2020 ANNUAL REPORT

MODERN Dental Group

MODERN DENTAL GROUP LIMITED

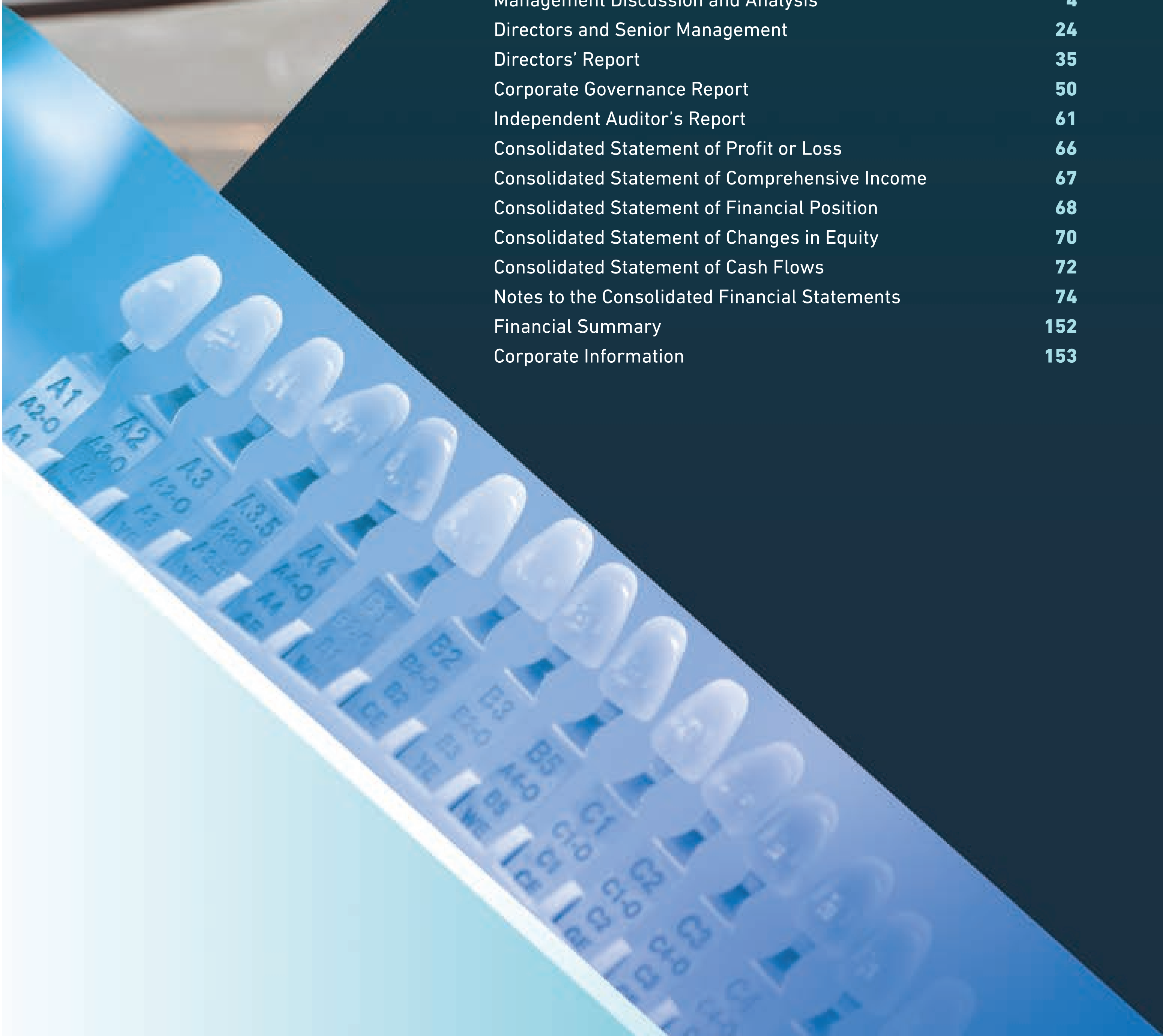
現代牙科集團有限公司

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

Stock code: 3600

MODERN

Dental Laboratory



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CHAIRMAN'S STATEMENT

THRIVING DURING UNPRECEDENTED TIMES

Chan Kwun Fung
Chairman

Dear shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Modern Dental Group Limited (the "**Company**", stock code: 3600), I hereby present the annual results of the Company and its subsidiaries (which are collectively referred to as the "**Group**" or **"Modern Dental**") for the year ended 31 December 2020.

2020 was undoubtedly a year filled with immense challenges, during which the Group was concerned with a material impact on the global economic and health situation brought by the COVID-19 pandemic. The unexpected outbreak of COVID-19 in early 2020 dealt a serious blow to the global economy in an unprecedented manner, which affected various markets in which the Group operates in. Amidst the difficult situation, the top priority of the Group management has been to protect the health of all employees and maintain stable operations. COVID-19 has disproportionately affected our smaller and mid-scaled competitors, and has had the effect of accelerating the rate of consolidation within our industry. This long-term trend shows no signs of reversing and puts the Group in an ideal position to consolidate and increase our market share in our industry.

Notwithstanding the challenging environment, the Group exited 2020 in a stronger position with our revenues and profitability in the second half at record highs. The Group's revenue increased by 7% in the six months period ended 31 December 2020 compared with 2019, led by our European market with a 13.3% sales increase in the last quarter of 2020 compared with 2019 and our Australian market with a 21.2% sales increase in the same period. In addition, EBITDA and Profit from core operations increased by 69.8% and 179.0%, respectively, in the second half of 2020 compared with 2019. When faced with adversity, I am pleased to say that the Group overcame related challenges and thrived.

The European market remains our key revenue and profit driver for the Group, going from strength-to-strength. For 2020, our European market contributed 41.9% of the Group's total revenue (increasing from 39.9% in 2019), and represents the Group's number one market by revenue. In such a key market for the Group, it has been important for the European market to continue to outperform and it has certainly not disappointed. In 2020, we continued to aggressively gain market share from our international and local competitors through our established one-stop-shop service, which is available within close proximity to our clients; effectively meeting our clients' high expectations through our various onshore and offshore resources.

The North American market, being the largest dental prosthetics market in the world, is full of opportunities and we expect this market to continue its upward trend once COVID-19 is in control in 2021. Notwithstanding the severity of the pandemic in the North American market, MicroDental Group contributed an Adjusted EBITDA of HK$46.6 million which is a strong and noteworthy showing considering the circumstances.

We saw a strong rebound in activity in the Mainland China market after mid-March 2020 onwards and ended the year in a strong and promosing position. The sales increase in the last quarter in 2020 was approximately 7.2% compared with 2019. The Mainland China market is a key market for the Group with our Dongguan production facility in full operation, increasing our production capacity. Hong Kong is a market that continues to be dominated by us, as we seek to enhance our service quality through the setting-up of new customer centres to better serve our clients.

As for our Australian market, our strategies to provide full range products to corporate dental groups have paid off and in the second half of the year resulted in a very strong increase in sales volume across most of our brands, in the midst of intense competition under improving economic conditions.

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

Looking forward to the rest of 2021 and the challenges ahead, the Group has operated for over 30 years and has withstood various shocks within the global economy and natural disasters in the past decades, and the Group has come out stronger after each event. With the Board's extensive experience and determination to meet any short-term challenges, the Group is in an ideal position to take advantage of, and will remain opportunistic in, any business opportunities in 2021 whilst remaining cautious and prudent in safeguarding shareholders' interests.

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

Finally, on behalf of the Board, I would like to congratulate Dr. Chan Ronald Yik Long and Mr. Ngai Chi Ho Alwin on their new appointments and look forward to their continuous contribution to the Group's business and development.

Chan Kwun Fung
Chairman

30 March 2021


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B1

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

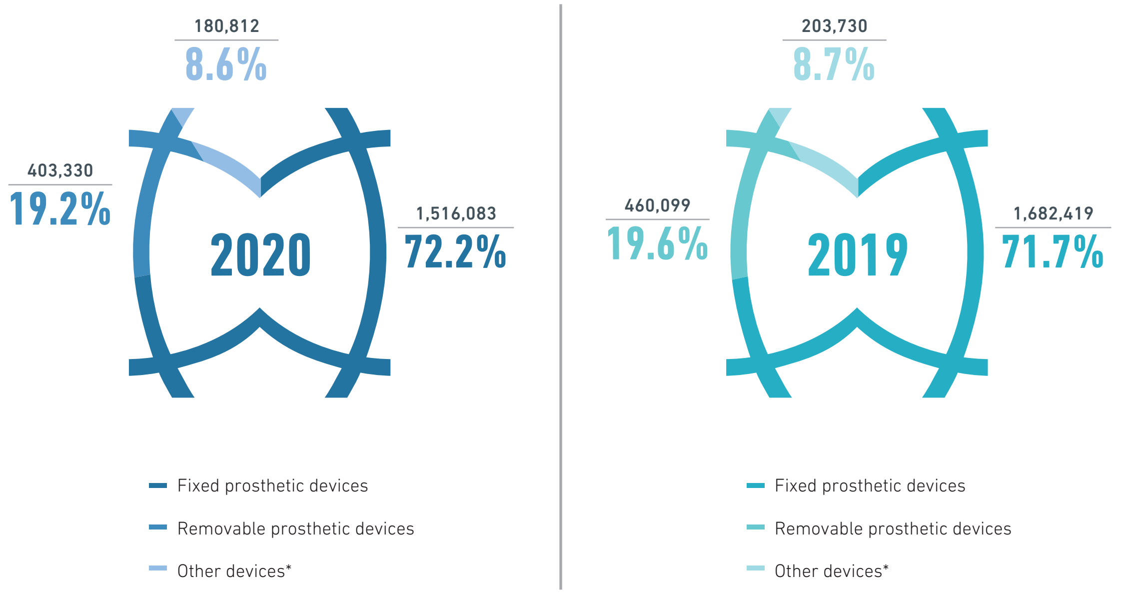
MANAGEMENT DISCUSSION AND ANALYSIS

PRODUCT CATEGORY

The figures below set forth the breakdown of revenue (in thousand Hong Kong dollars and percentage) and sales volume (in number of cases and percentage) by product category for the years ended 31 December 2020 and 2019 respectively:

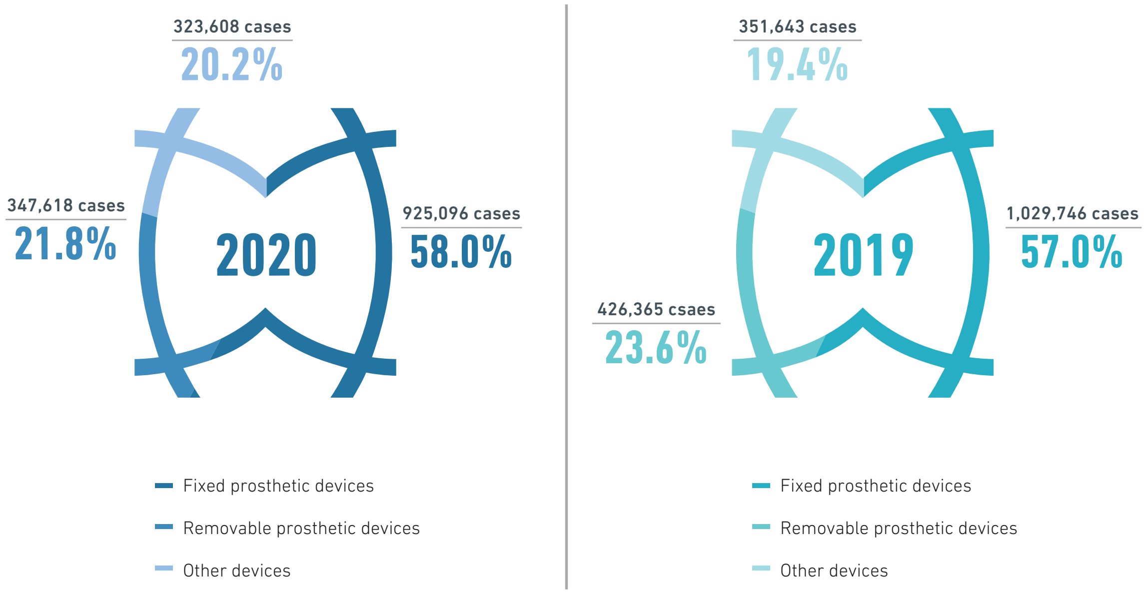
Breakdown of Revenue

(HK$'000 and %)



Breakdown of Sales Volume

(no. of cases and %)



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

Fixed Prosthetic Devices

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

During the year ended 31 December 2020, fixed prosthetic devices business segment recorded a revenue of approximately HK$1,516,083,000, representing a decrease of approximately HK$166,336,000 as compared with the year ended 31 December 2019. This business segment accounted for approximately 72.2% of the Group's total revenue as compared with approximately 71.7% in the year ended 31 December 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 year ended 31 December 2020, removable prosthetic devices business segment recorded a revenue of approximately HK$403,330,000, representing a decrease of approximately HK$56,769,000 as compared with the year ended 31 December 2019. This business segment accounted for approximately 19.2% of the Group's total revenue as compared with approximately 19.6% in the year ended 31 December 2019.

Other Devices

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

During the year ended 31 December 2020, other devices business segment recorded a revenue of approximately HK$180,812,000, representing a decrease of approximately HK$22,918,000 as compared with the year ended 31 December 2019. This business segment accounted for approximately 8.6% of the Group's total revenue as compared with approximately 8.7% in the year ended 31 December 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 years ended 31 December 2020 and 2019 respectively:

	Year ended 31 December					
	2020			2019		
Product category	**Sales Volume (number of cases)**	**Revenue (HK$'000)**	**ASP (HK$ per case)**	Sales Volume (number of cases)	Revenue (HK$'000)	ASP (HK$ per case)
Fixed prosthetic devices	**925,096**	**1,516,083**	**1,639**	1,029,746	1,682,419	1,634
Removable prosthetic devices	**347,618**	**403,330**	**1,160**	426,365	460,099	1,079
Other devices*	**323,608**	**180,812**	**559**	351,643	203,730	579
Total	**1,596,322**	**2,100,225**	**1,316**	1,807,754	2,346,248	1,298

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

Sales volume and average selling price

For the year ended 31 December 2020, the sales volume and ASP of the Group's products across its markets were 1,596,322 cases (2019: 1,807,754 cases) and HK$1,316 per case (2019: HK$1,298 per case), representing a decrease of 11.7% and an increase of 1.4%, respectively.

