



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




INTERIM
REPORT 2020





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MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS REVIEW

Modern Dental Group Limited (the “**Company**”, stock code: 3600) and its subsidiaries (which are collectively referred to as the “**Group**” or “**Modern Dental**”) is a leading global dental prosthetic device provider with a focus on providing custom- made prostheses to customers in the growing prosthetics industry. Our product portfolio is broadly categorised into three product lines: (i) fixed prosthetic devices such as crowns and bridges; (ii) removable prosthetic devices such as removable dentures; 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.

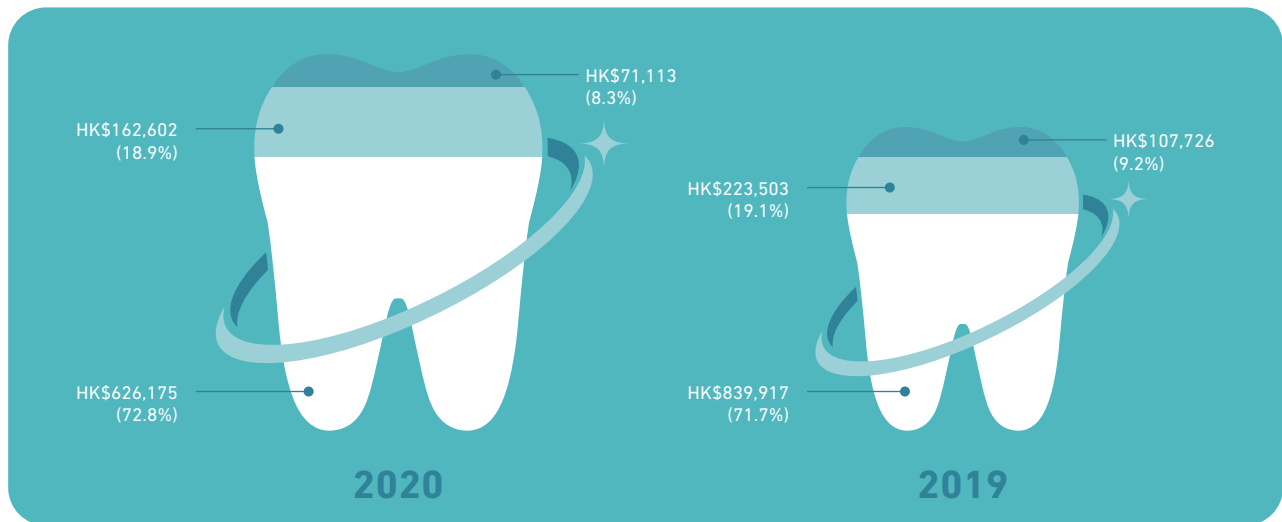
MANAGEMENT DISCUSSION AND ANALYSIS

PRODUCT CATEGORY

The figures below set forth the breakdown of revenue (in thousand Hong Kong dollars and percentage) and sales volume (in number of cases and percentage) by product category for the six months ended 30 June 2020 and 2019 respectively:

BREAKDOWN OF REVENUE

(HK\$'000 and %)



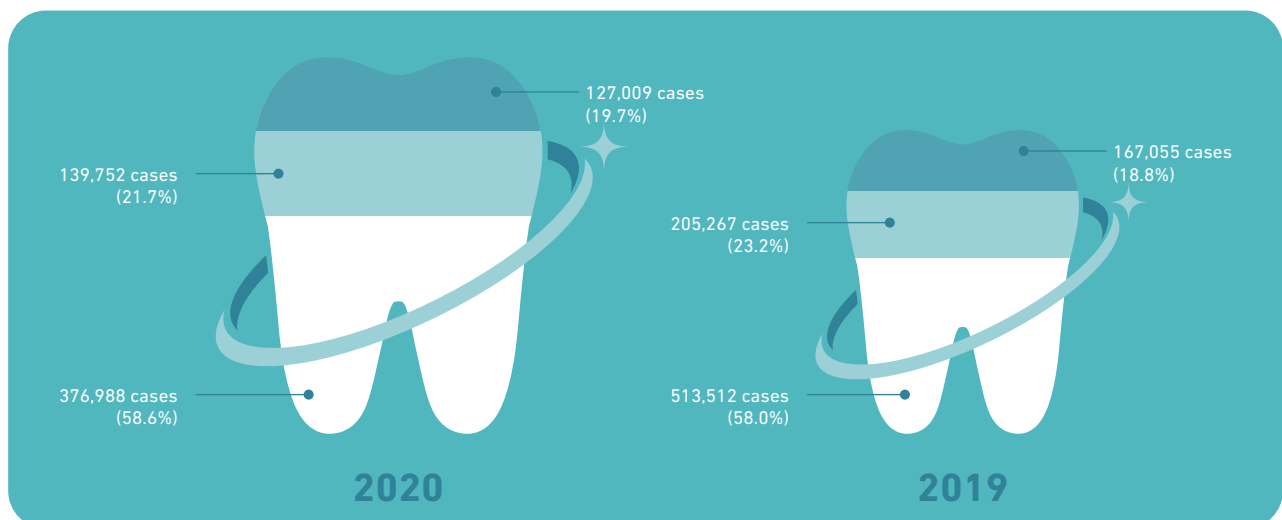
◆ Fixed prosthetic devices

◆ Removable prosthetic devices

◆ Other devices*

BREAKDOWN OF SALES VOLUME

(no. of cases and %)



◆ Fixed prosthetic devices

◆ Removable prosthetic devices

◆ Other devices

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



FIXED PROSTHETIC DEVICES

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

During the period under review, the fixed prosthetic devices business segment recorded a revenue of approximately HK\$626,175,000, representing a decrease of approximately HK\$213,742,000 as compared with the six months ended 30 June 2019. This business segment accounted for approximately 72.8% of the Group's total revenue as compared with approximately 71.7% in the six months ended 30 June 2019.

REMOVABLE PROSTHETIC DEVICES

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

During the period under review, the removable prosthetic devices business segment recorded a revenue of approximately HK\$162,602,000, representing a decrease of approximately HK\$60,901,000 as compared with the six months ended 30 June 2019. This business segment accounted for approximately 18.9% of the Group's total revenue as compared with approximately 19.1% in the six months ended 30 June 2019.

OTHER DEVICES

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

During the period under review, the other devices business segment recorded a revenue of approximately HK\$71,113,000, representing a decrease of approximately HK\$36,613,000 as compared with the six months ended 30 June 2019. This business segment accounting for approximately 8.3% of the Group's total revenue as compared with approximately 9.2% in the six months ended 30 June 2019.

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 six months ended 30 June 2020 and 2019 respectively:

Product category	Six months ended 30 June					
	2020			2019		
	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	376,988	626,175	1,661	513,512	839,917	1,636
Removable prosthetic devices	139,752	162,602	1,164	205,267	223,503	1,089
Other devices*	127,009	71,113	560	167,055	107,726	645
Total	643,749	859,890	1,336	885,834	1,171,146	1,322

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

SALES VOLUME AND AVERAGE SELLING PRICE

For the six months ended 30 June 2020, the sales volume and ASP of the Group's products across its markets were 643,749 cases (six months ended 30 June 2019: 885,834 cases) and HK\$1,336 per case (six months ended 30 June 2019: HK\$1,322 per case), representing a decrease of 27.3% and an increase of 1.1%, respectively.



MANAGEMENT DISCUSSION AND ANALYSIS



The trademarks represent reputable brands and logos associated with such brands in each country; are widely recognised by practitioners in the dental industry; and are registered, where appropriate, with minimal renewal costs.

GEOGRAPHIC MARKET

By leveraging on our sales and distribution network, we achieved a leading position in the dental prosthetics industry across Europe, North America, Greater China, Australia, and other countries. The following table sets forth a breakdown of the revenue generated from the aforesaid markets in their respective original currency against HK\$ for the six months ended 30 June 2020 and 2019, respectively:

Six months ended 30 June							
Market	Original currency	2020		2019		Changes 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	8.55	363,699	8.87	464,258	-3.6%	-18.7%
North America	US\$	7.75	240,286	7.75	358,651	—	-33.0%
Greater China**	RMB	1.10	174,442	1.16	241,585	-5.2%	-23.9%
Australia***	AUD	5.10	73,957	5.54	97,595	-7.9%	-17.7%
Others			7,506		9,057		
Total			859,890		1,171,146		

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

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

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

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

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 in the period under review.

