019			
HK\$	1	(8,023)	(8,023)
HK\$	(1)	8,023	8,023
Year ended 31 December 2018			
HK\$	1	(8,200)	(8,200)
HK\$	(1)	8,200	8,200

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 9% and 8% of the Group's sales for the years ended 31 December 2019 and 2018 were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 10% and 10% of costs for the years ended 31 December 2019 and 2018 were denominated in currencies other than the units' functional currencies, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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40. 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 2019		
If HK\$ weakens against EUR	5	15,080
If HK\$ strengthens against EUR	(5)	(15,080)
If HK\$ weakens against AUD	5	3,789
If HK\$ strengthens against AUD	(5)	(3,789)
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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Maximum exposure and year-end staging

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. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach HK\$'000	
Trade receivables*	—	—	—	450,158	450,158
Financial assets included in prepayments, other receivables and other assets					
– Normal**	52,638	—	—	—	52,638
– Doubtful**	—	—	2,843	—	2,843
Due from a related party					
– Normal**	64	—	—	—	64
Due from an associate					
– Normal**	58	—	—	—	58
Pledged deposits					
– Not yet past due	5,330	—	—	—	5,330
Cash and cash equivalents					
– Not yet past due	393,905	—	—	—	393,905
	451,995	—	2,843	450,158	904,996

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2018

	12-month ECLs		Lifetime ECLs		Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach 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 21 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets, an amount due from a related party and an 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".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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40. 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 2019					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	
Trade payables	—	70,026	—	—	—	70,026
Other payables and accruals	—	47,191	—	—	—	47,191
Interest-bearing bank borrowings	20,000	—	140,248	752,784	—	913,032
Lease liabilities	—	13,973	40,074	117,628	42,839	214,514
Due to a non-controlling shareholder	—	—	—	4,800	—	4,800
Due to a related party	87	—	—	—	—	87
	20,087	131,190	180,322	875,212	42,839	1,249,650

	31 December 2018					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	1 to 5 years 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

40. 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 2019 and 2018.

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, lease liabilities, 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:

	2019 HK\$'000	2018 HK\$'000
Interest-bearing bank and other borrowings	802,348	809,243
Trade payables	70,026	64,319
Lease liabilities	198,469	—
Other payables and accruals	197,839	170,440
Other non-current liabilities	5,203	10,931
Less:		
Pledged deposits	(5,330)	(11,482)
Cash and cash equivalents	(393,905)	(380,393)
Net debt	874,650	663,058
Equity attributable to owners of the Company	2,020,820	1,996,244
Capital and net debt	2,895,470	2,659,302
Gearing ratio	30%	25%

41. EVENTS AFTER THE REPORTING PERIOD

- (i) Subsequent to the end of the reporting period, the Company repurchased 4,600,000 of its ordinary shares on the Stock Exchange at an aggregate consideration of approximately HK\$6,867,000 (before expenses). Together with 14,569,000 ordinary shares of approximately HK\$21,757,000 (before expenses) repurchased in year end 31 December 2019, 19,169,000 repurchased ordinary shares of approximately HK\$28,624,000 (before expenses) were cancelled subsequently in February and March 2020.
- (ii) The outbreak of 2019 Novel Coronavirus ("COVID-19") has grown into a global pandemic during the first quarter of 2020. The Group is closely monitoring and evaluating its potential impact, and is taking precautionary and necessary measures to mitigate its impact on the financial position and operating results of the Group. The outbreak of COVID-19 is expected to have at least, a short-term negative impact on the global economic environment which in turn, is likely to affect the Group's revenue and profit in the first half of 2020. How effective government measures are, in the countries that the Group operates, and how quickly global economies recover from the negative impact of this pandemic, may have an effect on the Group's financial results for the year ending 2020. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future.

Save as disclosed above, the Group does not have other significant subsequent event as at the date of this financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

42. 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:

	2019 HK\$'000	2018 HK\$'000
NON-CURRENT ASSETS		
Property, plant and equipment	735	986
Investments in subsidiaries	522,856	512,656
Investments in associates	7,967	8,396
Long-term prepayments	—	3,036
Total non-current assets	531,558	525,074
CURRENT ASSETS		
Due from subsidiaries	1,102,820	1,131,398
Prepayments, deposits and other receivables	3,409	3,635
Cash and cash equivalents	16,581	8,572
Total current assets	1,122,810	1,143,605
CURRENT LIABILITIES		
Other payables and accruals	4,958	4,603
Due to subsidiaries	545,795	454,728
Total current liabilities	550,753	459,331
NET CURRENT ASSETS	572,057	684,274
TOTAL ASSETS LESS CURRENT LIABILITIES	1,103,615	1,209,348
Net assets	1,103,615	1,209,348
EQUITY		
Share capital	76,078	77,500
Treasury shares	(21,796)	(16,459)
Reserves (note)	1,049,333	1,148,307
Total equity	1,103,615	1,209,348

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

42. 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 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 and 1 January 2019	683,069	588,219	(4,276)	(118,705)	1,148,307
2018 final dividend	(13,814)	—	—	—	(13,814)
2019 interim dividend	(30,271)	—	—	—	(30,271)
Shares cancelled	(24,060)	1,422	—	(1,422)	(24,060)
Loss for the year	—	—	—	(30,829)	(30,829)
At 31 December 2019	614,924	589,641	(4,276)	(150,956)	1,049,333

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2020.