GEOGRAPHIC MARKET

By leveraging on our sales and distribution network, we achieved a leading position in the dental prosthetics industry across Europe, North America, Greater China, Australia, and other countries. The following table sets forth a breakdown of the revenue generated from the aforesaid markets for the years ended 31 December 2020 and 2019 respectively:

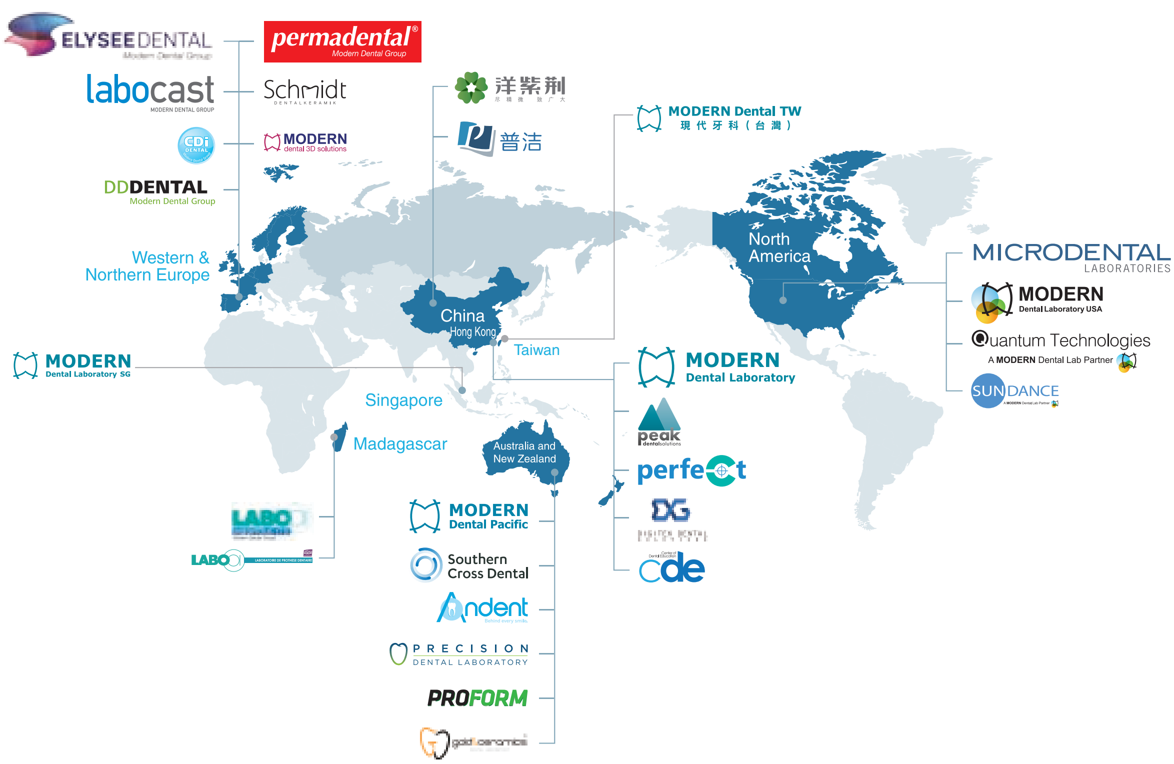
		Year ended 31 December					
		2020		2019			
Market	Original currency	**Conversion rate # (Original currency per HK$)**	**Revenue (HK$'000)**	Conversion rate # (Original currency per HK$)	Revenue (HK$'000)	Change in currency (%)	Organic growth rate (%)
Europe*	EUR	**8.85**	**869,949**	8.78	919,271	0.8%	-6.1%
North America	US$	**7.75**	**571,170**	7.75	697,082	—	-18.1%
Greater China**	RMB	**1.12**	**448,823**	1.14	512,299	-1.8%	-10.8%
Australia***	AUD	**5.35**	**190,289**	5.45	198,762	-1.8%	-2.5%
Others			**19,994**		18,834	—	6.2%
Total			**2,100,225**		2,346,248		

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

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

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

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



MANAGEMENT DISCUSSION AND ANALYSIS

Europe

The revenue generated from sales in the European markets, including France, Germany, the Netherlands, Belgium, Denmark, Sweden, Norway, Spain, the United Kingdom and other European countries, accounted for the largest portion of our revenue for the year ended 31 December 2020.

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-opening of various markets since mid-May 2020, a speedy recovery in sales volume (in particular, digital cases) has been noted. The Europe region recorded increased sales by 11.6% for the period from July 2020 to December 2020 when compared with same period in 2019, indicating (i) a solid recovery reflecting not only deferred sales orders accumulated during the lockdown period but also gains in market share from accelerated consolation within the dental industry (as evidenced by the sales growth of 13.3% in 4th quarter of 2020 compared with 4th quarter of 2019); (ii) business leads generated from our continued online educations 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. As evidenced by the Group's strong revenue growth in the second half of 2020, the Group believes COVID-19 has disproportionately affected our smaller and mid-scaled competitors in this market. The increase in revenue growth, in the Group's view, does not just reflect the pent-up demand but a material increase in market share. The Group believes the consolidation in the industry is expected to continue at an accelerated pace.

For the year ended 31 December 2020, the European market recorded a revenue of approximately HK$869,949,000, representing a decrease of approximately HK$49,322,000 as compared with year ended 31 December 2019. Together with the sales of dental equipment of approximately HK$46,782,000, this geographic market accounted for 41.9 % of the Group's total revenue as compared with approximately 39.9% for the year ended 31 December 2019. The decrease of revenue from the European market was attributable to decrease in the sales orders volumes due to COVID-19 pandemic in 1st half of 2020 and partially offset by the increase in the sales order volumes from June 2020 to December 2020, annual increment of the retail price to the dentists and increase in sales of dental equipment compared with the year ended 31 December 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 for the year ended 31 December 2020.

MicroDental Laboratories, Inc. and its subsidiaries ("**MicroDental Group**") contributed approximately HK$457,417,000 (2019: HK$560,122,000) to the Group's revenue, approximately HK$46,648,000 (2019: HK$45,657,000) to the Group's Adjusted EBITDA; approximately HK$98,413,000 of loss (2019: HK$638,000 of profit) to the Group's profit; and approximately HK$13,744,000 (2019: HK$2,348,000) to the Group's profit from core operations for the year ended 31 December 2020. The loss of approximately HK$98,413,000 (2019: profit of HK$638,000) for the year ended 31 December 2020 included (i) an one-off non-cash impairment loss of goodwill of approximately HK$150,132,000 (2019: Nil); (ii) a tax credit related to the impairment loss of goodwill of approximately HK$37,975,000 (2019: Nil); and (iii) non-cash depreciation and amortisation of approximately HK$29,684,000 (2019: HK$37,172,000).

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. Sales in the 4th quarter of 2020 has recovered to approximately 97% of the 4th quarter of 2019. Although the sales has already recovered in the 2nd half of 2020, with the uncertainty surrounding the development of the COVID-19 pandemic in the region in the 1st half of 2020, the management took 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 first half of 2020 in which the impairment loss of goodwill is not allowed to be reversed subsequently in accordance with the IFRSs.

Since the COVID-19 pandemic, we 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 client retention that will help us 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, our clients' interest surrounding digital dentistry increased during the current year. 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.

During the year ended 31 December 2020, the North American market recorded a revenue of approximately HK$571,170,000, representing a decrease of approximately HK$125,912,000 as compared with the year ended 31 December 2019. This geographic market accounted for approximately 26.1% of the Group's total revenue as compared with approximately 29.1% in the year ended 31 December 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 in 1st half of 2020, offset by the sales rebounds in 2nd half of 2020.

Greater China

Our Greater China market comprises Mainland China, Hong Kong and Macau. The revenue generated from sales in the Greater China market accounted for the third largest portion of our revenue for the year ended 31 December 2020.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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. However, they have all resumed their operations in early 2021 with various safety measures put in place. We expect a quick rebound in prosthetic demand as the number of people seeking dental treatment has been building up for the last few months.

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. The sales growth in the 4th quarter of 2020 is approximately 7.2% compared with the 4th quarter of 2019.

For the year ended 31 December 2020, the Greater China market recorded a revenue of approximately HK$448,823,000, representing a decrease of approximately HK$63,476,000 as compared with year ended 31 December 2019. Together with the sales of raw materials and dental equipment of approximately HK$40,411,000, this geographic market accounted for approximately 22.3% of the Group's total revenue as compared with approximately 21.9% last year. The decrease of revenue from the Greater China market was largely attributable to the decline in sales orders volumes impacted by the COVID-19 pandemic in the 1st half of 2020 and the depreciation of RMB against HK$ of 1.8% in the year ended 31 December 2020 and partially offset by the recovery in sales in 2nd half of 2020 and increase in sales of raw materials and dental equipment.

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 for the period from June 2020 to December 2020 exceeded the same period of 2019, indicating not only a solid recovery reflecting deferred sales orders accumulated during the lockdown period but also gains in market share from accelerated consolation within the dental industry (as evidenced by the sales growth of approximately 21.2% in the 4th quarter of 2020 compared with the 4th quarter of 2019).

For the year ended 31 December 2020, the Australian market recorded a revenue of approximately HK$190,289,000, representing a decrease of approximately HK$8,473,000 as compared with the year ended 31 December 2019. Together with the service revenue generated from rendering educational events and seminars of approximately HK$2,280,000, this geographic market accounted for approximately 8.8% of the Group's total revenue as compared with approximately 8.3% last year. The decrease of revenue from the Australian market was largely attributable to the decrease in sales order volume caused by COVID-19 pandemic in the 1st half of 2020 and depreciation of AUD against HK$ by 1.8% for the year ended 31 December 2020 compared with year ended 31 December 2019 and offset by increase in sales in the 2nd half of 2020.

Others

Other markets primarily include Indian Ocean countries, Japan and Singapore. For the year ended 31 December 2020, these markets recorded a revenue of approximately HK$19,994,000, representing an increase of approximately HK$1,160,000 as compared with the year ended 31 December 2019. Together with the service revenue generated from rendering educational events and seminars of approximately HK$510,000, this geographic market accounted for approximately 0.9% of the Group's total revenue as compared with approximately 0.8% last year.

FUTURE PROSPECTS AND STRATEGIES

The Board expects the long term global demand for dental prosthetics to continue to be stable and growing due to the growing global population and the aging population, notwithstanding any short term challenges the global economy may face. The COVID-19 global pandemic has disproportionately affected the business of our smaller or mid-scaled competitors which in turn, has the direct effect of accelerating the process of consolidation within our industry and ultimately benefiting the Group, as the global leader in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

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) In 2020, as a direct result of the COVID-19 global pandemic, the Group's industry experienced an acceleration of consolidation. The Group expects this acceleration of consolidation as a key driver and tailwind for the Group's growth going forward. As the leading global dental prosthetic device provider with a well diversified operations across different regions around the world, the Group is in an ideal position to benefit from the aforementioned trend as illustrated by the Group's unprecedented net profit for 2nd half of 2020.

(ii) The unique global distribution network of the Group brings additional opportunities to the Group, including:

   (a) additional distribution and joint venture arrangements with upstream suppliers; and

   (b) new products, such as orthodontic devices.

(iii) The continued integration of MicroDental Group under new leadership that has brought in renewed energy and optimism. Although North America has been severely affected by the COVID-19 pandemic, MicroDental Group has continued to deliver improvement in profit from operations in 2020 compared with 2019 and has taken the COVID-19 pandemic as an opportunity to further enhance its productivity.

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 whilst remaining cautious and prudent in safeguarding shareholders' interests.

Prudent financial management has always been one of the competitive advantages of the Group over the years and is well recognised by our banks. The Group took various rapid financing measures to make sure sufficiency funds would be available to deal with the uncertainties posted by the COVID-19 pandemic. In fact, the Group had successfully advanced a 5-year committed bank loan of HK$200 million in the first quarter of 2020. The Board is grateful to enjoy the continuous support and trust demonstrated by our banks as the debt financing market was indeed severely distorted during the COVID-19 pandemic.

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

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

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2020, the revenue of the Group amounted to approximately HK$2,190,208,000, representing a decrease of approximately 8.7% as compared with approximately HK$2,399,548,000 for the year ended 31 December 2019. The decrease was mainly attributable to decrease in sales orders volume in the first half of 2020 in countries affected by the COVID-19 pandemic, offset by the recovery in sales in the second half of 2020 and the annual increment of retail prices to the dentist.

Gross Profit and Gross Profit Margin

The gross profit for the year ended 31 December 2020 was approximately HK$1,089,988,000, which was approximately 5.5% lower than that of last year. The increase of the gross profit margin of approximately 1.8% compared with last year was mainly attributable to the increase in productivity of the production team in China since the second half of 2020 with our Dongguan facility is in full scale operations and depreciation of RMB against HK$ by 1.8% when compared with year ended 31 December 2019.

The gross profit margins of Fixed Prosthetic Devices business segment, Removable Prosthetic Devices business segment and Others business segment were approximately 51.2%, 50.1% and 41.3% respectively. The following table sets forth the breakdown of our gross profit and gross margin by product category.

	Year ended 31 December			
	2020		2019	
Product category	**Gross profit HK$'000**	**Gross margin (%)**	Gross profit HK$'000	Gross margin (%)
Fixed prosthetic devices	776,115	51.2	827,425	49.2
Removable prosthetic devices	201,951	50.1	217,661	47.3
Others	111,922	41.3	107,845	42.0
Total	1,089,988		1,152,931	

Selling and Distribution Expenses

The selling and distribution expenses decreased by approximately 14.6% from approximately HK$294,352,000 for the year ended 31 December 2019 to approximately HK$251,410,000 for the year ended 31 December 2020, accounting for approximately 11.5% of the Group's revenue, as compared with approximately 12.3% for last year. The decrease in the selling and distribution expenses was due to the enhanced sales and marketing efficiency in online educations and promotion activities; limited travelling and entertainment activities; and strengthened cost control measures.

Administrative Expenses

The administrative expenses decreased by approximately 9.7% to approximately HK$555,817,000 for the year ended 31 December 2020 from approximately HK$615,725,000 for the year ended 31 December 2019, accounting for approximately 25.4% of the Group's revenue, as compared with approximately 25.7% for last year. The decrease in the administrative expenses was in line with the decrease in sales and was primarily attributable to (i) strengthened costs control measures and (ii) government subsidies on labour costs under COVID-19 related employment support schemes.

MANAGEMENT DISCUSSION AND ANALYSIS

Impairment of Goodwill

During the year ended 31 December 2020, 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 (2019: Nil) in the first half of 2020 when our North America's business unit was heavily affected by the on-going spreading of the COVID-19. For details, please refer to Note 15 in this report.

Other Operating Expenses

During the year ended 31 December 2020, the other operating expenses decreased by approximately 96.7% from approximately HK$17,177,000 for the year ended 31 December 2019 to approximately HK$563,000 for the year ended 31 December 2020, accounting for less than 0.1% of the Group's revenue, as compared with approximately 0.7% for the corresponding period in 2019. Other operating expenses mainly represented (i) exchange losses, net, incurred of nil (2019: HK$16,920,000); and (ii) write-off of property, plant and equipment of approximately HK$319,000 (2019: HK$195,000).

Finance Costs

During the year ended 31 December 2020, the finance costs decreased by approximately 11.1% from approximately HK$37,902,000 for the year ended 31 December 2019 to approximately HK$33,699,000 for the year ended 31 December 2020, accounting for approximately 1.5% of the Group's revenue, as compared with approximately 1.6% for the corresponding period in 2019.

Income Tax Expense

Income tax expense decreased by approximately 60.1% from approximately HK$41,563,000 for the year ended 31 December 2019 to approximately HK$16,565,000 for the year ended 31 December 2020. The decrease was primarily attributable to the recognition of deferred tax credit primarily related to the impairment on goodwill recorded during the year.

Profit for the Year

Profit for the year decreased by approximately 32.9% from approximately HK$160,445,000 for the year ended 31 December 2019 to approximately HK$107,659,000 for the year ended 31 December 2020. The decrease in profit for the year was due to a recognition of an one-off non-cash impairment loss of goodwill for North America region of approximately HK$150,132,000 (2019: Nil) for the year ended 31 December 2020. However, without taking into account the goodwill impairment, its related tax credit and certain non-recurring items, the profit from core operations for the year ended 2020 was approximately HK$224,170,000, which represents an increase of approximately 36.9% when compared to the profit from core operations for year ended 31 December 2019 of approximately HK$163,698,000.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company for the year ended 31 December 2020 amounted to approximately HK$107,763,000, representing a decrease of approximately HK$53,794,000, or approximately 33.3%, as compared with profit attributable to owners of the Company approximately HK$161,557,000 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, Adjusted EBITDA and Profit from core operations

During the year ended 31 December 2020, the Group incurred some one-off expenses, which are not indicative of the operating performance of the business of the year. Therefore, the Group arrives at an adjusted EBITDA (the "**Adjusted EBITDA**") and profit from core operations by eliminating the effects of certain non-cash or non-recurring items, including one-off transaction cost in connection with acquisitions and disposals and one-off cost in connection with restructuring and reorganisation.