Our Europe region had a very strong start in the beginning of 2020. However, from mid-March 2020 to beginning of May 2020, the COVID-19 pandemic resulted in lockdowns in applicable markets. During this time, only emergency cases were taken care of by our clients. The Group experienced logistical issues (such as traveling and product delivery, etc) during this period, leading to a substantial decline in sales orders volume, in all of our European markets, except for Germany, Sweden, Norway and Finland. Following the re-open of the various markets since mid-May 2020, a speedy recovery in sales volume (in particular, digital cases) has been noted. The Europe region delivered increased sales in June 2020 when compared with June 2019, indicating (i) a solid recovery reflecting deferred sales orders accumulated during the lockdown period; (ii) business leads generated from our continued online education efforts; and (iii) market recognition of our reputation as the digital treatment concept solution expert in the region. The Group has been the frontrunner to provide comprehensive digital solutions offerings, ranging from numerous minimal invasive and aesthetic prosthetic solutions to intraoral scanners and clear aligners, and is well positioned to capture the opportunities arising from the accelerated digitalisation trend of the dental industry. Although the COVID-19 pandemic caused uncertainty to the operating environment, the Group is committed and would continue to equip ourselves to provide the state-of-the-art digital solutions offering to the dental community in the market.

During the period under review, the European market recorded a revenue of approximately HK\$363,699,000, representing a decrease of approximately HK\$100,559,000 as compared with the six months ended 30 June 2019. Together with the sales of dental equipment of approximately HK\$21,087,000, this geographic market accounted for 42.9% of the Group's total revenue as compared with approximately 40.4% in the six months ended 30 June 2019. The decrease of revenue from the European market was attributable to decrease in the sales orders volumes due to COVID-19 pandemic and the depreciation of Euro against HK\$ of 3.6% in the six months ended 30 June 2020 compared with the six months ended 30 June 2019.

NORTH AMERICA

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

MicroDental Laboratories, Inc. and its subsidiaries ("**MicroDental Group**") contributed approximately HK\$193,520,000 (six months ended 30 June 2019: HK\$284,674,000) to the Group's revenue, approximately HK\$6,176,000 (six months ended 30 June 2019: HK\$19,047,000) to the Group's Adjusted EBITDA and approximately HK\$161,105,000 of loss (six months ended 30 June 2019: HK\$2,498,000 of profit) to the Group's profit for the six months ended 30 June 2020. The loss of approximately HK\$161,105,000 for the six months ended 30 June 2020 included (i) an one-off non-cash impairment loss of goodwill of approximately HK\$150,132,000; and (ii) non-cash depreciation and amortisation of approximately HK\$15,288,000.



The COVID-19 pandemic resulted in a substantial drop in our North America activity between mid-March 2020 to late May 2020. However from late May 2020 onwards, the Group has seen a positive spike in activity resulting in a positive rebound in sales. With the uncertainty surrounding the development of the COVID-19 pandemic in the region, the management has taken a conservative approach on the impairment review and recorded an one-off non-cash impairment loss of goodwill of approximately HK\$150,132,000 in the current period.

In response, our contingency plans for essential services and network alignment were launched, with plans for our re-open phasing developed. As we continue to experience challenges faced with the effects of the ongoing pandemic, health and safety of our employees and customers are our top priority. Our role in providing essential services to our customers and their patients is important, health and compliance procedures to ensure safety were immediately put into effect. We are pleased to report no major COVID-19 outbreak has occurred at any of our locations, and we continue to prioritize our efforts to support the ongoing safety efforts.

Since the COVID-19 pandemic began in mid-March 2020, we have implemented substantial cost controls including an initial hiring freeze, voluntary unpaid leave, furloughs, business travel restrictions while maintaining appropriate operational and critical customer centric support service levels. We also focused on clients retention that will help us to mitigate the ongoing situation. Our successful execution and quick actions allowed us to reduce significant operating costs during the pandemic, efforts in engaging with customers as we provide the ongoing services and supports required led us to achieve positive results as the market rebounds since June 2020.

In addition, the markets interest surrounding digital dentistry increased during the current period. With our centralised digital workflows and network oversight over our wide coverage of production units within the region, we are well positioned to support the customers needs through their digitalization journey, focusing on leveraging efficiencies and providing an enhanced customer experience throughout the network.

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 period under review. In view of the relatively small portion of products (less than one-fifth of the sales in the United States) 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 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. In addition, the Group has strategically started to set up a production facility in Vietnam to further mitigate the potential risk.

During the period under review, the North American market recorded a revenue of approximately HK\$240,286,000, representing a decrease of approximately HK\$118,365,000 as compared with the six months ended 30 June 2019. This geographic market accounted for approximately 26.8% of the Group's total revenue as compared with approximately 30.1% in the six months ended 30 June 2019. The decrease of revenue from the North American market was largely attributable to decrease in the sales orders volumes due to the COVID-19 pandemic.

GREATER CHINA

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

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

The Greater China region has been affected by the COVID-19 pandemic in which:

- (i) In Mainland China, a strict lockdown approach was imposed where the dental hospitals and clinics were not allowed to operate during the lockdown period, generally started from late January 2020 and removed gradually by phase depending on each province/city's situation since mid-March 2020; and
- (ii) In Hong Kong and Macau, the major impacts from the COVID-19 have been the travel restrictions and various social distancing measures. The dental hospitals and clinics have generally maintained their operations with various safety measures put in place with the exception that the operations of the public dental hospitals and clinics in Hong Kong have been suspended since late January 2020.

Despite the difficult operating environment during the period, the management is cautiously optimistic on the long-term prospect of the Greater China region and is committed to support the development of the dental community in the region for long-term by (i) increasing focus on our educational platforms, Center of Dental Education and Pure Dental (“普潔”), which strategically increased the number of online education webinars offered by various leading industry experts to capture the less busy schedule of our dentists customers for educations and promotions of our latest state-of-the art innovative solutions and products offering; (ii) continuing to expand the depth and width of our products portfolios offering, such as adding mid-end products in the Mainland China and adding implants and clear aligners products in Hong Kong and Macau; and (iii) launching of our own dental digital platform in Hong Kong. These efforts have started to pay off towards the end of the six months ended 30 June 2020 as sales of the Greater China region had recovered and were strong. The Greater China region delivered increased sales in June 2020 when compared with June 2019, indicating a solid recovery reflecting deferred sales orders accumulated during the lockdown period, bearing in mind that some of our customers, such as public dental hospitals and clinics in Hong Kong, were still affected by the COVID-19 pandemic.

During the period under review, the Greater China market recorded a revenue of approximately HK\$174,442,000, representing a decrease of approximately HK\$67,143,000 as compared with the six months ended 30 June 2019. Together with the sales of raw materials and dental equipment of approximately HK\$15,734,000, this geographic market accounted for approximately 21.2% of the Group's total revenue as compared with approximately 20.6% in the six months ended 30 June 2019. The decrease of revenue from the Greater China market was largely attributable to the decline in sales orders volumes impacted by the COVID-19 pandemic and the depreciation of RMB against HK\$ of 5.2% in the six months ended 30 June 2020 compared with the six months ended 30 June 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.

The Australian market had a strong start in terms of sales growth at the beginning of 2020 until the region affected by the COVID-19 pandemic from mid March 2020 to mid May 2020.

The COVID-19 pandemic presented serious operational challenges to the business. Social distancing protocols slowed patient visits to dental clinics from mid March 2020 and, from late March 2020 onwards, Australian dentists were only allowed to perform emergency works while New Zealand dental surgeries were shut completely. These restrictions were only lifted at the end of April 2020 with volumes returning to normal by the end of May 2020.

Despite this, all Australian businesses remained open throughout the period. Every effort was made to continue to deliver cases on a timely basis leveraging both the local and overseas production capabilities of the Group. We maintained regular contact with our customer base and ran regular educational events via webinars.

Despite the downturn in the overall market, our Australian region has demonstrated our commitment and confidence in the dental industry by expanding our product portfolios, such as implant products and mouthguards, and has been able to successfully engage with the market during this period. Although a substantial decline in orders volumes was noted in April 2020, a speedy recovery in sales orders volumes has been noted since mid May 2020 and sales in June 2020 exceeded June 2019, indicating a solid recovery reflecting deferred sales orders accumulated during the lockdown period.