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 is set out below.

	Year ended 31 December				
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
RESULTS					
REVENUE	2,399,548	2,315,467	2,181,292	1,642,176	1,415,620
Cost of sales	(1,246,617)	(1,236,131)	(1,119,780)	(761,515)	(654,252)
Gross profit	1,152,931	1,079,336	1,061,512	880,661	761,368
Other income and gains	14,737	11,344	23,912	4,072	2,827
Selling and distribution expenses	(294,352)	(275,142)	(265,926)	(185,222)	(147,822)
Administrative expenses	(615,725)	(630,558)	(586,525)	(499,549)	(434,402)
Other operating expenses	(17,177)	(12,533)	(1,582)	(18,435)	(5,078)
Finance costs	(37,902)	(51,516)	(28,582)	(28,411)	(42,337)
Share of losses of associates	(504)	(1,929)	(1,288)	—	—
PROFIT BEFORE TAX	202,008	119,002	201,521	153,116	134,556
Income tax expense	(41,563)	(35,762)	(44,158)	(50,048)	(51,550)
PROFIT FOR THE YEAR	160,445	83,240	157,363	103,068	83,006
Attributable to:					
Owners of the Company	161,557	85,391	155,371	101,483	81,963
Non-controlling interests	(1,112)	(2,151)	1,992	1,585	1,043
	160,445	83,240	157,363	103,068	83,006

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
TOTAL ASSETS	3,361,241	3,106,061	3,140,230	2,744,503	2,679,452
TOTAL LIABILITIES	(1,338,834)	(1,113,859)	(1,035,237)	(922,273)	(891,616)
NON-CONTROLLING INTERESTS	(1,587)	4,042	(7,503)	(6,491)	(8,298)
	2,020,820	1,996,244	2,097,490	1,815,739	1,779,538

CORPORATE INFORMATION

PLACE OF INCORPORATION

Cayman Islands

BOARD OF DIRECTORS

Executive Directors

Mr. CHAN Kwun Fung (*Chairman*)
 Mr. CHAN Kwun Pan (*Vice-Chairman*)
 Mr. NGAI Shing Kin (*Chief Executive Officer*)
 Mr. NGAI Chi Ho Alwin (*Chief Operating Officer*)
 Ms. CHAN Yik Yu (*Chief Marketing Officer*)
 Mr. CHAN Chi Yuen
 Dr. CHAN Ronald Yik Long

Independent Non-Executive Directors

Dr. CHEUNG Wai Bun Charles, J.P.
 Dr. CHAN Yue Kwong Michael
 Dr. WONG Ho Ching
 Dr. CHEUNG Wai Man William

BOARD COMMITTEES

Audit Committee

Dr. CHEUNG Wai Bun Charles, J.P. (*Chairman*)
 Dr. CHAN Yue Kwong Michael
 Dr. WONG Ho Ching

Remuneration Committee

Dr. WONG Ho Ching (*Chairman*)
 Dr. CHEUNG Wai Man William
 Dr. CHEUNG Wai Bun Charles, J.P.
 Mr. NGAI Shing Kin
 Ms. CHAN Yik Yu

Nomination Committee

Dr. CHAN Yue Kwong Michael (*Chairman*)
 Dr. CHEUNG Wai Bun Charles, J.P.
 Dr. CHEUNG Wai Man William
 Mr. NGAI Chi Ho Alwin
 Dr. CHAN Ronald Yik Long

COMPANY SECRETARY

Mr. KWAN Ngai Kit

AUTHORISED REPRESENTATIVES

Mr. NGAI Shing Kin
 Mr. KWAN Ngai Kit

AUDITOR

Ernst & Young

REGISTERED OFFICE

Cricket Square, Hutchins Drive
 P.O. Box 2681
 Grand Cayman KY1-1111
 Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 01-07, 09-16,
 17/F., CEO Tower
 77 Wing Hong Street
 Cheung Sha Wan
 Kowloon, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
 Level 54, Hopewell Centre
 183 Queen's Road East
 Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
 Bank of China (Hong Kong) Limited
 Chiyu Banking Corporation Limited
 Australia and New Zealand Banking Group Limited,
 Hong Kong Branch
 China Construction Bank (Asia) Corporation Limited
 Citibank, N.A., Hong Kong Branch

COMPANY WEBSITE

www.moderndentalgp.com

STOCK CODE

3600