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

	For the year ended 31 December	
	2020 **HK$'000**	2019 HK$'000
EBITDA and Adjusted EBITDA		
Net profit	**107,659**	160,445
Tax	**16,565**	41,563
Finance costs	**33,699**	37,902
Depreciation of right-of-use assets	**47,658**	59,901
Depreciation of property, plant and equipment	**58,641**	57,551
Amortisation of intangible assets	**29,452**	35,452
Impairment of goodwill	**150,132**	—
Less:		
Bank interest income	**(1,255)**	(1,270)
EBITDA	**442,551**	391,544
Add:		
One-off transaction cost in connection with acquisitions and disposals	**—**	26
One-off cost in connection with restructuring and reorganisation	**4,354**	3,227
Adjusted EBITDA	**446,905**	394,797
Adjusted EBITDA Margin	**20.4%**	16.5%

MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the year ended 31 December	
	2020 HK$'000	2019 HK$'000
Profit from core operations		
Net Profit	**107,659**	160,445
Add:		
Impairment of goodwill	**150,132**	—
One-off transaction cost in connection with acquisitions and disposals	**—**	26
One-off cost in connection with restructuring and reorganisation	**4,354**	3,227
Less:		
Tax credit related to impairment of goodwill	**(37,975)**	—
Profit from core operations	**224,170**	163,698
Profit from core operations Margin	**10.2%**	6.8%

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the years ended 31 December 2020 and 31 December 2019 respectively:

	For the year ended 31 December	
	2020 HK$'000	2019 HK$'000
Net cash flows from operating activities	**400,177**	342,226
Net cash flows used in investing activities	**(46,964)**	(138,586)
Net cash flows used in financing activities	**(56,664)**	(184,037)

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

The Group's balance of cash and cash equivalents was approximately HK$697,827,000 as of 31 December 2020, which was mainly denominated in HK$, RMB, US$, EUR and AUD.

Operating Activities

Cash inflow from operating activities was mainly generated from cash receipt from revenue generated from sales of our products. Cash outflow from operating activities was mainly due to purchase of raw materials, wages of technicians and employees and tax paid. For the year ended 31 December 2020, the net cash flows from operating activities has increased to approximately HK$400,177,000 (2019: HK$342,226,000). The increase in net cash flows from operating activities was primarily attributable to increase in cash generated from operations as a result of the increase in profit from core operations.

The amount of trade receivables increased from approximately HK$423,271,000 as at 31 December 2019 to approximately HK$473,105,000 as at 31 December 2020. The trade receivable turnover days (the average of the beginning and ending trade receivable balances/revenue × 365 days) increased from approximately 61 days for the year ended 31 December 2019 to approximately 75 days for the year ended 31 December 2020. The distortion on the trade receivables turnover days caused by the decrease in sales in year 2020 whilest the ending balance of the trade receivables as at 31 December 2020 only reflected the increase in sales of around 7.0% in 2nd half of 2020 as compared to the corresponding period of 2019.

The amount of trade payables decreased from approximately HK$70,026,000 as at 31 December 2019 to approximately HK$67,670,000 as at 31 December 2020. The trade payable turnover days (the average of the beginning and ending trade payable balances/cost of sales × 365 days) increased from approximately 20 days for the year ended 31 December 2019 to approximately 23 days for the year ended 31 December 2020. The general credit terms granted by suppliers normally ranged from 30–90 days.

The amount of inventory increased from approximately HK$115,274,000 as at 31 December 2019 to approximately HK$128,021,000 as at 31 December 2020. The inventory turnover days (the average of the beginning and ending inventory balances/cost of sales × 365 days) increased from approximately 33 days for the year ended 31 December 2019 to approximately 40 days for the year ended 31 December 2020 mainly because of the addition of the new production facility of Dongguan.

Investing Activities

The net cash flows used in investing activities for the year ended 31 December 2020 of approximately HK$46,964,000, of which approximately HK$72,446,000 was used primarily for the expansion of our production facilities and upgrade of our computer-aided/manufacturing production equipment, net off with proceeds from disposal of property, plant and equipment of approximately HK$19,385,000.

Financing Activities

The Group recorded a net cash flows used in financing activities of approximately HK$56,664,000 for the year ended 31 December 2020. The outflow was mainly attributable to (i) net cash inflows from bank borrowings of approximately HK$52,609,000; (ii) payment of dividend of approximately HK$21,172,000; (iii) repurchase of the Company's ordinary shares of approximately HK$9,934,000; (iv) payment for lease liabilities of approximately HK$54,454,000 and; (v) payment of interest expenses of approximately HK$23,861,000.

Capital Expenditure

During the year ended 31 December 2020, the Group's capital expenditure amounted to approximately HK$72,446,000 which was mainly used for expansion of our production facilities and improvement in our production equipment. All of the capital expenditure was financed by internal resources and bank borrowings.

Save as disclosed in this Annual Report, there were no significant investments held by the Company for the year ended 31 December 2020, nor was there any plan authorised by the Board for other material investments or additions of capital assets as at the date of this Annual Report.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

Funding and treasury policies

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

Bank borrowings

Bank borrowings of the Group as of 31 December 2020 amounted to approximately HK$860,743,000 as compared to approximately HK$802,348,000 as of 31 December 2019. As of 31 December 2020, the bank borrowings of approximately HK$825,099,000 and HK$35,644,000 were denominated in HK$ and RMB, respectively. As of 31 December 2020, all bank borrowings were at floating interest rates.

Cash and cash equivalents

The amount in which cash and cash equivalents were held are set out in the paragraph headed "Liquidity and Financial Resources" in this 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, lease liabilities, other non-current liabilities, less cash and cash equivalents and pledged deposits. As of 31 December 2020, the gearing ratio of the Group was approximately 22% (2019: 30%), reflecting that the Group's financial position was at a sound level.

Debt securities

As of 31 December 2020, the Group did not have any debt securities.

Contingent liabilities

As of 31 December 2020, the Group did not have any contingent liabilities.

Charge of group assets

During the year ended 31 December 2020, Modern Dental Holding Limited, a subsidiary of the Company, entered into certain bank loans facility agreements (the "**Facility Agreements**") for certain term loans and a revolving credit, secured by corporate guarantees of the Company and certain of its subsidiaries. Pursuant to the Facility Agreements, if the aggregate shareholding of Mr. Chan Kwun Fung, Mr. Chan Kwun Pan, Dr. Chan Ronald Yik Long, Ms. Chan Yik Yu, Mr. Ngai Chi Ho Alwin and Mr. Ngai Shing Kin, directly or indirectly, in the Company's share capital ceases to be at least 50%, the commitment under the Facility Agreements will be cancelled and all the outstanding amounts under the Facility Agreements will become immediately due and payable.

Pledged bank deposits of the Group as of 31 December 2020 amounted to approximately HK$4,828,000 as compared to approximately HK$5,330,000 as of 31 December 2019.

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 (equivalent to approximately HK$292,286,000) for the acquisition of land, and construction and renovation of a factory in the Dongguan Songshan Lake High-tech Industrial Development Zone.

As of 31 December 2020, the Group has paid approximately RMB154,664,000 (equivalent to approximately HK$183,765,000) for the construction and renovation of the factory and approximately RMB18,839,000 (equivalent to approximately HK$22,384,000) for the acquisition of land, and the remaining commitments was approximately RMB72,497,000 (equivalent to approximately HK$86,137,000).

During the year, the Group entered a construction agreement for setting up the production lines in a leased ready-built factory in Vietnam and as of 31 December 2020, the remaining commitments was approximately VND2,325,000,000 (equivalent to approximately HK$791,000).

Save as disclosed above, the Group had no other significant capital commitments as of 31 December 2020.

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

The Group had no material acquisitions, disposal of subsidiaries, associates and joint ventures for the year ended 31 December 2020.

OFF-BALANCE SHEET TRANSACTIONS

As of 31 December 2020, the Group did not enter into any material off-balance sheet transactions.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Company repurchased 650,000 of its ordinary shares on the Hong Kong Stock Exchange at an aggregate consideration of approximately HK$895,000 (before expenses).

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Global Economy 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. 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.

For instance, the global COVID-19 pandemic has caused a global health emergency and significant disruptions to economies worldwide which could adversely impact the Group's operating results for the year ended 31 December 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

Mergers and Acquisitions Risk

Goodwill and intangible assets arising from mergers and acquisitions accounted for significant portion in the Group's total assets. If there is any impairment on the goodwill and intangible assets, it will affect the profit of the Group.

The Group mitigates such risk by engagement of legal and financial advisers to carry out due diligence of material acquisitions. The Group has also annually engaged external valuer, Brilliant Appraisal Limited, to assess the impairment of material goodwill and intangible assets and no material changes in key assumptions have been made in the current year. The key assumptions, such as the pre-tax discount rates (2020: ranged between 13% and 20%; 2019: ranged between 11% and 21%); the budgeted sales growth rates (2020: ranged between 0% and 10%; 2019: ranged between 5% and 12%); and budgeted EBITDA margins (2020: ranged between 8% and 30%; 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.

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 year ended 31 December 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 year ended 31 December 2020, the interest rates on floating-rate bank loans were approximately HIBOR+1.60% per annum for term loans and 1-year Loan Prime Rate for a revolving credit. The Group had not entered into any type of interest rate agreements or derivative transactions to hedge against the fluctuations in interest rates.

Foreign Currency Risk

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

Credit Risk

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

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

Liquidity Risk

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

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 5,838 (2019: 6,139) dedicated full-time employees at our production facilities, service centers, points of sales and other sites as of 31 December 2020, mainly including 4,219 (2019: 4,552) production staff members, 610 (2019: 521) general management staff members and 341 (2019: 361) customer service staff members.

Total staff costs of the Group (excluding the Directors' and chief executive's remuneration) for the year ended 31 December 2020 was approximately HK$1,005,405,000 (2019: HK$1,164,830,000). The Group's remuneration policies were in line with relevant legislation, market conditions and the performance of our employees.

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

DIRECTORS AND SENIOR MANAGEMENT

CHAN KWUN FUNG, MICHAEL

BOARD OF DIRECTORS

As at 31 December 2020, the board (the "**Board**") of directors (the "**Directors**", each a "**Director**") consisted of 11 Directors comprising 7 executive Directors and 4 independent non-executive Directors. The biographical details of the Directors are set out below.

Executive Directors

Mr. CHAN Kwun Fung (陳冠峰先生), aged 66, is the chairman of the Board and an executive Director. He is also the director, the chairman, the legal representative, and/or the supervisor of certain subsidiaries of the Company. He is primarily responsible for the overall strategic planning and management of the Group.

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

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

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

CHAN KWUN PAN, BEN

Mr. CHAN Kwun Pan (陳冠斌先生), aged 63, is the founder of the Group, the vice chairman of the Board and an executive Director. He is also the director, and/or the supervisor of certain subsidiaries of the Company. He is primarily responsible for the overall strategic planning and management of the Group.

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

Mr. Chan is a dental technician and has over 30 years of experience in the dental prosthesis field. He obtained a craft certificate in dental mechanics from The Hong Kong Polytechnic University (formerly known as The Hong Kong Polytechnic) in November 1975. His experience includes research, design and development of dental prosthesis-related production techniques and management. Mr. Chan has been a vice chairman of the Shenzhen Nanshan Foreign Enterprise's Chamber of Commerce since May 2001. Mr. Chan was a member of the Political Consultative Committee of Nanshan District, Shenzhen in the PRC between October 2006 and October 2016.

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

DIRECTORS AND SENIOR MANAGEMENT

NGAI SHING KIN, GODFREY

Mr. NGAI Shing Kin (魏聖堅先生), aged 72, is an executive Director, the chief executive officer and a member of the remuneration committee of the Company. He is also the director, the president, the manager, and/or the supervisor of certain subsidiaries of the Company. He is primarily responsible for the overall strategic planning and the corporate policy for the operations of the Group.

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

Mr. Ngai was conferred honorary university fellowship from the University of Hong Kong in September 2017. He obtained a master's degree in management (technology) from the University of Melbourne in Australia in December 1994 and a bachelor's degree in education from the University of Melbourne (Hawthorn Institute of Education) in Australia in May 1995. Mr. Ngai also obtained a Fellowship (dental) from The British Institute of Surgical Technologists (now known as The British Institute of Dental and Surgical Technologists) in the United Kingdom in May 1982, the dental technician's certificate from the City and Guilds of London Institute in the United Kingdom in June 1977, the dental technician's advanced certificate in orthodontic technology from the City and Guilds of London Institute in the United Kingdom in June 1980, the dental technician's advanced certificate in prosthodontic technology in June 1980, the dental technician's advanced certificate in crown and bridge technology from the City and Guilds of London Institute in the United Kingdom in June 1983, and the licentiateship of the City and Guilds for dental technology from the City and Guilds of London Institute in the United Kingdom in May 1990.

Mr. Ngai has over 53 years of experience in the dental prosthesis field. Prior to joining the Group, Mr. Ngai was a student dental technician and a dental technician in Department of Health, the Government of the Hong Kong Special Administrative Region (formerly known as Medical and Health Department, the Government of Hong Kong) from 1967 to 1970 and from 1970 to 1979, respectively. From 1979 to 1981, he was a lecturer at The Hong Kong Polytechnic University (formerly known as The Hong Kong Polytechnic) and was primarily responsible for teaching dental technology. From 1981 to 1998, he was an instructor dental technologist at the Faculty of Dentistry, The University of Hong Kong and was primarily responsible for teaching dental technology. Mr. Ngai is the co-author of "A Colour Atlas of Resin Bond Retained Prostheses – A practical guide", a book published in 1989.

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

NGAI CHI HO, ALWIN

Mr. NGAI Chi Ho, Alwin (魏志豪先生), aged 43, is an executive Director, the chief operating officer and a member of the nomination committee of the Company. He is also the director, the chairman, the general manager, and/or the legal representative of certain subsidiaries of the Company. He is primarily responsible for the general operations and devising business strategies of the Group.

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

Mr. Ngai obtained an executive master of business administration (EMBA) degree from the City University of Hong Kong in October 2018, a master's degree in applied commerce (marketing) from the University of Melbourne in Australia in March 2006 and a bachelor's degree in laws and a bachelor's degree in science (with honors) from the University of Melbourne in Australia in April 2002. He was admitted as a barrister and solicitor of the Supreme Court of Victoria in Australia in November 2002.

Mr. Ngai has over 14 years of experience in the dental prosthesis field. Prior to joining the Group, he was a solicitor of Ian Polak Barristers & Solicitors, being a law firm, from January 2003 to December 2005. He has also been a member of The Academy of Dental Materials, a consortium of dental professionals founded in 1941 in the United States, since June 2014. He is also an observing member of the ISO Technical committees of ISO/TC109/SC9 Dental CAD/CAM Systems, ISO/TC106/SC2 Prosthodontic Materials and affiliate of the International College of Prosthodontists.

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

DIRECTORS AND SENIOR MANAGEMENT

CHAN CHI YUEN, ALEX

Mr. CHAN Chi Yuen (陳志遠先生), aged 36, is an executive Director. He is also the director, the chairman, the general manager, the legal representative, the vice chairman, and/or the vice general manager of certain subsidiaries of the Company. Mr. Chan is primarily responsible for the business development, customer services and daily operations of Yangzhijin Dental Laboratory (Shenzhen) Co., Ltd.

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

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

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

CHAN YIK LONG, RONALD

Dr. CHAN Ronald Yik Long (陳奕朗醫生), aged 34, is an executive Director and a member of the nomination committee of the Company. He is also the director, the vice chairman, and/or the general manager of certain subsidiaries of the Company. Dr. Chan is primarily responsible for the strategic planning, operations, sales and marketing of the Southeast Asia businesses of the Group.

Dr. Chan is also responsible for the development of corporate strategic plans and implementation of policies in the Group. Furthermore, he is the director and CEO of the Group's clear aligner business which also entails responsibilities from global strategic planning to product research and development.