During the period under review, the Australian market recorded a revenue of approximately HK\$73,957,000, representing a decrease of approximately HK\$23,638,000 as compared with the six months ended 30 June 2019. Together with the service revenue generated from rendering educational events and seminars of approximately HK\$512,000, this geographic market accounted for approximately 8.3% of the Group's total revenue as compared with approximately 8.2% in the six months ended 30 June 2019. The decrease of revenue from the Australian market was largely attributable to the decrease in sales order volume caused by COVID-19 pandemic and depreciation of AUD against HK\$ of 7.9% in the six months ended 30 June 2020 compared with the six months ended 30 June 2019.

OTHERS

Other markets primarily include Indian Ocean countries, Japan and Singapore. During the period under review, these markets recorded a revenue of approximately HK\$7,506,000, representing a decrease of approximately HK\$1,551,000 as compared with the six months ended 30 June 2019. This geographic market accounted for approximately 0.8% of the Group's total revenue as compared with approximately 0.7% in the six months ended 30 June 2019.

FUTURE PROSPECTS AND STRATEGIES

Towards the end of period ended 30 June 2020, sales of the Group had recovered and were strong, in particular, Australia, Europe, the Greater China regions delivered increased sales in June 2020 when compared with June 2019, indicating a solid recovery reflecting deferred sales orders accumulated during the lockdown period. Despite early signs of recovery in various regions, the COVID-19 still remains a significant threat to any business as it could have another wave of infection in any region in the future.

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 facing brought by the global COVID-19 pandemic in 2020.

The Board is cautiously optimistic that the demand for the Group's products would remain solid given a number of regions have already showed signs of recovery towards the end of reporting period.

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 Group kick-off setting up a new production site in Vietnam in order to increase the Group's production capacities and also benefit from lower labour and manufacturing cost in Vietnam.
- (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 clear aligners.

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 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.

FINANCIAL REVIEW

REVENUE

During the period under review, the revenue of the Group amounted to approximately HK\$897,223,000 representing a decrease of approximately 24.7% as compared with approximately HK\$1,191,378,000 in the six months ended 30 June 2019. The decrease was largely attributable to (i) decrease in sales orders volume in countries affected by the COVID-19 pandemic; and (ii) depreciation of foreign currencies against HK\$ when compared with same period in 2019, offset by the annual increment of retail prices to the dentists.

MANAGEMENT DISCUSSION AND ANALYSIS

GROSS PROFIT AND GROSS PROFIT MARGIN

The gross profit for the six months ended 30 June 2020 was approximately HK\$414,023,000, which was approximately 27.4% lower than that of the six months ended 30 June 2019. The decrease of the gross profit margin of approximately 1.7% compared with the corresponding period in 2019 was mainly attributable to decrease in utilisation of the production capacity and increase in sales proportion percentage of dental equipment, such as intra-oral scanners, with lower gross margin in the current period under review.

The gross profit margins of Fixed Prosthetic Devices business segment, Removable Prosthetic Devices business segment and Others business segment were approximately 47.8%, 46.7% and 35.7% respectively. The following table sets forth the breakdown of our gross profit and gross profit margin by product category.

Product category	Six months ended 30 June			
	2020		2019	
	Gross profit HK\$'000	Gross profit margin (%)	Gross profit HK\$'000	Gross profit margin (%)
Fixed prosthetic devices	299,362	47.8	408,428	48.6
Removable prosthetic devices	75,983	46.7	109,299	48.9
Others	38,678	35.7	52,296	40.9
Total	414,023	46.1	570,023	47.8

SELLING AND DISTRIBUTION EXPENSES

During the period under review, the selling and distribution expenses decreased by approximately 25.0% from approximately HK\$132,560,000 for the six months ended 30 June 2019 to approximately HK\$99,468,000 for the six months ended 30 June 2020, accounting for approximately 11.1% of the Group's revenue, as compared with approximately 11.1% for the corresponding period in 2019. The decrease in the selling and distribution expenses was in line with the decrease in the Group's sales.

ADMINISTRATIVE EXPENSES

During the period under review, the administrative expenses decreased by approximately 11.0% from approximately HK\$309,996,000 for the six months ended 30 June 2019 to approximately HK\$275,973,000 for the six months ended 30 June 2020, accounting for approximately 30.8% of the Group's revenue, as compared with approximately 26.0% for the corresponding period in 2019. The decrease in the administrative expenses was primarily attributable to i) strengthened costs controls; ii) governments subsidies on labour costs; and iii) depreciation of the foreign currencies against HK\$ during the period under review.

IMPAIRMENT OF GOODWILL

During the period under review, the Group recorded an one-off non-cash impairment loss of goodwill for North America's cash generating unit of approximately HK\$150,132,000 (six months ended 30 June 2019: Nil) as a result of the on-going spreading of the COVID-19 in the North America region. For details, please refer to Note 11 in this Interim Report.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER OPERATING EXPENSES

During the period under review, the other operating expenses decreased by approximately 32.7% from approximately HK\$7,575,000 for the six months ended 30 June 2019 to approximately HK\$5,099,000 for the six months ended 30 June 2020, accounting for approximately 0.6% of the Group's revenue, as compared with approximately 0.6% for the corresponding period in 2019. Other operating expenses mainly represented (i) exchange losses, net, incurred of approximately HK\$4,877,000 (six months ended 30 June 2019: HK\$7,439,000); and (ii) write-off of property, plant and equipment of approximately HK\$72,000 (six months ended 30 June 2019: HK\$136,000).

FINANCE COSTS

During the period under review, the finance costs increased by approximately 14.3% from approximately HK\$17,328,000 for the six months ended 30 June 2019 to approximately HK\$19,814,000 for the six months ended 30 June 2020, accounting for approximately 2.2% of the Group's revenue, as compared with approximately 1.5% for the corresponding period in 2019. The increase was primarily attributable to no finance cost capitalised on qualifying assets for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$1,896,000).

INCOME TAX EXPENSE

During the period under review, the income tax expense decreased by approximately 58.8% from approximately HK\$20,400,000 for the six months ended 30 June 2019 to approximately HK\$8,401,000 for the six months ended 30 June 2020.

(LOSS)/PROFIT FOR THE PERIOD

The turnaround from profit of approximately HK\$86,960,000 for the six months ended 30 June 2019 to loss for the period of approximately HK\$139,502,000 for the six months ended 30 June 2020 was due to (i) a recognition of an one-off non-cash impairment loss of goodwill for North America region of approximately HK\$150,132,000 (six months ended 30 June 2019: Nil) for the six months ended 30 June 2020; and (ii) the decrease in sales by approximately 24.7% as a result of the decline in sales orders volumes in countries affected by the COVID-19 pandemic during the six months ended 30 June 2020.

(LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Loss attributable to owners of the Company amounted to approximately HK\$139,354,000, representing a decrease of approximately HK\$226,910,000, or approximately 259.2%, as compared with profit attributable to owners of the Company approximately HK\$87,556,000 for the corresponding period in 2019.

NON-IFRS MEASURES

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

EBITDA AND ADJUSTED EBITDA

During the period under review, the Group incurred some one-off expenses, which are not indicative of the operating performance of the business of the period. Therefore, the Group arrived at an adjusted EBITDA (the "Adjusted EBITDA") by eliminating the effects of certain non-cash or non-recurring items, including one-off cost in connection with restructuring and reorganisation.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below indicates the (loss)/profit for the six months ended 30 June 2020 and 2019, reconciling the Adjusted EBITDA for the periods presented to the most comparable financial measures calculated in accordance with the IFRS:

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
EBITDA and Adjusted EBITDA		
Net (loss)/profit	(139,502)	86,960
Tax	8,401	20,400
Finance costs	19,814	17,328
Depreciation of right-of-use assets	24,641	22,769
Depreciation of property, plant and equipment	29,877	29,303
Amortisation of intangible assets	14,963	18,205
Impairment of goodwill	150,132	—
Less:		
Bank interest income	(835)	(703)
EBITDA	107,491	194,262
Add:		
One-off cost in connection with restructuring and reorganisation	3,888	1,597
Adjusted EBITDA	111,379	195,859
Adjusted EBITDA Margin	12.4%	16.4%

LIQUIDITY AND FINANCIAL RESOURCES

CASH FLOWS

The table below summarises the Group's cash flows for the six months ended 30 June 2020 and 2019:

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Net cash flows from operating activities	77,313	109,360
Net cash flows used in investing activities	(23,647)	(78,352)
Net cash flows used in financing activities	(53,076)	(77,518)

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's balance of cash and cash equivalents was approximately HK\$393,644,000 as of 30 June 2020 (31 December 2019: HK\$393,905,000), which was mainly denominated in HK\$, RMB, US\$, EUR and AUD.

OPERATING ACTIVITIES

Net cash flows from operating activities was approximately HK\$77,313,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$109,360,000). The decrease in net cash flows from operating activities was primarily driven by the decrease in cash generated from operations due to the global COVID-19 pandemic.

INVESTING ACTIVITIES

The Group recorded a net cash outflow used in investing activities of approximately HK\$23,647,000 for the six months ended 30 June 2020, of which approximately HK\$26,338,000 was used primarily for the upgrade of our computer-aided/manufacturing production equipment.

FINANCING ACTIVITIES

The Group recorded a net cash outflow used in financing activities of approximately HK\$53,076,000 for the six months ended 30 June 2020. The outflow was mainly attributable to (i) net cash inflows from bank borrowings of approximately HK\$18,876,000; (ii) payment for dividend of approximately HK\$21,172,000; (iii) repurchase of the Company's ordinary shares of approximately HK\$6,867,000; (iv) payment for lease liabilities of approximately HK\$29,285,000; and (v) payment for interest expenses of approximately HK\$14,628,000.

CAPITAL EXPENDITURE

During the period under review, the Group's capital expenditure amounted to approximately HK\$26,338,000 was used for improvement on our production equipment. All of the capital expenditure was financed by internal resources and bank borrowings.

CAPITAL STRUCTURE

BANK LOANS

Bank loans of the Group as of 30 June 2020 amounted to approximately HK\$823,300,000 as compared to approximately HK\$802,348,000 as of 31 December 2019. Pledged bank deposits of the Group as of 30 June 2020 amounted to approximately HK\$5,208,000 as compared to approximately HK\$5,330,000 as of 31 December 2019. As of 30 June 2020, the bank loans of approximately HK\$823,300,000 were denominated in HK\$. As of 30 June 2020, all bank loans 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 15 of this Interim Report.

GEARING RATIO

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital (equity attributable to owners of the Company) plus net debt. Net debt includes interest-bearing bank borrowings, trade payables, other payables and accruals, amount due to an associate, lease liabilities, other non-current liabilities, less cash and cash equivalents and pledged deposits. As of 30 June 2020, the gearing ratio of the Group was approximately 31% (31 December 2019: 30%), reflecting that the Group's financial position was at a sound level.

MANAGEMENT DISCUSSION AND ANALYSIS

DEBT SECURITIES

As of 30 June 2020, the Group did not have any debt securities.

CONTINGENT LIABILITIES

As of 30 June 2020, the Group did not have any material contingent liabilities or guarantees.

CHARGE OF GROUP ASSETS

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

COMMITMENTS

The investment agreement 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 factory and acquisition and installation of equipment in the Dongguan Songshan Lake High-tech Industrial Development Zone.

As of 30 June 2020, the Group has paid approximately RMB125,353,000 for the construction of a factory and acquisition and installation of equipment and approximately RMB18,839,000 for the acquisition of land, and the remaining commitment was approximately RMB101,808,000.

Save as disclosed above, the Group had no significant capital commitments as of 30 June 2020.

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

The Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2020.

OFF-BALANCE SHEET TRANSACTIONS

As of 30 June 2020, the Group did not enter into any material off-balance sheet transactions.

IMPORTANT EVENTS AFTER THE PERIOD UNDER REVIEW

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 global COVID-19 pandemic has caused a global health emergency and significant disruptions to economies worldwide which adversely impact the Group's operating results for the six months ended 30 June 2020. The Group continues to implement cost cutting measures (including salaries reduction, deferring marketing expenses, etc) to navigate the current and anticipated impacts of the global COVID-19 pandemic.

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 period under review. 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. The Group has already started to setup a new production facility in Vietnam to further mitigate the risk.

On the other hand, the Group's global business covering different regions and countries also mitigates the Group's reliance on any single region or country.

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 mergers and acquisitions risk by engagement of legal and financial advisers to carry out due diligence of material acquisitions. The Group has also engaged an external valuer, Brilliant Appraisal Limited, to assess the impairment of material goodwill and intangible assets. The key assumptions, such as the pre-tax discount rates (30 June 2020: ranged between 11% and 21%; 31 December 2019: ranged between 11% and 21%); the budgeted sales growth rates (30 June 2020: ranged between 5% and 12%; 31 December 2019: ranged between 5% and 12%); and budgeted EBITDA margins (30 June 2020: ranged between 2% and 31%; 31 December 2019: ranged between 2% and 31%), 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. Please refer to Note 11 in this interim report for details of the impairment of goodwill recorded for the current period.

MANAGEMENT DISCUSSION AND ANALYSIS

CENTRALISATION OF PRODUCTION FACILITIES

The production of the Group relied heavily on its existing production facilities in Shenzhen, Mainland China and in Dongguan, Mainland China. If there are disruptions to the production sites in Shenzhen and Dongguan, the Group may suffer from interruptions to its business. During the period ended 30 June 2020, the management has also started to set up a new production facility in Vietnam to further mitigate the risk. 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 six months ended 30 June 2020, the interest rate on floating-rate bank loans were approximately HIBOR+1.60% per annum for term loans. The Group had not entered into any type of interest rate agreements or derivative transactions to hedge against the fluctuations in interest rates.

FOREIGN CURRENCY RISK

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

CREDIT RISK

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

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

LIQUIDITY RISK

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

OTHER INFORMATION

DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: HK3.1 cents).

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

In compliance with the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), the Company has established the remuneration committee of the Company (the "**Remuneration Committee**") to formulate remuneration policies. The remuneration is determined and recommended based on each Director's and senior management personnel's qualifications, position and seniority. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the Remuneration Committee. The Directors and the senior management personnel are eligible participants of the Share Option Scheme and the Pre-IPO RSU Scheme (both as defined below).

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 5,541 (31 December 2019: 6,139) full-time employees at our production facilities, service centers, points of sales and other sites as of 30 June 2020, mainly including 3,960 (31 December 2019: 4,552) production staff members, 608 (31 December 2019: 521) general management staff members and 316 (31 December 2019: 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 period under review, the relationship between the Group and our employees had been stable. We had not experienced any strikes or other labor disputes which materially affected our business activities.

SHARE OPTION SCHEME

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

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

The maximum number of the ordinary shares of the Company (the “**Shares**”) which may be 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 the 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 date of listing, i.e. 15 December 2015 (i.e. 100,000,000 Shares, representing 10.4% of the issued share capital of the Company as at the date of this Interim Report). The limit of 10% may be refreshed at any time by approval of the Shareholders in a general meeting provided that the total number of the Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other option schemes of the Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option schemes of our Group) previously granted under the Share Option Scheme and any other share option schemes of our Group will not be counted.

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

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

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

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

As at 30 June 2020, 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 10.4% of the issued share capital of the Company as of the date of this Interim Report.

PRE-IPO RESTRICTED SHARE UNIT SCHEME

A restricted share unit scheme (the "**Pre-IPO RSU Scheme**") was adopted pursuant to the written resolutions of the Shareholders passed on 19 June 2015 (the "**Pre-IPO RSU Scheme Adoption Date**"). The purpose of the Pre-IPO RSU Scheme is to give incentives thereto in order to retain key employees for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. The Pre-IPO RSU Scheme shall be valid and effective for a period of 10 years commencing on the Pre-IPO RSU Scheme Adoption Date, under the administration of the Board and the trustee.

As at 30 June 2020, no outstanding restricted share units were granted or vested pursuant to the Pre-IPO RSU Scheme.

MANDATORY PROVIDENT FUND RETIREMENT BENEFIT SCHEME

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

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

As at 30 June 2020, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of Director	Capacity	Number of Shares and underlying Shares interested	Total number of Shares and underlying Shares interested	Approximate percentage of shareholding
Mr. Chan Kwun Fung	Beneficial owner	466,000 <i>(Note 1)</i>	474,118,263	49.26%
	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	49.26%
	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	10.18%
	Interest of controlled corporation	93,849,653 <i>(Note 2)</i>		
Mr. Ngai Chi Ho Alwin	Beneficial owner	277,934	63,122,304	6.56%
	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.