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

Dr. Chan obtained a Bachelor of Science degree (majoring in biological science) with distinction from the University of Calgary in Canada in June 2008, a Bachelor of Dental surgery degree from The University of Hong Kong in December 2014, a Master of Business Administration degree with distinction from Edinburgh Business School, Heriot-Watt University in the United Kingdom in June 2015 and a Master of Science degree in Restoration Aesthetic Dentistry from The University of Manchester in July 2019.

Dr. Chan has been a member of The Hong Kong Dental Association as well as a registered dentist in Hong Kong, under the general register, with The Dental Council of Hong Kong since 2014. He is also a part-time lecturer employed by The University of Hong Kong since June 2019.

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

DIRECTORS AND SENIOR MANAGEMENT

CHAN YIK YU, EDITH

Ms. CHAN Yik Yu (陳奕茹女士), aged 33, is an executive Director, the chief marketing officer and a member of the remuneration committee of the Company. She also serves as the vice chairman and vice general manager of a subsidiary of the Company. Ms. Chan is primarily responsible for the overall marketing of the Group.

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

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

Ms. Chan possesses over 10 years of experience in the marketing field. Prior to joining the Group, Ms. Chan was a marketing executive of the business corporate department of Fiducia (Hong Kong office), a management consultancy firm, and then worked at Goodwin Procter LLP, a solicitor firm, as a marketing specialist.

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

Independent Non-Executive Directors

Dr. CHEUNG Wai Bun Charles, J.P. (張惠彬博士、太平紳士), aged 84, is an independent non-executive Director, the chairman of the audit committee, and a member of the remuneration committee and the nomination committee of the Company. He has been an independent non-executive Director since 24 November 2015.

Dr. Cheung has appropriate professional accounting or related financial management expertise. He is an independent non-executive director of Pioneer Global Group Limited (stock code: 224), Universal Technologies Holdings Limited (stock code: 1026) and Jiayuan International Group Limited (stock code: 2768), and a non-executive director of Galaxy Entertainment Group Limited (stock code: 27), all of which are listed on the Main Board of the Stock Exchange. He is also an independent non-executive director of Yin He Holdings Limited (formerly known as Zebra Strategic Holdings Limited) (stock code: 8260), which is listed on the GEM of the Stock Exchange. He was formerly an independent non-executive director of China Financial International Investments Limited (formerly known as Sunshine Capital Investments Group Limited) (stock code: 721) and Fullsun International Holdings Group Co., Limited (formerly known as U-Right International Holdings Limited) (stock code: 627), both of which are listed on the Main Board of the Stock Exchange. He was formerly an independent non-executive director of China Taifeng Beddings Holdings Limited (former stock code: 873), the shares of which were listed on the Main Board of the Stock Exchange and were delisted on 21 February 2019.

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

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

Dr. CHAN Yue Kwong Michael (陳裕光博士), aged 69, is an independent non-executive Director, the chairman of the nomination committee and a member of the audit committee of the Company. He has been an independent non-executive Director since 24 November 2015.

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

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

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

DIRECTORS AND SENIOR MANAGEMENT

Dr. WONG Ho Ching (黃河清博士), aged 73, is an independent non-executive Director, the chairman of the remuneration committee and a member of the audit committee of the Company. He has been an independent non-executive Director since 24 November 2015.

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

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

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

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

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

Dr. CHEUNG Wai Man William (張偉民博士), aged 66, is an independent non-executive Director and a member of the nomination committee and the remuneration committee of the Company. He has been an independent non-executive Director since 24 November 2015.

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

Dr. W. M. Cheung obtained a doctorate degree in dental medicine from University of Pennsylvania in the United States in May 1981. He now serves as an Emeritus Trustee of The University of Pennsylvania and the Chair of Board of Advisor at the School of Dental Medicine of the same institution.

Dr. W. M. Cheung served as the Vice President of International College of Dentists ("**ICD**") Section XV Asia from March 2017 to October 2020, he is now the Speaker of the International Council of the ICD. He was the member (since September 2016) and has been the vice-chair of the Education Committee of the FDI World Dental Federation since August 2018.

SENIOR MANAGEMENT

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

Mr. August Wilhelm Torsten Schwafert, aged 56, is the chief executive officer of Modern Dental Europe B.V., which is a Company's subsidiary.

Mr. Schwafert is also the director of certain subsidiaries of the Company. Mr. Schwafert is mainly responsible for leading the business development of the Group in Europe. Mr. Schwafert joined the Group in March 2014.

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

Mr. Schwafert has over 28 years of management experience in the dental field and has extensive relationships in the European dental industry. Prior to joining our Group, Mr. Schwafert was the chief executive officer in Wieland Dental + Technik GmbH, being a dental prosthetic company which focuses on CAD/CAM solutions, from August 2009 to February 2014 and was responsible for directing the overall business development, developing sustainable strategy and restructuring. Prior to that, he was the vice president of sales and marketing of DeguDent, Dentsply Group, being a dental prosthetic company that produces materials and devices for dental laboratories, from January 2001 to July 2009 and was responsible for the strategic control of the product portfolio and the management of the global sales team. Mr. Schwafert was the president of Elephant Dental B.V. in Hoorn Netherlands, being a dental prosthetic company that develops and sells advanced dental products, from August 1999 to December 2000. Elephant Dental B.V. was a wholly owned subsidiary of Degussa Dental, which was later acquired by the Dentsply group in 2001.

Mr. Gregory Scialom, aged 46, is the president of Labocast SAS, which is a Company's subsidiary.

Mr. G. Scialom is also the director, substitute director and/or the legal representative of certain subsidiaries of the Company. Mr. G. Scialom is responsible for the operation of the Group in France and the Indian Ocean. He joined the Labocast Group, which was subsequently acquired by the Group in August 2011.

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

Mr. G. Scialom possesses over 20 years of experience in the dental prosthetic field at Labocast SAS. Mr. G. Scialom was the general manager of Labocast SAS from July 2005 to May 2008 and was primarily an executive assistant of Labocast SAS from January 2001 to June 2005. His experience includes establishing Labo OI (Mauritius) Ltd, developing prosthetic device manufacturing business of Labo OI (Mauritius) Ltd, managing the daily operations of the laboratories, organizing and providing quality customer service, and maintaining relationship with Modern Dental Laboratory Company Limited.

Mr. James Squirrell, aged 48, is the chief executive officer of Modern Dental Pacific Pty Ltd, which is a Company's subsidiary.

Mr. J. Squirrell is also the director of certain subsidiaries of the Company. Mr. J. Squirrell is responsible for leading the business development and operations of the Group in Australia and New Zealand. He joined the SCDL Group, which was subsequently acquired by the Group, in November 2012. He is also a non-executive director of the Australian Dental Industry Association.

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

DIRECTORS AND SENIOR MANAGEMENT

Mr. J. Squirrell has over 13 years of experience as a finance executive. He acted as chief financial officer of the SCDL Group for 5 years, before taking the role of chief executive officer. Prior to joining our Group, he was the Australia/New Zealand finance director of Merlin Entertainments Group Ltd (and precedent companies) from January 2008 to July 2012, overseeing financial and accounting management, acquisitions, corporate governance and company secretarial matters for the leading visitor attraction business. Prior to that, he held finance roles at a number of listed Australian companies, across the entertainment, banking and beverage sectors.

Ms. Laura Kelly, aged 58, is the chief executive officer of MicroDental Laboratories, Inc., which is a Company's subsidiary.

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

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

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

COMPANY SECRETARY

Mr. KWAN Ngai Kit (關毅傑先生), aged 41, has been the chief financial officer, authorised representative and the company secretary of the Company since 26 October 2016. Mr. Kwan, has over 14 years of experience in auditing, accounting and corporate management and was responsible for corporate finance, mergers and acquisitions matters, financial and accounting management, investors relations, corporate governance as well as compliance affairs. Prior to March 2014, he worked as a senior manager in both the assurance department and the technical department of Ernst & Young during which he acquired intensive capital market transactions experience. He is currently an independent non-executive director of Rare Earth Magnesium Technology Group Holdings Limited (stock code: 601) which has applied the appointment of "light touch" joint provisional liquidators for a possible debt restructing in July 2020; A & S Group (Holdings) Limited (stock Code: 1737) and Lai Group Holding Company Limited (stock code: 8455) which are listed on the Main Board and GEM of the Stock Exchange respectively. He was an independent non-executive director of Leyou Technologies Holdings Limited (stock code: 1089) from 5 July 2017 to 31 December 2020, which was delisted in December 2020.

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

Mr. Kwan was appointed as a reviewer for reviewing and judging the Best Corporate Governance Awards of the Hong Kong Institute of Certified Public Accountants in June 2020.

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

DIRECTORS' REPORT

The board (the "**Board**") of directors (the "**Directors**") of Modern Dental Group Limited (the "**Company**"), together with its subsidiaries, (the "**Group**") is pleased to present this Directors' report together with the consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the production and distribution of three product lines: fixed prosthetic devices, removable prosthetic devices and other devices, such as orthodontic devices, sports guards and anti-snoring devices. The Company is an investment holding company. The principal activities of the subsidiaries of the Company are set out in Note 1 to the consolidated financial statements. The operating segment information of the Group for the year ended 31 December 2020 is set out in Note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss on page 67 of this Annual Report.

DIVIDENDS

The Board did not recommend the payment of an interim dividend for the six months period ended 30 June 2020 (2019: HK3.1 cents). The Board recommended a final dividend of HK7.0 cents (2019: HK2.2 cents) per ordinary share, out of the share premium account, for the year ended 31 December 2020 (the "**Proposed Final Dividend**"). Subject to the approval by the Shareholders in the forthcoming annual general meeting of the Company (the "**AGM**") to be held on 27 May 2021, the Proposed Final Dividend will be paid on 28 June 2021 to Shareholders whose names appear on the Register of Members of the Company as at the close of business on 4 June 2021.

CLOSURE OF REGISTER OF MEMBERS

To determine the entitlement to attend and vote at the AGM to be held on 27 May 2021, the Register of Members of the Company will be closed from Monday, 24 May 2021 to Thursday, 27 May 2021, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify to attend and vote at the forthcoming AGM, unregistered holders of shares of the Company shall ensure that, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on Friday, 21 May 2021, for the purpose of effecting the share transfers.

To determine the entitlement to the Proposed Final Dividend (subject to approval by the Shareholders at the AGM), the Register of Members of the Company will be closed from Wednesday, 2 June 2021 to Friday, 4 June 2021, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the Proposed Final Dividend, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 1 June 2021.

DIRECTORS' REPORT

FINANCIAL SUMMARY

A summary of the audited consolidated results and the assets, liabilities and non-controlling interest of the Group for the last five financial years, as extracted from the audited consolidated financial statements is set out on page 153 of this Annual Report.

SUBSIDIARIES

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

MAJOR CUSTOMERS AND SUPPLIERS

The relationship between the Group and our suppliers has been stable. For the year ended 31 December 2020, the purchase amounts placed with the Group's five largest suppliers accounted for 33.8% (2019: 30.6%) of the Group's total purchases and the purchase amount placed with our single largest supplier accounted for 12.2% (2019: 15.4%) of the Group's total purchases.

The relationship between the Group and our customers has been stable. For the year ended 31 December 2020, the revenue amounts from the Group's five largest customers accounted for 1.7% (2019: 1.9%) of the Group's total revenue and the revenue amount from our single largest customer accounted for 0.4% (2019: 0.5%) of the Group's total revenue.

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2020 are set out in Note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company for the year ended 31 December 2020 are set out in Note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company had distributable reserves of approximately HK$416,626,000 (2019: approximately HK$463,968,000) calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands (the "**Companies Law**"). This includes the Company's share premium account of approximately HK$566,614,000 (2019: approximately HK$614,924,000).

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2020 are set out in the section headed "Management Discussion and Analysis" in this Annual Report and Note 25 to the consolidated financial statements.

DIRECTORS

The Directors who held office during the year ended 31 December 2020 and up to the date of this Annual Report are:

Executive Directors:

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

Independent Non-executive Directors:

Dr. Cheung Wai Bun Charles J.P.
Dr. Chan Yue Kwong Michael
Dr. Wong Ho Ching
Dr. Cheung Wai Man William

Pursuant to Article 84 of the articles of association of the Company (the "**Articles of Association**"), one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment and as between persons who became or were last re-elected Directors on the same day shall (unless they otherwise agree among themselves) be determined by lot. Accordingly, Mr. Chan Kwun Fung, Dr. Cheung Wai Man William, Dr. Wong Ho Ching and Dr. Cheung Wai Bun Charles J.P. will retire from office as Directors at the AGM.

Dr. Wong Ho Ching has notified the Board that he will not be standing for re-election as an independent non-executive Director at the AGM and will retire by rotation as an independent non-executive Director pursuant to Article 84 of the Articles of Association at the conclusion of the AGM. Only Mr. Chan Kwun Fung, Dr. Cheung Wai Man William and Dr. Cheung Wai Bun Charles J.P., being eligible, will offer themselves for re-election at the AGM.

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

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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS' REPORT

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

During the year ended 31 December 2020 and up to the date of this Annual Report, changes in the information of the 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.

2. Dr. Cheung Wai Man William serves as an Emeritus Trustee of The University of Pennsylvania and the Chair of Board of Advisor at the School of Dental Medicine of the same institution and the Speaker of the International Council of the ICD starting from Year 2020.

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

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service contract with the Company for a term of three years commenced from 15 December 2015 (the "**Listing Date**") and renewed for a further term of three years and commenced on 15 December 2018.

Each of the independent non-executive Directors has signed a letter of appointment with the Company for an initial term of three years commencing from the Listing Date and the letter of appointment was renewed for a further term of three years and commenced on 15 December 2018.

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section "Continuing Connected Transactions/Connected Transactions" below, neither the Director nor any entity connected with the Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during the year or at the end of the year ended 31 December 2020.

MANAGEMENT CONTRACTS

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2020.

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

In compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the Company has established the remuneration committee of the Company (the "**Remuneration Committee**") to formulate remuneration policies. The remuneration is determined and recommended based on each Director's and senior management personnel's qualification, position and seniority. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the Remuneration Committee. The Directors and the senior management personnel are eligible participants of the Share Option Scheme and the Pre-IPO RSU Scheme (both as defined below). Details of the remuneration of the Directors and the five highest paid individuals are set out in Note 9 and Note 10 to the consolidated financial statements, respectively.

PERMITTED INDEMNITY

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

Such permitted indemnity provision has been in force for the year ended 31 December 2020. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

SHARE OPTION SCHEME

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

The purpose of the Share Option Scheme is to enable the Company to grant options to the eligible participants including any employee, Director, supplier, customer, shareholder, research, development or other technological support personnel and advisor of the Group and invested entity of the Group and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group as the Directors determine, as incentives or rewards for their contribution to the Group.

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

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes adopted by the Group as from the Share Option Scheme Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of all issued share capital of the Company upon the Listing Date (i.e. 100,000,000 Shares, representing 10.4% of the issued share capital of the Company as at the date of this Annual Report). The limit of 10% may be refreshed at any time by approval of the Shareholders in a general meeting provided that the total number of the Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other option schemes of the Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option schemes of our Group) previously granted under the Share Option Scheme and any other share option schemes of our Group will not be counted.

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

DIRECTORS' REPORT

Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates would result in the Shares allotted and issued and to be allotted and issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the offer date of each offer, in excess of HK$5 million;

such further grant of options must be approved by Shareholders in general meeting.

A consideration of HK$1.0 is payable on acceptance of the grant of an option within such time as may be specified in the offer (which shall not be later than 21 days from the offer date).

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

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

As at 31 December 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 Annual Report.

PRE-IPO RESTRICTED SHARE UNIT SCHEME

A restricted share unit scheme (the "**Pre-IPO RSU Scheme**") was adopted pursuant to the written resolutions of the Shareholders passed on 19 June 2015 (the "**Pre-IPO RSU Scheme Adoption Date**"). The purpose of the Pre-IPO RSU Scheme is to give incentives thereto in order to retain key employees for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. The Pre-IPO RSU Scheme shall be valid and effective for a period of 10 years commencing on the Pre-IPO RSU Scheme Adoption Date, under the administration of the Board and the trustee. Details of the Pre-IPO RSU Scheme are set out in Note 28 to the consolidated financial statements.

As of 31 December 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 of 31 December 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") were as follows:

Long Positions in Shares and Underlying Shares of the Company

Name of Director	Capacity	Number of Shares and underlying Shares interested		Total number of Shares and underlying Shares interested	Approximate percentage of shareholding
Mr. Chan Kwun Fung	Beneficial owner	466,000	*(Note 1)*	474,118,263	49.26%
	Other	3,450,000	*(Note 1)*		
	Interest of controlled corporation	470,202,263	*(Note 1)*		
Mr. Chan Kwun Pan	Beneficial owner	3,450,000	*(Note 1)*	474,118,263	49.26%
	Other	466,000	*(Note 1)*		
	Interest of controlled corporation	470,202,263	*(Note 1)*		
Mr. Ngai Shing Kin	Beneficial owner	4,191,345		98,040,998	10.18%
	Interest of controlled corporation	93,849,653	*(Note 2)*		
Mr. Ngai Chi Ho Alwin	Beneficial owner	277,934		63,122,304	6.56%
	Interest of controlled corporation	62,844,370	*(Note 3)*		

Notes:

1. Mr. Chan Kwun Fung and Mr. Chan Kwun Pan signed a confirmation letter on 10 August 2015 confirming their acting-in-concert arrangement whereby they operate the Group collectively, through discussions, and reached consensus between themselves before making any commercial decisions for the Group on a unanimous basis. As such and by virtue of the SFO, (i) each of Mr. Chan Kwun Fung and Mr. Chan Kwun Pan is deemed to be interested in the 470,202,263 Shares owned by Triera Holdings Limited, (ii) Mr. Chan Kwun Fung is deemed to be interested in the 3,450,000 Shares owned by Mr. Chan Kwun Pan, and (iii) Mr. Chan Kwun Pan is deemed to be interested in the 466,000 Shares owned by Mr. Chan Kwun Fung.
2. These Shares were held by Prosperity Worldwide Investment Holdings Limited, which is wholly owned by Mr. Ngai Shing Kin.
3. These Shares were held by NCHA Holdings Limited, which is wholly owned by Mr. Ngai Chi Ho Alwin.

Save as disclosed above, as at 31 December 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 Annual Report, at no time during the year ended 31 December 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 of 31 December 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 of the Company as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO, were as follows:

Long Positions in Shares of the Company

Name of Shareholder	Capacity	Number of Shares interested	Approximate percentage of shareholding
Triera Holdings Limited *(Note 1)*	Beneficial owner	470,202,263	48.85%
Prosperity Worldwide Investment Holdings Limited *(Note 2)*	Beneficial owner	93,849,653	9.75%
NCHA Holdings Limited *(Note 3)*	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 31 December 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 of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

During the year ended 31 December 2020, the Company repurchased 6,850,000 of its Shares on the Stock Exchange at an aggregate consideration of approximately HK$9,934,000 (before expenses), details of the repurchase are summarised as follows:

		Price per Share		
Month	Number of Shares repurchased	Highest HK$	Lowest HK$	Aggregate consideration paid (before expenses) HK$'000
January 2020	3,800,000	1.58	1.41	5,712
February 2020	800,000	1.49	1.39	1,155
October 2020	850,000	1.35	1.23	1,118
November 2020	550,000	1.42	1.32	753
December 2020	850,000	1.43	1.38	1,196
	6,850,000			9,934

Out of 6,850,000 repurchased Shares, 4,600,000 Shares of approximately HK$6,867,000 (before expenses) were cancelled during the year ended 31 December 2020, while the remaining 2,250,000 Shares of approximately HK$3,067,000 (before expenses) were recognised as treasury shares as at 31 December 2020.

The repurchase of the Shares were effected by the directors, pursuant to the mandate from Shareholders received at the annual general meetings on 23 May 2019 and 28 May 2020, with a view to benefiting Shareholders as a whole by enhancing the net assets value per share and earnings per share of the Group.

Save as disclosed above, during the year ended 31 December 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2020, none of the Directors or their respective associates (as defined in the Listing Rules) had engaged in or had any interest in any business which competes or may compete with the businesses of the Group as required to be disclosed pursuant to the Listing Rules.

DIRECTORS' REPORT

NON-COMPETITION UNDERTAKING

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

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

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

CONTINUING CONNECTED TRANSACTIONS/CONNECTED TRANSACTIONS

The following transactions of the Group constituted continuing connected transactions (the "**Continuing Connected Transactions**") for the Group for the year ended 31 December 2020. All of the Continuing Connected Transactions are exempt from reporting, annual review, announcement and independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Tenancy agreements

(i) For the purpose of operating the Company's business in Hong Kong, on 30 August 2018, Modern Dental Laboratory Company Limited ("**MDLCL**"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "**MDLCL Tenancy Agreement**") with Most Wealth International Limited, which is held as to 37.5%, 37.5% and 25% by Mr. Chan Kwun Fung and Mr. Chan Kwun Pan, executive directors and substantial shareholders of the Company, and by Mr. Ngai Shing Kin, an executive director of the Company, respectively. Pursuant to the MDLCL Tenancy Agreement, Most Wealth International Limited shall lease premises to MDLCL for a term of twenty eight months from 1 September 2018 to 31 December 2020 at a monthly rent of HK$324,000.

(ii) For the purposes of residential use, on 30 August 2018, Modern Dental Laboratory (Shenzhen) Company Limited ("**MDLSZ**"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "**Residential Tenancy Agreements I**") with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan. 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.

(iii) For the purposes of residential use, on 30 August 2018, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreements II**") with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan, and an associate ("**Landlord C**") of Mr. Ngai Shing Kin. Pursuant to the Residential Tenancy Agreements II, Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and Landlord C shall lease premises to MDLSZ for a term of two years from 1 January 2019 to 31 December 2020 at a monthly rent of RMB194,148.

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

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

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

For details of the tenancy agreements disclosed above, please refer to the announcement of the Company dated 30 August 2018.

Master purchase agreements

(i) MDLCL entered into a master purchase agreement (the "**Master Purchase Agreement I**") with Trident Dental Group Limited ("**Trident**"). Trident, a company incorporated in Hong Kong, is held as to 33.3%, 33.3% and 33.3% by Tresodont Holdings Limited ("**Tresodont**"), Amazing Home Limited and J&N Consultants Limited respectively. Tresodont is 100% owned by Dr. Chan Ronald Yik Long. Dr. Chan Ronald Yik Long is an executive Director of the Company.

Pursuant to the Master Purchase Agreement I, Trident shall purchase dental prosthetic devices from MDLCL. On 1 January 2018, MDLCL renewed the agreement entered on 10 August 2015, for a term of three years commencing from 1 January 2018 to 31 December 2020, the annual caps for each of the years ended 31 December were HK$400,000.

MDLCL further renewed the agreement on 1 January 2020, for a term of three years commencing from 1 January 2020 to 31 December 2022, the annual caps for each of the years ended 31 December are HK$600,000.

(ii) Peak Dental Solutions Hong Kong Limited ("**PDSHK**"), a 60% owned subsidiary of the Company, entered into a master purchase agreement (the "**Master Purchase Agreement II")** with Trident.

Pursuant to the Master Purchase Agreement II signed on 1 January 2020, Trident shall purchase dental prosthetic devices from PDSHK for a term of three years commencing from 1 January 2020 to 31 December 2022, the annual caps for each of the years ended 31 December are HK$600,000.

(iii) PDSHK entered into a master purchase agreement (the "**Master Purchase Agreement III**") with Kong Hong Holdings Limited ("**Kong Hong**"). Kong Hong, a company incorporated in Hong Kong, is held 40% by Dr. Chan Ronald Yik Long.

Pursuant to the Master Purchase Agreement III signed on 1 January 2020, Kong Hong shall purchase dental prosthetic devices from PDSHK for a term of three years commencing from 1 January 2020 to 31 December 2022, the annual caps for each of the years ended 31 December are HK$600,000.

(iv) MDLCL entered into a master purchase agreement (the "**Master Purchase Agreement IV**") with Kong Hong.

Pursuant to the Master Purchase Agreement IV signed on 1 January 2020, Kong Hong shall purchase dental prosthetic devices from MDLCL for a term of three years commencing from 1 January 2020 to 31 December 2022, the annual caps for each of the years ended 31 December are HK$600,000.

(v) PDSHK entered into a master purchase agreement (the "**Master Purchase Agreement V**") with Dr. William Cheung & Associates ("**DWCA**"). DWCA, a company incorporated in Hong Kong, is held 51% by Dr. Cheung Wai Man William. Dr. Cheung Wai Man William is an independent non-executive Director of the Company.

DIRECTORS' REPORT

Pursuant to the Master Purchase Agreement V signed on 1 January 2020, DWCA shall purchase dental prosthetic devices from PDSHK for a term of three years commencing from 1 January 2020 to 31 December 2022, the annual caps for each of the years ended 31 December are HK$500,000.

(vi) MDLCL entered into a master purchase agreement (the "**Master Purchase Agreement VI**") with DWCA.

Pursuant to the Master Purchase Agreement VI signed on 1 January 2020, DWCA shall purchase dental prosthetic devices from MDLCL for a term of three years commencing from 1 January 2020 to 31 December 2022, the annual caps for each of the years ended 31 December are HK$600,000.

The following transactions of the Group constituted connected transactions (the "**Connected Transactions**") for the Group for the year ended 31 December 2020. All of the Connected Transactions are subject to announcement and reporting requirements only and are exempt from independent shareholders' approval under Chapter 14A of the Listing Rules.

Tenancy agreements

(i) For the purpose of operating the Company's business in Hong Kong, on 31 December 2020, MDLCL renewed MDLCL Tenancy Agreement with Most Wealth International Limited for a term of two years from 1 January 2021 to 31 December 2022 at a monthly rent of HK$288,000.

(ii) For the purposes of residential use, on 31 December 2020, MDLSZ renewed Residential Tenancy Agreement III with Landlord B for a term of two years from 1 January 2021 to 31 December 2022 at a monthly rent of RMB15,280.

(iii) For the purposes of residential use, on 31 December 2020, MDLSZ renewed Residential Tenancy Agreement V with Landlord A for a term of two years from 1 January 2021 to 31 December 2022 at a monthly rent of RMB34,380.

(iv) For the purposes of residential use, on 31 December 2020, Yangzhijin Dental Laboratory (Shenzhen) Company Limited ("**YZJSZ**"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "**Residential Tenancy Agreement a**") with Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and Landlord C. Pursuant to the Residential Tenancy Agreement a, Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and Landlord C shall lease premises to YZJSZ for a term of two years from 1 January 2021 to 31 December 2022 at a monthly rent of RMB119,066.64.

(v) For the purposes of residential use, on 31 December 2020, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement b**") with Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and Landlord C. Pursuant to the Residential Tenancy Agreement b, 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 2021 to 31 December 2022 at a monthly rent of RMB37,293.

(vi) For the purposes of residential use, on 31 December 2020, MDLSZ entered into a tenancy agreement (the "**Residential Tenancy Agreement c**") with Landlord C. Pursuant to the Residential Tenancy Agreement c, Landlord C shall lease premises to MDLSZ for a term of two years from 1 January 2021 to 31 December 2022 at a monthly rent of RMB15,280.

(vii) For the purposes of commercial use, on 31 December 2020, MDLCL entered into a tenancy agreement (the "**Commercial Tenancy Agreement**") with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan. Pursuant to the Commercial Tenancy Agreement, Mr. Chan Kwun Fung and Mr. Chan Kwun Pan shall lease premises to MDLCL for a term of two years from 1 January 2021 to 31 December 2022 at a monthly rent of HK$13,500.

Under IFRS 16, the transactions under the above Connected Transactions should be regarded as acquisition of assets under the definition of transaction set out in Rule 14.04(1)(a) and Rule 14A.24(1) of the Listing Rules. The aggregate value of the right-of-use assets recognised by the Company under the Connected Transactions which is the present value of total consideration payables throughout the lease term under the above Connected Transactions in accordance with IFRS 16 is approximately HK$12,974,000.

For details of the tenancy agreements disclosed above, please refer to the announcement of the Company dated 31 December 2020 and 15 January 2021.

A summary of all related party transactions entered into by the Group during the year ended 31 December 2020 is contained in Note 34 to the consolidated financial statements. The transactions referred to in item (ai), (bi), (ci), (di), (ei) and (fi) of Note 34(1) and item (aii), (bii), (cii), (dii), (eii), (fii), (g), (h), (i) and (j) of Note 34(1) to the consolidated financial statements all fall under the definitions of "connected transactions" and "continuing connected transactions" respectively under the Listing Rules, and are exempted from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company has complied with the Disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the year ended 31 December 2020.

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

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

PUBLIC FLOAT

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

AUDITOR

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

DIRECTORS' REPORT

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Company repurchased 650,000 of its Shares on the Stock Exchange at an aggregate consideration of approximately HK$895,000 (before expenses).

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme and the Pre-IPO RSU Scheme of the Group as set out in this section, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2020.

DEBENTURE ISSUED

The Group has not issued any debenture during the year ended 31 December 2020.

BUSINESS REVIEW

A fair review of the business of the Group, a discussion and analysis of principal risks and uncertainties facing the Group during the year ended 31 December 2020 and an indication of likely development of the Group are set out on pages 4 to 23 under the section headed "Management Discussion and Analysis", respectively.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

MODERN DENTAL AND THE COMMUNITY

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

SPONSORSHIP AND DONATIONS

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

Charitable and other donations made by the Group during the year ended 31 December 2020 amounted to approximately HK$299,000.

By order of the Board

Mr. Chan Kwun Fung
Chairman

Hong Kong,
30 March 2021

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

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

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

The Board is of the view that throughout the year ended 31 December 2020, (the "**Reporting Year**"), the Company has complied with all the applicable principles and code provisions as set out in the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

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

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

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

BOARD OF DIRECTORS

Board Composition

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

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

Mr. Chan Kwun Fung and Mr. Chan Kwun Pan signed a confirmation to the Company 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.

Each of Mr. Chan Kwun Fung, Mr. Chan Kwun Pan, Dr. Chan Ronald Yik Long and Ms. Chan Yik Yu is a shareholder of Triera Holdings Limited, a controlling shareholder of the Company.

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

Chairman and Chief Executive Officer

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

Independent Non-executive Directors

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

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

Appointment and Re-election of Directors

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

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

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

CORPORATE GOVERNANCE REPORT

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

Continuous Professional Development of Directors

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

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

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

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

Directors	**Types of Training** *Note*
Executive Directors	
Chan Kwun Fung	B
Chan Kwun Pan	B
Ngai Shing Kin	B
Ngai Chi Ho Alwin	A and B
Chan Chi Yuen	B
Chan Ronald Yik Long	A and B
Chan Yik Yu	B
Independent Non-executive Directors	
Cheung Wai Bun Charles	A and B
Chan Yue Kwong Michael	A and B
Wong Ho Ching	A and B
Cheung Wai Man William	A and B

Note:

Types of Training

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

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

BOARD COMMITTEES

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

Audit Committee

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

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

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

The Audit Committee held three meetings to review, in respect of the year ended 31 December 2020, the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems, internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works and, connected transactions and arrangements for employees to raise concerns about possible improprieties.

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

Remuneration Committee

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

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

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

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

CORPORATE GOVERNANCE REPORT

The remuneration by band of members of the senior management (excluding Directors) of the Group for the year ended 31 December 2020 is set out below:

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

Details of the fees and other emoluments paid or payable to the Directors and the details of the five highest paid employees for the year ended 31 December 2020 are set out in details in Notes 9 and 10 to the audited consolidated financial statements contained in this Annual Report, respectively.

Nomination Committee

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

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

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

In reviewing and assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend to the Board for adoption.

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

Board Diversity Policy

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

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

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

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

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

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

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

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

Director Nomination Policy

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

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

   - Character and integrity.