OTHER INFORMATION

Save as disclosed above, as at 30 June 2020, none of the Directors and chief executives of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations" in this Interim Report, at no time during the six months ended 30 June 2020 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate, or had exercised any such right.

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

As at 30 June 2020, the persons other than the Directors, whose interests have been disclosed in the above section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations", had an interest or short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO, were as follows:

LONG POSITIONS IN SHARES OF THE COMPANY

Name of Shareholder	Capacity	Number of Shares interested	Approximate percentage of shareholding
Triera Holdings Limited <i>(Note 1)</i>	Beneficial owner	470,202,263	48.85%
Prosperity Worldwide Investment Holdings Limited <i>(Note 2)</i>	Beneficial owner	93,849,653	9.75%
NCHA Holdings Limited <i>(Note 3)</i>	Beneficial owner	62,844,370	6.53%

Notes:

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

Save as disclosed herein, as at 30 June 2020, 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 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

During the six months period ended 30 June 2020, 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), 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 2020	3,800,000	1.58	1.41	5,712
February 2020	800,000	1.49	1.39	1,155
	4,600,000			6,867

All of 4,600,000 repurchased Shares of approximately HK\$6,867,000 (before expenses) were cancelled during the six months period ended 30 June 2020.

The repurchase of the Company's Shares were effected by the directors, pursuant to the mandate from Shareholders received at the annual general meeting on 28 May 2020, with a view to be benefiting Shareholders as a whole by enhancing the net assets value per share and earnings per share of the Group.

Saved as disclosed above, during the six months period ended 30 June 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CHANGES OF DIRECTORS' INFORMATION

During the six months ended 30 June 2020 and up to the date of this Interim Report, changes in information of Directors are as follows:

1. The term of appointment of Dr. Cheung Wai Man William as honorary clinical associate professor of the Faculty of Dentistry in The University of Hong Kong has been renewed, for a period of two years from 1 September 2020 to 31 August 2022, subsequent to its expiration on 30 June 2020.

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

CORPORATE GOVERNANCE

During the six months ended 30 June 2020, the Company has complied with the applicable code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

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

The Company has adopted the Securities Dealing Code containing the provisions set out in the Model Code as set out in Appendix 10 to the Listing Rules, and after having made specific enquiries with regard to securities transactions by the Directors, all Directors have confirmed their compliance with the required standards set out in the Model Code regarding Directors' securities transactions during the six months ended 30 June 2020.

REVIEW OF INTERIM RESULTS

The audit committee of the Company consists of Dr. Cheung Wai Bun Charles J.P., Dr. Chan Yue Kwong Michael and Dr. Wong Ho Ching, who are independent non-executive Directors. The Group's interim results for the six months ended 30 June 2020, including the accounting principles and practices adopted by the Group have been reviewed by the audit committee of the Company.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment and giving back to community and achieving sustainable growth.

MODERN DENTAL AND THE COMMUNITY

As a global company, the Company is committed to being a company that cares for the community, through engaging in sponsorships, donations, voluntary dental consultation and social services. We aim to provide services to the public and make positive contribution to the society. We will continue to be actively involved in community activities and dedicate our efforts to the future generation with a view to taking up our social responsibility with proactive efforts.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
REVENUE	4	897,223	1,191,378
Cost of sales		(483,200)	(621,355)
Gross profit		414,023	570,023
Other income and gains	4	5,807	5,347
Selling and distribution expenses		(99,468)	(132,560)
Administrative expenses		(275,973)	(309,996)
Impairment of goodwill	11	(150,132)	—
Other operating expenses		(5,099)	(7,575)
Finance costs	6	(19,814)	(17,328)
Share of losses of associates		(445)	(551)
(LOSS)/PROFIT BEFORE TAX	5	(131,101)	107,360
Income tax expense	7	(8,401)	(20,400)
(LOSS)/PROFIT FOR THE PERIOD		(139,502)	86,960
ATTRIBUTABLE TO:			
Owners of the Company		(139,354)	87,556
Non-controlling interests		(148)	(596)
		(139,502)	86,960
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	8	HK(14.48) cents	HK8.89 cents
Diluted	8	HK(14.48) cents	HK8.89 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
(LOSS)/PROFIT FOR THE PERIOD	(139,502)	86,960
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(22,777)	(13,020)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(22,777)	(13,020)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	(162,279)	73,940
ATTRIBUTABLE TO:		
Owners of the Company	(162,131)	74,536
Non-controlling interests	(148)	(596)
	(162,279)	73,940

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	483,175	498,613
Right-of-use assets		169,743	194,733
Goodwill	11	1,152,982	1,310,846
Intangible assets	12	279,387	295,145
Investments in associates		9,149	9,625
Deferred tax assets		11,574	11,832
Long term prepayments and deposits	14	15,479	17,830
Total non-current assets		2,121,489	2,338,624
CURRENT ASSETS			
Inventories		112,242	115,274
Trade receivables	13	390,399	423,271
Prepayments, deposits and other receivables	14	68,559	64,739
Due from an associate		—	58
Current tax assets		15,190	20,040
Pledged deposits	15	5,208	5,330
Cash and cash equivalents	15	393,644	393,905
Total current assets		985,242	1,022,617
CURRENT LIABILITIES			
Trade payables	16	53,384	70,026
Other payables and accruals	17	150,068	197,839
Due to an associate		124	—
Lease liabilities		44,769	53,337
Interest-bearing bank borrowings	18	141,612	106,336
Tax payable		56,298	48,902
Total current liabilities		446,255	476,440
NET CURRENT ASSETS		538,987	546,177
TOTAL ASSETS LESS CURRENT LIABILITIES		2,660,476	2,884,801

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		2,660,476	2,884,801
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	18	681,688	696,012
Deferred tax liabilities		13,928	16,047
Lease liabilities		127,173	145,132
Other non-current liabilities	17	5,598	5,203
Total non-current liabilities		828,387	862,394
NET ASSETS		1,832,089	2,022,407
EQUITY			
Equity attributable to owners of the Company			
Share capital	19	74,592	76,078
Treasury shares		(39)	(21,796)
Reserves		1,756,097	1,966,538
Non-controlling interests		1,830,650	2,020,820
		1,439	1,587
TOTAL EQUITY		1,832,089	2,022,407

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Statutory reserve	Capital reserve	Exchange reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2020 (audited)	76,078	614,924	(21,796)	17,068	554,531	(236,320)	1,016,335	2,020,820	1,587	2,022,407
Loss for the period	—	—	—	—	—	—	(139,354)	(139,354)	(148)	(139,502)
Other comprehensive loss for the period:										
Exchange differences on translation of foreign operations	—	—	—	—	—	(22,777)	—	(22,777)	—	(22,777)
Total comprehensive loss for the period	—	—	—	—	—	(22,777)	(139,354)	(162,131)	(148)	(162,279)
Transfer from retained earnings	—	—	—	1,053	—	—	(1,053)	—	—	—
2019 final dividend	—	(21,172)	—	—	—	—	—	(21,172)	—	(21,172)
Shares repurchased	—	—	(6,867)	—	—	—	—	(6,867)	—	(6,867)
Shares cancelled	(1,486)	(27,138)	28,624	—	1,486	—	(1,486)	—	—	—
At 30 June 2020 (unaudited)	74,592	566,614 [#]	(39)	18,121 [#]	556,017 [#]	(259,097) [#]	874,442 [#]	1,830,650	1,439	1,832,089

[#] These reserve accounts comprise the consolidated reserves of approximately HK\$1,756,097,000 (unaudited) (30 June 2019: HK\$1,953,558,000 (unaudited)) in the interim condensed consolidated statements of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Statutory Reserve	Capital reserve	Exchange reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2019 (audited)	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 period	—	—	—	—	—	—	87,556	87,556	(596)	86,960
Other comprehensive loss for the period:										
Exchange differences on translation of foreign operations	—	—	—	—	—	(13,020)	—	(13,020)	—	(13,020)
Total comprehensive income for the period	—	—	—	—	—	(13,020)	87,556	74,536	(596)	73,940
Transfer from retained earnings	—	—	—	990	—	—	(990)	—	—	—
2018 final dividend	—	(13,814)	—	—	—	—	—	(13,814)	—	(13,814)
Shares repurchased	—	—	(9,062)	—	—	—	—	(9,062)	—	(9,062)
Shares cancelled	(1,027)	(17,753)	18,780	—	1,027	—	(1,027)	—	—	—
Acquisitions of non-controlling interests	—	—	—	—	(10,224)	—	—	(10,224)	4,638	(5,586)
At 30 June 2019 (unaudited)	76,473	651,502 [#]	(6,741)	13,712 [#]	554,135 [#]	(211,876) [#]	946,085 [#]	2,023,290	—	2,023,290