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

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

   - Independency.

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

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

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

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

Corporate Governance Functions

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

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

CORPORATE GOVERNANCE REPORT

ATTENDANCE RECORDS OF DIRECTORS

The attendance record of each Director at the Board and Board committee meetings and the general meeting of the Company held during the year ended 31 December 2020 is set out in the table below:

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

Apart from regular Board meetings, the Chairman also held meetings with the Independent Non-executive Directors without the presence of Executive Directors during the year ended 31 December 2020.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

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

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

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

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

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

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

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

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

The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control system for the year ended 31 December 2020.

The Board has engaged an external professional service firm as its risk management and internal control review adviser (the "**Adviser**") to conduct the annual review of the risk management and internal control systems for the year ended 31 December 2020. Such review is conducted annually and cycles reviewed are under rotation basis. The scope of review was previously determined and approved by the Board. The Adviser has reported findings and areas for improvement to the Audit Committee and management. The Audit Committee are of the view that there are no material internal control defeats noted. All recommendations from the Adviser are properly followed up by the Group to ensure that they are implemented within a reasonable period of time. The Board therefore considered that the risk management and internal control systems are effective and adequate.

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

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

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

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILTY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2020.

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

The statement of the independent auditor of the Company, Ernst & Young, about their reporting responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 61 to 65 of this Annual Report.

AUDITOR'S REMUNERATION

A breakdown of the remuneration paid/payable to the external auditor of the Company, Ernst & Young, in respect of the audit services and the non-audit services for the year ended 31 December 2020 is set out below:

Service Category	Fees Paid/ Payable HK$
Audit Services	6,757,000
Non-audit Services	1,373,000

SHAREHOLDERS' RIGHTS

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

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

Convening an Extraordinary General Meeting by Shareholders

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

Putting Forward Proposals at General Meetings

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

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

Putting Forward Enquiries to the Board

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

Contact Details

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

Address:	Room 01-07, 09-16, 17/F CEO Tower, 77 Wing Hong Street Cheung Sha Wan Kowloon, Hong Kong (For the attention of the Board of Directors/Company Secretary)
Fax:	+852 3766 0700
Email:	info@moderndentallab.com

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

  — our financial results;

  — Shareholders' interests;

  — general business conditions, strategies and future expansion needs;

  — the Group's capital requirements;

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

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

  — other factors the Board may deem relevant.

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

COMPANY SECRETARY

Mr. Kwan Ngai Kit is the chief financial officer and the company secretary of the Company. He has complied with requirement set out in Rule 3.29 of the Listing Rules by receiving relevant professional training for not less than 15 hours during the year ended 31 December 2020.

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Modern Dental Group Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 66 to 151, which comprise the consolidated statement of financial position as at 31 December 2020 and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

INDEPENDENT AUDITOR'S REPORT

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
Goodwill and intangible assets impairment review	
As at 31 December 2020, the Group recorded goodwill and intangible assets of approximately HK$1,240.1 million and approximately HK$287.7 million, respectively, as a result of previous acquisitions. During the year, the Group has provided for approximately HK$150.1 million of impairmnet of goodwill. Under IFRSs, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. During the year, the Company performs an impairment test on certain cash generating units at 30 June 2020 and annual impairment test on each cash-generating unit as at 31 December 2020 to assess whether the goodwill might be impaired. An impairment loss on a goodwill of approximately HK$150.1 million was recorded in the current year's profit or loss. In addition, each year, the Company assesses whether a change in useful life is applicable and/or whether there are any indications of impairment for intangible assets. The test and assessment are largely based on management's expectations and estimates of future results of the (group of) cash-generating units which include the entities acquired in the past. The impairment test is based on the recoverable value of the relevant cash-generating units. The key assumptions and results of the test performed are disclosed in note 15 to the consolidated financial statements. The accounting policies, significant accounting judgements and estimates and disclosures for goodwill and intangible assets are included in notes 3, 4, 15 and 16 to the consolidated financial statements.	We examined the Group's forecasted cash flows which underpin management's impairment review. We tested the basis of preparing those forecasts taking into account the historical data supporting underlying assumptions. Future cash flow assumptions were examined through comparison of current business performance, seeking corroborative evidences and enquiry with management in respect of key growth and business assumptions. The key assumptions such as the discount rate and terminal growth rate were tested with appropriate inputs from our internal valuation experts. We also tested the mathematical integrity of management's model. We considered the adequacy of the Group's disclosure about the key assumptions involved in arriving at the recoverable amount.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Trade receivables	
As at 31 December 2020, the Group had trade receivables of approximately HK$506.1 million before allowance for doubtful debts of approximately HK$33.0 million. Management used a provision matrix to calculate expected credit losses for trade receivables. The matrix is initially based on the Group's historical default rates, and specific factors that management considered in the estimation of the rates including the type of customers, ageing of the balances and recent historical payment patterns. Management then calibrated the matrix to adjust the historical credit loss experience with forward-looking information, such as forecasted economic conditions. We focused on this area because it requires a high level of management's judgement and due to the materiality of the amounts involved. The significant accounting judgements and estimates and disclosures for trade receivables are included in notes 4 and 20 to the consolidated financial statements.	We tested the controls over the Group's collection procedures and the Group's estimation of expected credit losses. We evaluated the appropriateness of the allowance of doubtful debts recognised taking into account the historical cash collection trend, subsequent settlements, ageing analysis of the trade receivables and evaluated whether the historical loss rates are appropriately adjusted based on current local economic environment and forward-looking information, and considered the adequacy of the Group's disclosure about the degree of estimation involved in arriving at the allowance amount.

Other information included in the Annual Report

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

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

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

INDEPENDENT AUDITOR'S REPORT

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
REVENUE	6	**2,190,208**	2,399,548
Cost of sales		**(1,100,220)**	(1,246,617)
Gross profit		**1,089,988**	1,152,931
Other income and gains	6	**27,394**	14,737
Selling and distribution expenses		**(251,410)**	(294,352)
Administrative expenses		**(555,817)**	(615,725)
Impairment of goodwill		**(150,132)**	—
Other operating expenses		**(563)**	(17,177)
Finance costs	8	**(33,699)**	(37,902)
Share of losses of associates		**(1,537)**	(504)
PROFIT BEFORE TAX	7	**124,224**	202,008
Income tax expense	11	**(16,565)**	(41,563)
PROFIT FOR THE YEAR		**107,659**	160,445
ATTRIBUTABLE TO:			
Owners of the Company		**107,763**	161,557
Non-controlling interests		**(104)**	(1,112)
		107,659	160,445
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	13	**HK11.2 cents**	HK16.5 cents
Diluted	13	**HK11.2 cents**	HK16.5 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 HK$'000	2019 HK$'000
PROFIT FOR THE YEAR	**107,659**	160,445
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**150,184**	(37,464)
Other comprehensive income/(loss) for the year, net of tax	**150,184**	(37,464)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**257,843**	122,981
ATTRIBUTABLE TO:		
Owners of the Company	**257,947**	124,093
Non-controlling interests	**(104)**	(1,112)
	257,843	122,981

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**518,915**	498,613
Right-of-use assets	17(a)	**162,867**	194,733
Goodwill	15	**1,240,088**	1,310,846
Intangible assets	16	**287,670**	295,145
Investments in associates	18	**761**	9,625
Deferred tax assets	26	**49,294**	11,832
Long term prepayments and deposits	21	**14,756**	17,830
Total non-current assets		**2,274,351**	2,338,624
CURRENT ASSETS			
Inventories	19	**128,021**	115,274
Trade receivables	20	**473,105**	423,271
Prepayments, deposits and other receivables	21	**71,783**	64,739
Due from an associate	18	**4,159**	58
Current tax assets		**11,014**	20,040
Pledged deposits	22	**4,828**	5,330
Cash and cash equivalents	22	**697,827**	393,905
Total current assets		**1,390,737**	1,022,617
CURRENT LIABILITIES			
Trade payables	23	**67,670**	70,026
Other payables and accruals	24	**230,627**	197,839
Lease liabilities	17(b)	**41,395**	53,337
Interest-bearing bank borrowings	25	**187,680**	106,336
Tax payable		**73,881**	48,902
Total current liabilities		**601,253**	476,440
NET CURRENT ASSETS		**789,484**	546,177
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,063,835**	2,884,801

	Notes	2020 HK$'000	2019 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		3,063,835	2,884,801
NON-CURRENT LIABILITIES			
Lease liabilities	17(b)	123,005	145,132
Interest-bearing bank borrowings	25	673,063	696,012
Deferred tax liabilities	26	11,250	16,047
Other non-current liabilities	24	—	5,203
Total non-current liabilities		807,318	862,394
Net assets		2,256,517	2,022,407
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	74,592	76,078
Treasury shares	27	(3,106)	(21,796)
Reserves	29	2,176,175	1,966,538
		2,247,661	2,020,820
Non-controlling interests		8,856	1,587
Total equity		2,256,517	2,022,407

NGAI Shing Kin
Director

CHAN Kwun Fung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to owners of the Company									
	Share capital HK$'000 (note 27)	Share premium HK$'000 (note 27)	Treasury shares HK$'000 (note 27)	Statutory reserve HK$'000 (note 29 (i))	Capital reserve HK$'000 (note 29 (ii))	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2020	76,078	614,924	(21,796)	17,068	554,531	(236,320)	1,016,335	2,020,820	1,587	2,022,407
Profit for the year	–	–	–	–	–	–	107,763	107,763	(104)	107,659
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	150,184	–	150,184	–	150,184
Total comprehensive income for the year	–	–	–	–	–	150,184	107,763	257,947	(104)	257,843
Transfer from retained profits	–	–	–	1,844	–	–	(1,844)	–	–	–
2019 final dividend	–	(21,172)	–	–	–	–	–	(21,172)	–	(21,172)
Shares repurchased (note 27(b))	–	–	(9,934)	–	–	–	–	(9,934)	–	(9,934)
Shares cancelled (note 27(b))	(1,486)	(27,138)	28,624	–	1,486	–	(1,486)	–	–	–
Capital contribution by non-controlling shareholders	–	–	–	–	–	–	–	–	148	148
Acquisition of non-controlling interests (note 30)	–	–	–	–	–	–	–	–	7,225	7,225
At 31 December 2020	74,592	566,614#	(3,106)	18,912#	556,017#	(86,136)#	1,120,768#	2,247,661	8,856	2,256,517

	Attributable to owners of the Company									
	Share capital HK$'000 (note 27)	Share premium HK$'000 (note 27)	Treasury shares HK$'000 (note 27)	Statutory reserve HK$'000 (note 29 (i))	Capital reserve HK$'000 (notes 29 (ii))	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2019	77,500	683,069	(16,459)	12,722	563,332	(198,856)	860,546	1,981,854	(4,042)	1,977,812
Profit for the year	—	—	—	—	—	—	161,557	161,557	(1,112)	160,445
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	—	—	—	—	—	(37,464)	—	(37,464)	—	(37,464)
Total comprehensive income/(loss) for the year	—	—	—	—	—	(37,464)	161,557	124,093	(1,112)	122,981
Transfer from retained profits	—	—	—	4,346	—	—	(4,346)	—	—	—
2018 final dividend	—	(13,814)	—	—	—	—	—	(13,814)	—	(13,814)
2019 interim dividend	—	(30,271)	—	—	—	—	—	(30,271)	—	(30,271)
Shares repurchased (note 27(a))	—	—	(30,819)	—	—	—	—	(30,819)	—	(30,819)
Shares cancelled (note 27(a))	(1,422)	(24,060)	25,482	—	1,422	—	(1,422)	—	—	—
Acquisition of a subsidiary (note 30)	—	—	—	—	—	—	—	—	103	103
Acquisitions of non-controlling interests	—	—	—	—	(10,223)	—	—	(10,223)	4,638	(5,585)
Capital contribution by non-controlling shareholders	—	—	—	—	—	—	—	—	2,000	2,000
At 31 December 2019	76,078	614,924#	(21,796)	17,068#	554,531#	(236,320)#	1,016,335#	2,020,820	1,587	2,022,407

\# These reserve accounts comprise the consolidated reserves of HK$2,176,175,000 (2019: HK$1,966,538,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**124,224**	202,008
Adjustments for:			
Finance costs	8	**33,699**	37,902
Bank interest income	6	**(1,255)**	(1,270)
Gains on disposal of items of property, plant and equipment, net	7	**(1,521)**	(487)
Gains on lease modification, net	7	**(675)**	—
Impairment of goodwill	7	**150,132**	—
Write-off of property, plant and equipment	7	**319**	195
Depreciation and amortisation	7	**135,751**	152,904
Share of losses of associates		**1,537**	504
		442,211	391,756
Increase in inventories		**(4,838)**	(6,324)
Increase in trade receivables		**(23,284)**	(45,510)
Decrease/(increase) in prepayments, deposits and other receivables		**1,321**	(3,377)
(Increase)/decrease in amounts due from related parties		**(176)**	33
Increase in an amount due from an associate		**(4,101)**	(3)
(Decrease)/increase in trade payables		**(4,815)**	3,172
Increase in other payables and accruals		**16,789**	41,131
Decrease in an amount due to a related party		**(77)**	(940)
Cash generated from operations		**423,030**	379,938
Interest received		**1,255**	1,270
Income tax paid		**(24,108)**	(38,982)
Net cash flows from operating activities		**400,177**	342,226

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets	31(a)	(72,446)	(138,712)
Proceeds from disposal of items of property, plant and equipment		19,385	7,762
Prepaid land lease payment		—	(8,802)
Acquisition of a subsidiary	30	5,595	(3,224)
Decrease in pledged deposits		502	6,152
Capital contribution to an associate		—	(1,762)
Net cash flows used in investing activities		(46,964)	(138,586)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings	31(b)	232,484	20,000
Repayment of bank borrowings	31(b)	(179,875)	(29,970)
Dividend paid		(21,172)	(44,085)
Payment for the principal portion of lease liabilities	31(b)	(48,490)	(59,961)
Payment for the interest portion of lease liabilities	31(b)	(5,964)	(7,033)
Repurchase of shares		(9,934)	(30,819)
Interest paid		(23,861)	(28,584)
Capital contribution by non-controlling shareholders		148	2,000
Acquisition of non-controlling interests		—	(5,585)
Net cash flows used in financing activities		(56,664)	(184,037)
NET INCREASE IN CASH AND CASH EQUIVALENTS		296,549	19,603
Effect of foreign exchange rate changes, net		7,373	(6,091)
Cash and cash equivalents at beginning of year		393,905	380,393
CASH AND CASH EQUIVALENTS AT END OF YEAR		697,827	393,905
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	697,751	393,608
Non-pledged time deposits with original maturity of less than three months when acquired	22	76	297
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows	22	697,827	393,905

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Information about subsidiaries

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

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Modern Dental Holding Limited	British Virgin Islands 1 August 2012	US$50,000	100%	—	Investment holding
Modern Dental Laboratory Company Limited	Hong Kong 18 March 1988	HK$10,000	—	100%	Trading of dental prosthetic devices in Hong Kong; sourcing arm for the People Republic of China ("**PRC**") manufactures
Peak Dental Solutions Hong Kong Limited	Hong Kong 2 September 2019	HK$5,000,000	—	60%	Trading of implants products
Yangzhijin Dental Laboratory (Shenzhen) Co., Ltd.*	PRC/Mainland China 20 July 1998	US$11,190,000	—	100%	Manufacture and trading of dental prosthetic devices
Modern Dental Laboratory (Shenzhen) Company Limited*	PRC/Mainland China 17 May 2012	RMB40,000,000	—	100%	Manufacture of dental prosthetic devices
Modern Dental and Medical Instruments (DongGuan) Company Limited*	PRC/Mainland China 12 August 2015	RMB75,000,000	—	100%	Manufacture and trading of dental prosthetic devices

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Modern Dental Laboratory USA, LLC	United States 17 August 2009	US$3,728,570	—	100%	Manufacture and trading of dental prosthetic devices in the United States markets and managing five service centers located at Seattle, Georgia, Boston, Chicago and Wilmington, and a digital center in Troy, the United States
Quantum Dental Laboratory Inc.	Canada 1 July 2013	CAD100	—	100%	Manufacture and trading of dental prosthetic devices
Permadental GmbH	Germany 2 March 2010	EUR25,000	—	100%	Trading of dental prosthetic devices
Elysee Dental Belgium BVBA	Belgium 9 June 2008	EUR18,550	—	100%	Manufacture of facilities and trading of dental prosthetic devices
Elysee Dental Solutions B.V.	The Netherlands 10 October 2001	EUR18,000	—	100%	Manufacture of facilities and trading of dental prosthetic devices
Elysee Dental ApS	Denmark 4 March 2004	DKK125,000	—	100%	Manufacture of facilities and trading of dental prosthetic devices
Labocast SAS	France 31 December 1986	EUR100,000	—	100%	Trading of dental prosthetic devices

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31 December 2020

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Labo Ocean Indien SA	Madagascar 17 May 1996	MGA10,000,000	—	100%	Manufacture and trading of dental prosthetic devices
Pavona Pty Limited	Australia 20 January 1984	AUD2	—	100%	Trading of dental prosthetic devices
Southern Cross Dental Laboratories (NZ) Limited	New Zealand 20 April 2012	NZD1,080,010	—	100%	Trading of dental prosthetic devices
MicroDental Laboratories, Inc.	United States 6 May 2016	US$0.1	—	100%	Manufacture and trading of dental prosthetic devices
MicroDental Holdings, Inc.	United States 24 May 2016	US$0.01	—	100%	Trading of dental prosthetic devices
DD Dental GmbH	Germany 1 July 1987	EUR50,000	—	97.5%	Trading of dental prosthetic devices

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*
Amendments to IFRS 16	*Covid-19-Related Rent Concessions* (early adopted)
Amendments to IAS 1 and IAS 8	*Definition of Material*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "**Conceptual Framework**") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

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

(c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("**RFR**"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are not expected to have any significant impact on the Group's financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The Group has early adopted the amendment on 1 January 2020 and the impact of the amendment on the financial position and performance of the Group was minimal.

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[3]
Amendments to IFRS 17	*Insurance Contracts*[3, 5]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
Amendments to IAS 1	*Disclosure of Accounting Policies*[3]
Amendments to IAS 8	*Disclosure of Accounting Estimates*[3]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Annual Improvements to IFRS standards 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16,and IAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 No mandatory effective date yet determined but available for adoption
5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

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

Amendments to IFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank borrowings denominated in HK$ and RMB based on the Hong Kong Interbank Offered Rate and Loan Prime Rate as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the "economically equivalent" criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

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

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

Amendments to IAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to IFRS standards 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

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

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

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

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

Business combinations and goodwill

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

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

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

Fair value measurement

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

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

Impairment of non-financial assets

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

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

Software

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

Customer relationship

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

Trademark

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

Non-compete agreement

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

Business Licence

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

Research and development costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

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

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

(b) Lease liabilities

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

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

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

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

Group as a lessor

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI")on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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

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

Impairment of financial assets

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

General approach

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

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

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

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

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

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

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings and payables, as appropriate.

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

The Group's financial liabilities include interest-bearing bank borrowings, trade payables, other payables and accruals, lease liabilities and an amount due to a related party and a non-controlling shareholder.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Initial recognition and measurement (continued)

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

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

Inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

The Group provides for warranties in relation to the sale of certain products for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

Government grants

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

Revenue recognition

Revenue from contracts with customers

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

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

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

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

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

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined contribution superannuation expense

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

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

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

The Group's subsidiaries in the U.S. operate a defined contribution plan (the "401(k) plan) available to substantially all employees. Eligible employees may contribute a percent of their eligible compensation to the 401(k) plan, not to exceed the annual Internal Revenue Service ("IRS") dollar limitations. Participant contributions may be matched by the company at a percentage of the participant contributions' as determined by the company. All contributions are invested in accordance with the participant's directive.

Individual accounts are maintained for each of the 401(k) plan's participants, separate from company assets. Each participant's account is credited with the participant's contributions, company contributions made on the participant's behalf and the 401(k) plan's earnings based on participant's share of their respective elected investment options. Participants are immediately vested in their voluntary contributions and related earnings. The 401(k) plan participants are subject to a graded vesting schedule for employer provided contributions, which fully vest after six year of credited service.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate of Nil (2019: 3.2%) has been applied to the expenditure on the individual assets.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

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

Foreign currencies

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Recognition of a deferred tax liability for withholding taxes

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

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

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis or if events or changes in circumstances indicate a potential impairment. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2020 was HK$1,240,088,000 (2019: HK$1,310,846,000). Further details are given in note 15 to the consolidated financial statements.

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4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

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

Provision for expected credit losses on trade receivables

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

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

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

Useful lives of property, plant and equipment

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

Useful lives of intangible assets

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 26 to the financial statements.

5. OPERATING SEGMENT INFORMATION

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

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

(b) The removable prosthetic devices segment produces full dentures and partial dentures. Dentures can be further classified as dentures with metal frameworks and dentures without metal frameworks.

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

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

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

	2020			2019		
	Revenue HK$'000	**Cost of sales HK$'000**	**Gross profit HK$'000**	Revenue HK$'000	Cost of sales HK$'000	Gross profit HK$'000
Fixed prosthetic devices	**1,516,083**	**739,968**	**776,115**	1,682,419	854,994	827,425
Removable prosthetic devices	**403,330**	**201,379**	**201,951**	460,099	242,438	217,661
Others	**270,795**	**158,873**	**111,922**	257,030	149,185	107,845
Total	**2,190,208**	**1,100,220**	**1,089,988**	2,399,548	1,246,617	1,152,931

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5. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2020 HK$'000	2019 HK$'000
Europe	**916,731**	957,616
North America	**571,170**	697,082
Greater China	**489,234**	527,033
Australia	**192,569**	198,983
Others	**20,504**	18,834
	2,190,208	2,399,548

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

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

(b) Non-current assets

	2020 HK$'000	2019 HK$'000
Europe	**773,781**	740,889
North America	**540,642**	721,281
Australia	**458,110**	432,843
Greater China	**377,279**	363,813
Others	**75,245**	67,966
	2,225,057	2,326,792

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

6. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	2020 HK$'000	2019 HK$'000
Revenue		
Sale of goods transferred at a point in time	2,190,208	2,399,548
Other income		
Bank interest income	1,255	1,270
Government subsidies*	7,202	3,982
Others	6,566	8,998
	15,023	14,250
Gains		
Foreign exchange gain, net	10,175	—
Gains on disposal of items of property, plant and equipment, net	1,521	487
Gains on lease modification, net	675	—
	12,371	487
Other income and gains	27,394	14,737

* 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.

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

	2020 HK$'000	2019 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	6,200	4,236

(b) Performance obligations

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

Sale of products

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

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7. PROFIT BEFORE TAX

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

	Notes	2020 HK$'000	2019 HK$'000
Cost of inventories sold#		**1,100,220**	1,246,617
Depreciation of right-of-use assets	17(a)	**47,658**	59,901
Depreciation of property, plant and equipment	14	**58,641**	57,551
Amortisation of intangible assets	16	**29,452**	35,452
Lease payments not included in the measurement of lease liabilities	17(c)	**9,620**	1,961
Research and development costs##		**6,434**	7,447
Auditors' remuneration		**9,713**	9,275
Employee benefit expense (excluding directors' and chief executive's remuneration (note 9)):			
Wages and salaries*		**900,258**	1,027,213
Pension scheme contributions		**105,147**	137,617
		1,005,405	1,164,830
Bank interest income		**(1,255)**	(1,270)
Gains on disposal of items of property, plant and equipment, net**		**(1,521)**	(487)
Gains on lease modification, net**		**(675)**	—
Write-off of property, plant and equipment**	14	**319**	195
Impairment of goodwill	15	**150,132**	—
Allowance for impairment of trade receivables, net	20	**5,053**	6,675
Foreign exchange (gain)/loss, net**		**(10,175)**	16,920

\# Cost of inventories sold includes HK$653,323,000 (2019: HK$768,369,000) 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$5,505,000 (2019: HK$6,263,000) 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$26,265,000 (2019: Nil) under COVID-19 related employment support schemes. There were no unfulfilled conditions or contingencies relating to these subsidies.

** Gains on disposal of items of property, plant and equipment, net, gains on lease modification, net and foreign exchange gain, net, are included in "other income and gains" in the consolidated statement of profit or loss. Write-off of property, plant and equipment and foreign exchange loss, net, are included in "other operating expenses" in the consolidated statement of profit or loss.

8. FINANCE COSTS

	2020 HK$'000	2019 HK$'000
Interest on bank loans, overdrafts and other loans	23,861	28,584
Less: amount capitalised on qualifying assets	—	(1,896)
	23,861	26,688
Finance charges on bank loans	3,874	4,181
Interest on lease liabilities	5,964	7,033
	33,699	37,902

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2020 HK$'000	2019 HK$'000
Fees	1,099	1,028
Other emoluments:		
Salaries, allowances and benefits in kind	17,235	16,012
Pension scheme contributions	99	72
	17,334	16,084
	18,433	17,112

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

(a) Independent non-executive directors

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

	2020 HK$'000	2019 HK$'000
Mr. Cheung Wai Man, William	261	257
Mr. Cheung Wai Bun, Charles J.P.	316	257
Mr. Wong Ho Ching	261	257
Mr. Chan Yue Kwong, Michael	261	257
	1,099	1,028

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

(b) Executive directors and the chief executive

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2020			
Executive directors:			
Mr. Chan Kwun Fung	2,272	9	2,281
Mr. Chan Kwun Pan	2,272	9	2,281
Mr. Ngai Shing Kin	3,808	9	3,817
Mr. Chan Chi Yuen	2,030	18	2,048
Mr. Chan Ronald Yik Long	2,040	18	2,058
Ms. Chan Yik Yu	2,040	18	2,058
Mr. Ngai Chi Ho Alwin	2,773	18	2,791
	17,235	99	17,334

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

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

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

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2019: two) directors (including the chief executive), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining three (2019: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 HK$'000	2019 HK$'000
Salaries, allowances and benefits in kind	**10,198**	10,095
Performance related bonuses	**2,302**	2,185
Pension scheme contributions	**1,622**	1,879
	14,122	14,159

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10. FIVE HIGHEST PAID EMPLOYEES (continued)

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

	2020	2019
HK$4,000,001 to HK$4,500,000	1	1
HK$4,500,001 to HK$5,000,000	1	2
HK$5,000,001 to HK$5,500,000	1	—
	3	3

11. INCOME TAX EXPENSE

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

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

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

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

Pursuant to the PRC Income Tax Law and the respective regulations, the companies which operate in Mainland China were subject to Corporate Income Tax ("**CIT**") at the rate of 25% on the taxable income for the years ended 31 December 2020 and 2019.

Pursuant to the rules and regulations of the United States, the companies, except limited liability companies ("**LLC**"), which operate in the United States are subject to a flat rate of 21% (2019: flat rate of 21%) at the federal level, and are also subject to the statutory application state CIT. LLC are generally treated as flow-through entities, where income "flows through" to investors or owners, which are not subject to CIT.

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

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

11. INCOME TAX EXPENSE (continued)

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

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

	2020 HK$'000	2019 HK$'000
Current	58,113	45,488
Deferred (note 26)	(41,548)	(3,925)
Total tax charge for the year	16,565	41,563

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

	2020		2019	
	HK$'000	%	HK$'000	%
Profit before tax	124,224		202,008	
Tax at the statutory tax rates	23,665	19.0	38,523	19.1
Adjustment in respect of current tax of previous periods	(2,935)	(2.4)	(2,556)	(1.2)
Income not subject to tax	(5,250)	(4.2)	(226)	(0.1)
Expenses not deductible for tax	4,958	4.0	4,934	2.4
Tax losses not recognised	2,581	2.1	3,463	1.7
Tax effect of utilisation of tax losses not previously recognised	(417)	(0.3)	(147)	(0.1)
Others	(6,037)	(4.8)	(2,428)	(1.2)
Tax charge at the Group's effective rate	16,565	13.3	41,563	20.6

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12. DIVIDENDS

	2020 HK$'000	2019 HK$'000
Interim – Nil (2019: HK3.1 cents) per ordinary share	—	30,589
Proposed final – HK7.0 cents (2019: HK2.2 cents) per ordinary share	**67,373**	21,596

In 2020, the calculation of proposed final dividend is based on 962,477,000 ordinary shares in issue.

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

On 30 March 2021, the Board recommended a final dividend of HK7.0 cents per ordinary share for the year ended 31 December 2020. The proposed final dividend for the year ended 31 December 2020 is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 961,914,338 (2019: 980,162,330) in issue during the year.

The Group had no potential dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

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

	2020 HK$'000	2019 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	**107,763**	161,557

	Number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the years used in the basic and diluted earnings per share calculation	**961,914,338**	980,162,330

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2020							
At 1 January 2020							
Cost	296,574	171,013	89,707	216,548	14,032	1,721	789,595
Accumulated depreciation	(37,023)	(50,985)	(54,456)	(141,069)	(7,449)	—	(290,982)
Net carrying amount	259,551	120,028	35,251	75,479	6,583	1,721	498,613
At 1 January 2020, net of accumulated depreciation	259,551	120,028	35,251	75,479	6,583	1,721	498,613
Additions	—	3,232	12,739	41,549	1,412	7,311	66,243
Disposals	(6,617)	(256)	(527)	(10,216)	(248)	—	(17,864)
Acquisition of a subsidiary (note 30)	—	143	193	6,106	—	—	6,442
Transfer from CIP	—	3,270	—	—	—	(3,270)	—
Write-off	—	—	(28)	(291)	—	—	(319)
Depreciation provided during the year	(8,195)	(16,898)	(11,932)	(19,605)	(2,011)	—	(58,641)
Exchange realignment	13,668	4,841	2,139	3,447	281	65	24,441
At 31 December 2020, net of accumulated depreciation	258,407	114,360	37,835	96,469	6,017	5,827	518,915
At 31 December 2020							
Cost	301,572	179,602	96,427	230,783	14,893	5,827	829,104
Accumulated depreciation	(43,165)	(65,242)	(58,592)	(134,314)	(8,876)	—	(310,189)
Net carrying amount	258,407	114,360	37,835	96,469	6,017	5,827	518,915

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2019							
At 1 January 2019:							
Cost	156,920	133,960	77,745	194,836	13,991	105,362	682,814
Accumulated depreciation	(29,713)	(34,909)	(48,513)	(129,426)	(8,392)	—	(250,953)
Net carrying amount	127,207	99,051	29,232	65,410	5,599	105,362	431,861
At 1 January 2019, net of accumulated depreciation	127,207	99,051	29,232	65,410	5,599	105,362	431,861
Additions	12,391	3,509	18,766	35,553	3,509	63,278	137,006
Disposals	—	—	(2,020)	(4,381)	(874)	—	(7,275)
Acquisition of a subsidiary (note 30)	—	584	1,273	—	66	—	1,923
Transfer from CIP	132,259	33,967	—	206	7	(166,439)	—
Write-off	—	—	(29)	(166)	—	—	(195)
Depreciation provided during the year	(7,469)	(15,953)	(11,344)	(21,184)	(1,601)	—	(57,551)
Exchange realignment	(4,837)	(1,130)	(627)	41	(123)	(480)	(7,156)
At 31 December 2019, net of accumulated depreciation	259,551	120,028	35,251	75,479	6,583	1,721	498,613
At 31 December 2019							
Cost	296,574	171,013	89,707	216,548	14,032	1,721	789,595
Accumulated depreciation	(37,023)	(50,985)	(54,456)	(141,069)	(7,449)	—	(290,982)
Net carrying amount	259,551	120,028	35,251	75,479	6,583	1,721	498,613

15. GOODWILL

	HK$'000
At 1 January 2019:	
Cost	1,339,100
Accumulated impairment	(9,577)
Net carrying amount	1,329,523
Cost at 1 January 2019, net of accumulated impairment	1,329,523
Exchange realignment	(18,677)
At 31 December 2019	1,310,846
At 31 December 2019:	
Cost	1,320,377
Accumulated impairment	(9,531)
Net carrying amount	1,310,846
Cost at 1 January 2020, net of accumulated impairment	**1,310,846**
Impairment during the year	**(150,132)**
Exchange realignment	**79,374**
At 31 December 2020	**1,240,088**
At 31 December 2020:	
Cost	**1,400,101**
Accumulated impairment	**(160,013)**
Net carrying amount	**1,240,088**

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15. GOODWILL (continued)

Impairment testing of goodwill and trademark

In accordance with IAS 36, the recoverable amounts of the Group's CGUs including those which contain goodwill and trademark 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 and trademark 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 at 30 June 2020. Based on the valuation performed by an external valuer, Brilliant Appraisal Limited, engaged by the Company, it was determined that the carrying value of the CGU in North America, being MicroDental and Modern US, of HK$658,147,000 was greater than its recoverable amount of HK$508,015,000, resulting in impairment on goodwill amounted to HK$150,132,000 due to the ongoing spreading of the COVID-19 in the North America region during first half of 2020. The recoverable amounts of CGUs were reassessed at 31 December 2020 and no further impairment on goodwill was considered necessary.