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		(131,101)	107,360
Adjustments for:			
Finance costs	6	19,814	17,328
Bank interest income	4,5	(835)	(703)
Gains on disposal of items of property, plant and equipment, net	4,5	(203)	(202)
Write-off of property, plant and equipment	5	72	136
Depreciation and amortisation	5	69,481	70,277
Impairment of goodwill	5	150,132	—
Share of losses of associates		445	551
		107,805	194,747
Decrease/(increase) in inventories		1,602	(2,604)
Decrease/(increase) in trade receivables		28,018	(31,748)
Increase in prepayments, deposits and other receivables		(2,485)	(24,114)
(Increase)/decrease in amounts due from related parties		(49)	10
Decrease/(increase) in an amount due from an associate		182	(12)
Decrease in trade payables		(16,218)	(2,317)
(Decrease)/increase in other payables and accruals		(44,067)	9,537
Decrease in amount due to a related party		(87)	(715)
		74,701	142,784
Cash generated from operations		74,701	142,784
Interest received		835	703
Income tax refund/(paid)		1,777	(34,127)
		77,313	109,360
Net cash flows from operating activities		77,313	109,360

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets		(26,338)	(84,892)
Proceeds from disposal of items of property, plant and equipment		2,569	633
Decrease in pledged deposits	15	122	5,907
Net cash flows used in investing activities		(23,647)	(78,352)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings		198,751	—
Repayment of bank borrowings		(179,875)	(10,000)
Dividend paid		(21,172)	(13,814)
Interest paid		(14,628)	(13,448)
Repurchases of shares		(6,867)	(9,062)
Acquisition of non-controlling interests		—	(5,586)
Payment for the principal portion of lease liabilities		(26,175)	(21,953)
Payment for the interest portion of lease liabilities		(3,110)	(3,655)
Net cash flows used in financing activities		(53,076)	(77,518)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		590	(46,510)
Effect of foreign exchange rate changes, net		(851)	(1,674)
Cash and cash equivalents at beginning of period		393,905	380,393
CASH AND CASH EQUIVALENTS AT END OF PERIOD		393,644	332,209
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	15	393,427	332,138
Non-pledged time deposits with original maturity of less than three months when acquired	15	217	71
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position	15	393,644	332,209

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

1. CORPORATE AND GROUP INFORMATION

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

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("**Listing Rules**"), including compliance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. In preparing the interim financial report, the Group has made accounting related estimates based on assumptions about current and, for some estimates, future economic and market conditions and in particular has assumed that the current market conditions as a result of the COVID-19 pandemic is not a long-term norm. Although our estimates and assumptions contemplate current and, as applicable, expected future conditions that the Group considers are relevant and reasonable, including but not limited to the potential impacts to our operations arising from the COVID-19 pandemic and different monetary, fiscal and government policy responses aimed at reviving the economies, it is reasonably possible that actual conditions could differ from our expectations. In particular, a number of estimates have been and will continue to be affected by the ongoing COVID-19 outbreak. The severity, magnitude and duration, as well as the economic consequences of the COVID-19 pandemic, are uncertain, rapidly changing and it is currently impossible to predict.

The ultimate impact of the COVID-19 pandemic on the Group is uncertain at the date on which the interim financial report were authorised for issue. Management has assessed the potential cash generation of the Group, the liquidity of the Group, existing funding available to the Group and mitigating actions which have been and may be taken to reduce discretionary spend and other operating cash outflows, and non-essential and non-committed capital expenditures. On the basis of these assessments, we have determined that, at the date on which the Interim Financial Statements were authorised for issue, the use of the going concern basis of accounting to prepare the Interim Financial Statements is appropriate.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Modern Dental Group Limited and its subsidiaries since the 2019 annual financial statements. The interim condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2019.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of following revised standards for the first time for the current period's financial statements.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to IFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to IAS1 and IAS 8	<i>Definition of Material</i>

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

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the interim condensed consolidated 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.

ESTIMATION UNCERTAINTY

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 cash flows. The carrying amount of goodwill at 30 June 2020 was HK\$1,152,982,000 (31 December 2019: HK\$1,310,846,000). Further details are given in note 11 to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

3. OPERATING SEGMENT INFORMATION

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

- The fixed prosthetic devices segment is a supplier of restorative dental procedures, such as crowns, bridges 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, the service of educational events and seminars rendered.

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

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

	Six months ended 30 June					
	2020 (unaudited)			2019 (unaudited)		
	Revenue HK\$'000	Cost of sales HK\$'000	Gross profit HK\$'000	Revenue HK\$'000	Cost of sales HK\$'000	Gross profit HK\$'000
Fixed prosthetic devices	626,175	326,813	299,362	839,917	431,489	408,428
Removable prosthetic devices	162,602	86,619	75,983	223,503	114,204	109,299
Others	108,446	69,768	38,678	127,958	75,662	52,296
Total	897,223	483,200	414,023	1,191,378	621,355	570,023

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

3. OPERATING SEGMENT INFORMATION (CONTINUED)

GEOGRAPHICAL INFORMATION

(A) REVENUE FROM EXTERNAL CUSTOMERS

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Europe	384,786	480,758
North America	240,286	358,651
Greater China	190,176	245,264
Australia	74,469	97,648
Others	7,506	9,057
	897,223	1,191,378

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

(B) NON-CURRENT ASSETS

	30 June	31 December
	2020 (Unaudited) HK\$'000	2019 (Audited) HK\$'000
Europe	722,780	740,889
North America	552,824	721,281
Australia	416,453	432,843
Greater China	349,738	363,813
Others	68,120	67,966
	2,109,915	2,326,792

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
<u>Revenue</u>		
Sale of goods transferred at a point in time	897,223	1,191,378
<u>Other income</u>		
Bank interest income	835	703
Government subsidies*	1,282	2,663
Others	3,487	1,779
	5,604	5,145
<u>Gains</u>		
Gains on disposal of items of property, plant and equipment, net	203	202
	203	202
<u>Other income and gains</u>	5,807	5,347

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

5. (LOSS)/PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Cost of inventories sold [#]		483,200	621,355
Depreciation of right-of-use assets		24,641	22,769
Depreciation of property, plant and equipment	10	29,877	29,303
Amortisation of intangible assets	12	14,963	18,205
Lease payments not included in the measurement of lease liabilities		2,451	8,230
Research and development costs ^{##}		3,187	4,097
Auditors' remuneration		4,836	4,667
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages and salaries [*]		416,097	514,259
Pension scheme contributions		51,416	68,944
		467,513	583,203
Bank interest income	4	(835)	(703)
Gains on disposal of items of property, plant and equipment, net	4	(203)	(202)
Write-off of property, plant and equipment ^{**}	10	72	136
Impairment of goodwill	11	150,132	—
Allowance for impairment of trade receivables, net	13	5,460	(346)
Foreign exchange loss, net ^{**}		4,877	7,439

[#] Cost of inventories sold includes HK\$296,479,000 (unaudited) (six months ended 30 June 2019: HK\$358,539,000 (unaudited)) relating to employee benefit expense, lease payments not included in the measurement of lease liabilities 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\$2,659,000 (unaudited) (six months ended 30 June 2019: HK\$3,794,000 (unaudited)) relating to employee benefit expense, lease payments not included in the measurement of lease liabilities and depreciation, which are also included in the respective total amounts disclosed above for each of these types of expenses.

^{*} The amount has been net-off with government subsidies of HK\$13,555,000 (unaudited) (six months ended 30 June 2019: Nil (unaudited)) under COVID-19 related employment support schemes.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

6. FINANCE COSTS

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Interest on bank loans, overdrafts and other loans	14,628	13,448
Less: amount capitalised on qualifying assets	—	(1,896)
	14,628	11,552
Finance charges on bank loans	2,076	2,121
Interest on lease liabilities	3,110	3,655
	19,814	17,328

7. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Current – Hong Kong	5,760	3,324
Current – Elsewhere	4,709	19,464
Deferred	(2,068)	(2,388)
Total tax charge for the period	8,401	20,400

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the six months ended 30 June 2020 and 2019 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the period.

The calculation of the diluted (loss)/earnings per share amount is based on the (loss)/profit for the six months ended 30 June 2020 and 2019 attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic (loss)/earnings per share calculation.

The Group had no potentially dilutive ordinary shares in issue during the six months period ended 30 June 2020 and 2019. The calculations of basic and diluted (loss)/earnings per share are based on:

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
<u>(Loss)/earnings</u>		
(Loss)/profit attributable to ordinary equity holders of the Company, used in the basic and diluted (loss)/earnings per share calculation	(139,354)	87,556

	Number of shares Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted (loss)/earnings per share calculation	962,431,994	985,249,226

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

9. DIVIDENDS

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Interim dividend	—	30,589

The Board does not recommend the payment of the interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: HK3.1 cents).

In 2019, the calculation of the interim dividend is based on 986,746,000 ordinary shares in issue.

10. PROPERTY, PLANT AND EQUIPMENT

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Carrying amount at 1 January	498,613	431,861
Additions	24,726	137,006
Acquisition of a subsidiary	—	1,923
Disposals	(2,366)	(7,275)
Write-off	(72)	(195)
Depreciation provided during the period/year	(29,877)	(57,551)
Exchange realignment	(7,849)	(7,156)
Carrying amount at 30 June/31 December	483,175	498,613

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

11. GOODWILL

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Carrying amount at 1 January	1,310,846	1,329,523
Impairment of goodwill	(150,132)	—
Exchange realignment	(7,732)	(18,677)
Carrying amount at 30 June/31 December	1,152,982	1,310,846

IMPAIRMENT TESTING OF GOODWILL

In accordance with IAS 36, the recoverable amounts of the Group's cash generating units ("CGUs") including those which contain goodwill were determined using the higher of fair value less cost to sell or value in use, which is determined by discounting the estimated future cash flows generated from the continuing use of the unit. Management performed impairment testing of goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As a result of material impact on the global economy and market conditions caused by the COVID-19 pandemic, the Group determined there were indicators of potential impairment on certain CGUs. Based on the valuation performed by an external valuer, Brilliant Appraisal Limited, engaged by the Company, it was determined that the carrying value of our CGU in North America, being MicroDental and Modern US, was greater than its recoverable amount, resulting in impairment on goodwill amounted to HK\$150,132,000 due to the on-going spreading of the COVID-19 in the North America region during the period.

Goodwill is allocated to CGUs for the purpose of impairment testing. The recoverable amount of a CGU or a group of CGUs is determined based on value-in-use calculations. These calculations used discounted cash flow projections based on financial estimates reviewed by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates appropriate for the market in which the unit operates. The values assigned to the key assumptions represent management's assessment of future trends and are based on both external sources and internal sources (historical data) and are summarised below.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

11. GOODWILL (CONTINUED)

IMPAIRMENT TESTING OF GOODWILL (CONTINUED)

		30 June 2020 (Unaudited)	31 December 2019 (Audited)
Labocast SAS and Labo Ocean Indien SA	discount rates	19% - 21%	19% - 21%
	growth rates	2% - 5%	2% - 5%
Quantum Dental Laboratory Inc.	discount rates	18%	18%
	growth rates	2%	2%
Permadental Holding B.V.	discount rates	16%	16%
	growth rates	2%	2%
Elysee Dental Holding B.V.	discount rates	16%	16%
	growth rates	2%	2%
Modern Dental Pacific Holdings Pty Limited	discount rates	18%	18%
	growth rates	3%	3%
Dentrade Group	discount rates	11%	11%
	growth rates	2% - 3%	2% - 3%
MicroDental and Modern US	discount rates	16%	17%
	growth rates	2%	2%
Schmidt Dentalkeramik ApS.	discount rates	16%	16%
	growth rates	2%	2%
CDI Dental AB & CDI Supply AB	discount rates	15%	15%
	growth rates	2%	2%
Others*	discount rates	16% - 17%	16% - 17%
	growth rates	2% - 3%	2% - 3%

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

30 June 2020

11. GOODWILL (CONTINUED)

IMPAIRMENT TESTING OF GOODWILL (CONTINUED)

Assumptions were used in the value in use calculation of each cash-generating unit for the six months period ended 30 June 2020 and year ended 31 December 2019. 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 past, 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. Changes in discount rate in current period reflected the assessment of changes in the risk environment of specific country and relevant industry by the professional parties and comparable rates applied by other global dental companies.

Judgment is required to determine key assumptions adopted in the cash flow projections and the changes to key assumptions can significantly affect these cash flow projections. Management has considered the above assumptions and valuation and has also taken into account the business plans going forward. Actual results will be influenced by the prevailing economic conditions and potentially other unforeseen events or circumstances that could have a negative impact on future results. Following the impairment loss recognised on goodwill, the recoverable amount of the Group's CGU – MicroDental and Modern US was equal to the carrying amount. Therefore, any change in a key assumption could result in further impairment. Except for MicroDental and Modern US, the latest impairment models indicated that sufficient headroom (meaning the excess of the recoverable amount over carrying value) existed. Management considers that any reasonably possible changes in the assumptions used in the models would not affect management's view on impairment as of 30 June 2020. The excess of the estimated recoverable amount over carrying amount of each CGU as of 30 June 2020 ranged generally from 21% to 277%.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

11. GOODWILL (CONTINUED)

SENSITIVITY ANALYSIS

The following table shows the sensitivity of the value in use by region with changes in the key assumptions of the CGUs disclosed above:

		+50 bps HK\$'000	-50 bps HK\$'000
Europe	discount rates	(55,205)	59,381
	growth rates	54,371	(49,329)
North America*	discount rates	(20,241)	21,841
	growth rates	17,346	(15,803)
Australia	discount rates	(17,193)	18,346
	growth rates	16,493	(15,092)

* The following table shows the sensitivity of the value in use with changes in the key assumptions of the MicroDental and Modern US CGU:

		+50 bps HK\$'000	-50 bps HK\$'000
MicroDental and Modern US	discount rates	(18,892)	20,403
	growth rates	15,901	(14,478)

Based on management's analysis, negative movements of the above key assumptions are unlikely to happen given prudent assumptions had been used in the goodwill impairment analysis.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

12. INTANGIBLE ASSETS

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Carrying amount at 1 January	295,145	330,561
Additions	1,913	4,125
Acquisition of a subsidiary	—	177
Amortisation provided during the period/year	(14,963)	(35,452)
Exchange realignment	(2,708)	(4,266)
Carrying amount at 30 June/31 December	279,387	295,145

13. TRADE RECEIVABLES

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Trade receivables	422,660	450,158
Impairment	(32,261)	(26,887)
	390,399	423,271

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 material collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

13. TRADE RECEIVABLES (CONTINUED)

An ageing analysis of the trade receivables as at 30 June 2020 and 31 December 2019, based on the invoice date and net of loss allowance, is as follows:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within 1 month	228,379	248,472
1 to 2 months	38,952	61,757
2 to 3 months	17,991	31,209
3 months to 1 year	85,393	68,513
Over 1 year	19,684	13,320
	390,399	423,271

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

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
At 1 January	26,887	25,692
Acquisition of a subsidiary	—	235
Impairment loss, net (note 5)	5,460	6,675
Amount written off as uncollectible	—	(5,469)
Exchange realignment	(86)	(246)
At 30 June/31 December	32,261	26,887

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Current		
Prepayments	34,596	24,471
Deposits and other receivables	33,850	43,047
Due from related parties (note 23(3))	113	64
	68,559	67,582
Impairment allowance	—	(2,843)
	68,559	64,739
Non-current		
Prepayments	—	523
Deposits	15,479	17,307
	15,479	17,830

15. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Cash and bank balances	393,427	393,608
Time deposits	5,425	5,627
	398,852	399,235
Less: Pledged deposits	(5,208)	(5,330)
Cash and cash equivalents	393,644	393,905

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

16. TRADE PAYABLES

An ageing analysis of the trade payables as at 30 June 2020 and 31 December 2019, based on the invoice date, is as follows:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within 1 month	34,398	39,271
1 to 2 months	12,332	20,578
2 to 3 months	1,922	5,100
Over 3 months	4,732	5,077
	53,384	70,026

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

17. OTHER PAYABLES AND ACCRUALS

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
	Note	
Current		
Contract liabilities	6,316	6,200
Accruals	118,114	173,693
Other payables	25,638	17,859
Due to a related party (note 23(3))	—	87
	150,068	197,839
Other non-current liabilities		
Due to a non-controlling shareholder of a subsidiary	4,800	4,800
Other payables	798	403
	5,598	5,203

(a) The balance is unsecured, non-interest bearing and repayable in 2 years.

(b) Beside for amount due to a non-controlling shareholder of a subsidiary mentioned in note (a), the above balances are unsecured and non-interest-bearing. The carrying amounts of other payables and accruals approximate to their fair values.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

19. SHARE CAPITAL

	30 June 2020 (Unaudited) US\$'000	31 December 2019 (Audited) US\$'000
Shares		
Issued and fully paid: 962,477,000 (31 December 2019: 981,646,000) ordinary shares of US\$0.01 each	9,625	9,816
Equivalent to HK\$'000	74,592	76,078

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 2019 (audited)		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		—	—	(30,819)	—	(30,819)
Shares cancelled		(18,354,000)	(1,422)	25,482	(24,060)	—
At 31 December 2019 and 1 January						
2020 (audited)		981,646,000	76,078	(21,796)	614,924	669,206
2019 final dividend		—	—	—	(21,172)	(21,172)
Shares repurchased	(a)	—	—	(6,867)	—	(6,867)
Shares cancelled	(a)	(19,169,000)	(1,486)	28,624	(27,138)	—
At 30 June 2020 (unaudited)		962,477,000	74,592	(39)	566,614	641,167

Note:

- (a) On 28 May 2020, 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 96,247,700 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 six months ended 30 June 2020, the Company repurchased 4,600,000 of its ordinary shares on the Hong Kong Stock Exchange at an aggregate consideration of HK\$6,867,000 (before expenses). Together with 14,569,000 ordinary shares of HK\$21,757,000 (before expenses) repurchased during the year ended 31 December 2019, were cancelled during the six months period ended 30 June 2020.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

20. PRE-IPO RESTRICTED SHARE UNIT SCHEME

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

Unless otherwise duly approved by the shareholders, the total number of shares underlying restricted share units (the "**RSUs**") under the Pre-IPO RSU Scheme shall not exceed 5,131,000, and following the capitalisation issue, has adjusted to 8,149,038 and representing approximately 0.81% of the enlarged issue share capital of the Company immediately following the completion of the capitalisation issue and the global offering.

The offer of a grant of RSUs may be accepted within the time period and in a manner prescribed in the grant letter. The Board or the Award Committee (if authority is delegated) has the sole discretion to determine the vesting schedule and vesting criteria (if any) for any grant of award(s) to any grantee, which may also be adjusted and re-determined by the Board or the Award Committee from time to time.

RSUs do not confer rights on the holders to dividends or to vote at shareholders' meetings.

21. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2020.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

22. COMMITMENTS

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Contracted, but not provided for:		
Leasehold improvement	2,381	2,428
Land and buildings	111,456	113,795
	113,837	116,223

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\$269,312,000) for the acquisition of land, construction of a factory and acquisition and installation of equipment in the Songshan Lake High-tech Industrial Development Zone. As at 30 June 2020, the Group has paid approximately RMB125,353,000 (equivalent to HK\$137,232,000) for the construction of a factory and acquisition and installation of equipment and approximately RMB18,839,000 (equivalent to HK\$20,624,000) for the acquisition of land, respectively, and the remaining commitment was approximately RMB101,808,000 (equivalent to HK\$111,456,000).

Except for such agreement, the Group did not have any other significant commitments as at 30 June 2020 and 31 December 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

23. RELATED PARTY TRANSACTIONS

(1) TRANSACTIONS WITH RELATED PARTIES

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the period:

	Notes	Six months ended 30 June	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Rental fee paid to Most Wealth International Limited	(a)	1,944	1,944
Rental fee paid to directors	(b)	606	638
Rental fee paid to directors and an associate of a director	(c)	1,283	1,349
Rental fee paid to an associate of a director	(d)	93	97
Rental fee paid to an associate of a director	(e)	69	73
Rental fee paid to an associate of a director	(f)	208	219
Training fee paid to ShenZhen Nanshan District Modern Denture Technology Training Centre	(g)	587	1,347
Sales of finished goods to Trident Dental Group Limited	(h)	153	188
Sales of finished goods to Kong Hong Holdings Limited	(i)	91	—
Sales of finished goods to Dr. William Cheung & Associates	(j)	39	—

Notes:

- (a) Most Wealth International Limited ("**Most Wealth**") is controlled by Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and Mr. Ngai Shing Kin. The transactions with Most Wealth were made on prices and conditions as mutually agreed.
- (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 Company 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 Dr. Chan Ronald Yik Long. The transactions with Trident Dental Group Limited were made on prices and conditions as mutually agreed.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

23. RELATED PARTY TRANSACTIONS (CONTINUED)

(1) TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

- (i) Kong Hong Holdings Limited is ultimately 40% owned by Dr. Chan Ronald Yik Long. The transactions with Kong Hong Holdings Limited were made on prices and conditions as mutually agreed.
- (j) Dr. William Cheung & Associates is ultimately 51% owned by Dr. Cheung Wai Man William. The transactions with Dr. William Cheung & Associates were made on prices and conditions as mutually agreed.

Mr. Chan Kwun Fung, Mr. Chan Kwun Pan, Mr. Ngai Shing Kin and Dr. Chan Ronald Yik Long are shareholders and directors of the Company. Dr. Cheung Wai Man William is a director of the Company.

The related party transactions in respect of items (a), (b), (c), (d), (e), (f), (h), (i) and (j) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

23. RELATED PARTY TRANSACTIONS (CONTINUED)**(2) COMMITMENTS WITH RELATED PARTIES (CONTINUED)**

- (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 has been recorded as lease liabilities on the statement of financial position as at 30 June 2020 in accordance with IFRS 16.

(3) BALANCES WITH RELATED PARTIES

As at 30 June 2020 and 31 December 2019, the Group's balances with related parties were as follows:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Due from related parties (note 14):		
Trident Dental Group Limited	45	64
Kong Hong Holdings Limited	50	—
Dr. William Cheung & Associates	18	—
	113	64
Due to a related party (note 17):		
ShenZhen Nanshan District Modern Denture Technology Training Centre	—	87

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

23. RELATED PARTY TRANSACTIONS (CONTINUED)

(4) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Short term employee benefits	15,380	14,747
Post-employment benefits	941	970
Total compensation paid to key management personnel	16,321	15,717

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

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Financial liabilities				
Interest-bearing bank borrowings	823,300	802,348	823,300	802,348

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/to an associate and non-current deposits and financial liabilities included in other payables and accruals approximate to their carrying amounts and accordingly no disclosure of the fair value 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

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

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 borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 30 June 2020 was assessed to be insignificant.

FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

LIABILITIES FOR WHICH FAIR VALUES ARE DISCLOSED:

As at 30 June 2020

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1) (Unaudited) HK\$'000	Significant observable inputs (Level 2) (Unaudited) HK\$'000	Significant unobservable inputs (Level 3) (Unaudited) HK\$'000	
Interest-bearing bank borrowings	—	823,300	—	823,300

As at 31 December 2019

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

25. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 28 August 2020.

CORPORATE INFORMATION

PLACE OF INCORPORATION

Cayman Islands

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

BOARD COMMITTEES

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. KWAN Ngai Kit

AUTHORISED REPRESENTATIVES

Mr. NGAI Shing Kin
Mr. KWAN Ngai Kit

AUDITOR

Ernst & Young

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CORPORATE INFORMATION**PRINCIPAL SHARE REGISTRAR AND
TRANSFER OFFICE IN THE CAYMAN
ISLANDS**

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
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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
China Construction Bank (Asia) Corporation Limited
Citibank, N.A., Hong Kong Branch

COMPANY WEBSITE

www.moderndentalgp.com

STOCK CODE

3600