Goodwill is allocated to the following CGUs for the purpose of impairment testing.

	2020 HK$'000	2019 HK$'000
Labocast SAS and Labo Ocean Indien SA	64,805	59,352
Quantum Dental Laboratory Inc.	11,153	10,959
Permadental Holding B.V.	280,056	256,490
Elysee Dental Holding B.V.	216,625	198,396
Modern Dental Pacific Holdings Pty Limited	334,814	306,990
Dentrade Group	18,386	18,170
MicroDental and Modern US	265,560	415,692
Schmidt Dentalkeramik ApS.	8,462	7,750
CDI Dental AB & CDI Supply AB	31,661	28,997
Others*	8,566	8,050
	1,240,088	1,310,846

Trademark is allocated to the following CGUs for the purpose of impairment testing.

	2020 HK$'000	2019 HK$'000
Elysee Dental Holding B.V.	45,919	42,055
Modern Dental Pacific Holdings Pty Limited	69,119	63,375
MicroDental and Modern US	92,555	92,555
	207,593	197,985

15. GOODWILL (continued)

Impairment testing of goodwill and trademark (continued)

Th 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 to seven-year period. Cash flows beyond the five to seven-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). As of 30 June 2020, the Group has made an impairment loss on goodwill for CGU – MicroDental and Modern US by using discount rates of 16% and growth rates of 2%, and as of 31 December 2020, the Group has reassessed its recoverable amount. The discount rate applied to cash flow projections and the growth rate used to extrapolate the cash flows of each CGU beyond the five to seven-year period are as follows:

		2020	2019
Labocast SAS and Labo Ocean Indien SA	discount rates	18%-20%	19% - 21%
	growth rates	1%-6%	2% - 5%
Quantum Dental Laboratory Inc.	discount rates	14%	18%
	growth rates	2%	2%
Permadental Holding B.V.	discount rates	15%	16%
	growth rates	2%	2%
Elysee Dental Holding B.V.	discount rates	15%	16%
	growth rates	2%	2%
Modern Dental Pacific Holdings Pty Limited	discount rates	17%	18%
	growth rates	2%	2%
Dentrade Group	discount rates	13%	11%
	growth rates	3%	2% - 3%
MicroDental and Modern US	discount rates	16%	17%
	growth rates	2%	2%
Schmidt Dentalkeramik ApS.	discount rates	13%	16%
	growth rates	2%	2%
CDI Dental AB & CDI Supply AB	discount rates	15%	15%
	growth rates	2%	2%
Others*	discount rates	13%-16%	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.

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15. GOODWILL (continued)

Impairment testing of goodwill and trademark (continued)

Assumptions were used in the value in use calculation of each CGU for the years ended 31 December 2020 and 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 year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Discount rates – The discount rates used are pre-tax rates based on the weighted average cost of capital determined using the capital asset pricing model, which reflect specific current market assessments of the time value of money and the risks relating to the relevant units. Changes in discount rate in current year 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.

Judgement 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 as at 30 June 2020. Therefore, any change in a key assumption may 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 31 December 2020. The excess of the estimated recoverable amount over carrying amount of each CGU as of 31 December 2020 ranged generally from 10% to more than 100%.

15. GOODWILL (continued)

Impairment testing of goodwill and trademark (continued)

The following table shows the sensitivity of the value in use by region as at 31 December 2020 with changes in the key assumptions of the CGUs disclosed above:

		+50 bps HK$'000	-50 bps HK$'000
Europe	discount rates	(64,122)	69,242
	growth rates	38,630	(35,802)
North America*	discount rates	(24,869)	26,870
	growth rates	12,378	(11,473)
Australia	discount rates	(18,620)	19,897
	growth rates	8,233	(7,720)

* 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	(22,867)	24,693
	growth rates	11,403	(10,573)

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

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16. INTANGIBLE ASSETS

31 December 2020	Customer relationship HK$'000	Software HK$'000	Trademark* HK$'000	Non-compete agreement HK$'000	Business licence HK$'000	Total HK$'000
Cost at 1 January 2020, net of accumulated amortisation	**91,154**	**5,083**	**197,985**	**—**	**923**	**295,145**
Additions	**—**	**5,935**	**—**	**—**	**—**	**5,935**
Amortisation provided during the year	**(28,080)**	**(1,100)**	**—**	**—**	**(272)**	**(29,452)**
Exchange realignment	**5,566**	**824**	**9,608**	**—**	**44**	**16,042**
Net carrying amount	**68,640**	**10,742**	**207,593**	**—**	**695**	**287,670**
At 31 December 2020:						
Cost	**327,083**	**15,990**	**207,593**	**2,465**	**1,438**	**554,569**
Accumulated amortisation	**(258,443)**	**(5,248)**	**—**	**(2,465)**	**(743)**	**(266,899)**
Net carrying amount	**68,640**	**10,742**	**207,593**	**—**	**695**	**287,670**

31 December 2019	Customer relationship HK$'000	Software HK$'000	Trademark* HK$'000	Non-compete agreement HK$'000	Business licence HK$'000	Total HK$'000
Cost at 1 January 2019, net of accumulated amortisation	127,307	1,687	199,901	446	1,220	330,561
Additions	—	4,125	—	—	—	4,125
Acquisition of a subsidiary (note 30)	—	177	—	—	—	177
Amortisation provided during the year	(33,892)	(839)	—	(446)	(275)	(35,452)
Exchange realignment	(2,261)	(67)	(1,916)	—	(22)	(4,266)
Net carrying amount	91,154	5,083	197,985	—	923	295,145
At 31 December 2019:						
Cost	302,361	8,797	197,985	2,465	1,351	512,959
Accumulated amortisation	(211,207)	(3,714)	—	(2,465)	(428)	(217,814)
Net carrying amount	91,154	5,083	197,985	—	923	295,145

* Details of the impairment testing is disclosed in note 15 to the consolidated financial statements.

17. LEASES

The Group as a lessee

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

(a) Right-of-use assets

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

	Leasehold land HK$'000	Buildings HK$'000	Furniture and fixtures HK$'000	Motor Vehicles HK$'000	Total HK$'000
As at 1 January 2019	12,070	201,325	544	116	214,055
Additions	8,802	10,985	948	21,202	41,937
Depreciation for the year	(361)	(49,609)	(407)	(9,524)	(59,901)
Exchange realignment	(412)	(893)	(6)	(47)	(1,358)
As at 31 December 2019 and 1 January 2020	20,099	161,808	1,079	11,747	194,733
Additions	—	**13,726**	—	**3,618**	**17,344**
Acquisition of a subsidiary (note 30)	—	**418**	—	—	**418**
Depreciation for the year	**(424)**	**(41,477)**	**(281)**	**(5,476)**	**(47,658)**
Revision of lease term arising from a change in the non-cancellable period of a lease	—	**(7,719)**	—	**(245)**	**(7,964)**
Exchange realignment	**1,269**	**4,478**	**50**	**197**	**5,994**
As at 31 December 2020	**20,944**	**131,234**	**848**	**9,841**	**162,867**

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17. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

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

	2020 HK$'000	2019 HK$'000
Carrying amount at 1 January	**198,469**	226,313
New leases	**17,344**	33,135
Acquisition of a subsidiary (note 30)	**462**	—
Accretion of interest recognised during the year	**5,964**	7,033
Revision of lease term arising from a change in the non-cancellable period of a lease	**(8,639)**	—
Payments	**(54,454)**	(66,994)
Exchange realignment	**5,254**	(1,018)
Carrying amount at 31 December	**164,400**	198,469
Analysed into:		
Current portion	**41,395**	53,337
Non-current portion	**123,005**	145,132
	164,400	198,469

The maturity analysis of lease liabilities is disclosed in note 37 to the consolidated financial statements.

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

	2020 HK$'000	2019 HK$'000
Interest on lease liabilities	**5,964**	7,033
Depreciation charge of right-of-use assets	**47,658**	59,901
Gains on lease modification, net	**(675)**	—
Expenses relating to low-value assets and short-term leases and other leases with remaining lease terms ended on or before 31 December	**9,620**	1,961
Total amount recognised in profit or loss	**62,567**	68,895

(d) The total cash outflow for leases and future cash outflows relating to leases are disclosed in notes 31(c) and 37, respectively, to the consolidated financial statements.

18. INVESTMENTS IN ASSOCIATES

	2020 HK$'000	2019 HK$'000
Share of net assets	**761**	9,625

The amount due from an associate included in the Group's current assets totaling HK$4,159,000 (2019: HK$58,000) is unsecured, non-interest-bearing and repayable on demand. As at 31 December 2020 and 2019, the loss allowance for the amount due from an associate was assessed to be minimal.

Particulars of the principal associate is as follows:

			Percentage of			
Company name	Particulars of issued shares held	Place of incorporation/ registration and business	Ownership interest	Voting power	Profit sharing	Principal activity
ZiYang HuaXi Dental Equipment Limited ("**HuaXi**")	Ordinary shares	PRC/ Mainland China	51%*	66%*	51%	Manufacturing of dental equipment

* HuaXi is owned by a wholly owned subsidiary of the Company. The Group signed an agreement with the parties in which the Group need to act unanimousis with the other parties. Accordingly, the Company could not exercise control over HuaXi and the investments in HuaXi were classified as investments in associates.

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

	2020 HK$'000	2019 HK$'000
Share of the associates' loss for the year	**(1,537)**	(504)
Aggregate carrying amount of the Group's investments in the associates	**761**	9,625

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19. INVENTORIES

	2020 HK$'000	2019 HK$'000
Raw material	100,866	89,112
Work in progress	18,811	16,884
Finished goods	8,344	9,278
	128,021	115,274

20. TRADE RECEIVABLES

	2020 HK$'000	2019 HK$'000
Trade receivables	506,090	450,158
Impairment	(32,985)	(26,887)
	473,105	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 collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

20. TRADE RECEIVABLES (continued)

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

	2020 HK$'000	2019 HK$'000
Within 1 month	282,483	248,472
1 to 2 months	63,603	61,757
2 to 3 months	33,811	31,209
3 months to 1 year	70,541	68,513
Over 1 year	22,667	13,320
	473,105	423,271

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

	2020 HK$'000	2019 HK$'000
At 1 January	26,887	25,692
Acquisition of a subsidiary (note 30)	—	235
Impairment losses, net (note 7)	5,053	6,675
Amount written off as uncollectible	(294)	(5,469)
Exchange realignment	1,339	(246)
At 31 December	32,985	26,887

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

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20. TRADE RECEIVABLES (continued)

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

As at 31 December 2020

		Past due				
	Current	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year past due	Total
Expected credit loss rate	**1.21%**	**1.32%**	**2.62%**	**40.25%**	**48.45%**	
Gross carrying amount (HK$'000)	**319,941**	**58,231**	**69,883**	**19,371**	**38,664**	**506,090**
Expected credit losses (HK$'000)	**3,856**	**766**	**1,834**	**7,796**	**18,733**	**32,985**

As at 31 December 2019

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 HK$'000	2019 HK$'000
Current		
Prepayments	**22,656**	24,471
Deposits and other receivables	**48,887**	43,047
Due from related parties (note 34(3))	**240**	64
	71,783	67,582
Impairment allowance	**—**	(2,843)
	71,783	64,739
Non-current		
Prepayments	**791**	523
Deposits	**13,965**	17,307
	14,756	17,830

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

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

	2020 HK$'000	2019 HK$'000
At 1 January	**2,843**	2,843
Write off	**(2,843)**	—
At 31 December	**—**	2,843

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

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2020 HK$'000	2019 HK$'000
Cash and bank balances	**697,751**	393,608
Time deposits	**4,904**	5,627
	702,655	399,235
Less: Pledged deposits for bank facilities	**(4,828)**	(5,330)
Cash and cash equivalents	**697,827**	393,905

As at 31 December 2020, the cash and bank balances of the Group denominated in Renminbi ("**RMB**") amounted to HK$122,229,000 (2019: HK$153,853,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

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23. TRADE PAYABLES

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

	2020 HK$'000	2019 HK$'000
Within 1 month	**48,795**	39,271
1 to 2 months	**10,585**	20,578
2 to 3 months	**4,623**	5,100
Over 3 months	**3,667**	5,077
	67,670	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.

24. OTHER PAYABLES AND ACCRUALS

	Notes	2020 HK$'000	2019 HK$'000
Current			
Contract liabilities	(a)	**8,744**	6,200
Deferred revenue		**2,937**	—
Accruals		**164,544**	173,693
Other payables		**49,592**	17,859
Due to a related party (note 34(3))		**10**	87
Due to a non-controlling shareholder	(b)	**4,800**	—
		230,627	197,839
Other non-current liabilities			
Due to a non-controlling shareholder	(b)	**—**	4,800
Other payables		**—**	403
		—	5,203

24. OTHER PAYABLES AND ACCRUALS (continued)

Notes:

a. Details of contract liabilities are as follows:

	31 December 2020 HK$'000	31 December 2019 HK$'000	1 January 2019 HK$'000
Short-term deposits received from customers			
Sale of goods	8,744	6,200	4,236

Contract liabilities represent short-term deposits received to deliver goods. The increase in contract liabilities in 2020 and 2019 was mainly due to the increase in short- term deposits received from customers in relation to the sale of goods at the end of the year.

b. The balance is unsecured, non-interest-bearing and repayable within 1 year (2019: 2 years).

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

25. INTEREST-BEARING BANK BORROWINGS

	2020			2019		
	Effective/ contractual interest rate (%)	Maturity	HK$'000	Effective/ contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	1-year Loan Prime Rate	On demand	35,644	HIBOR +1.10	On demand	20,000
Current portion of long term bank loans – secured	Hong Kong Interbank Offered Rate ("**HIBOR**") +1.60	2021	152,036	HIBOR+1.60	2020	86,336
			187,680			106,336
Non-current						
Long term bank loans – secured	HIBOR+1.60	2022-2025	673,063	HIBOR+1.60	2021-2023	696,012
			673,063			696,012
			860,743			802,348

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25. INTEREST-BEARING BANK BORROWINGS (continued)

	2020 HK$'000	2019 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	187,680	106,336
In the second year	173,402	207,340
In the third to fifth years, inclusive	499,661	488,672
	860,743	802,348

Notes:

a. As at 31 December 2020 and 2019, all bank borrowings are secured by the corporate guarantees of the Company and certain of its subsidiaries.

b. As at 31 December 2020, the Group's bank borrowings denominated in HK$ and RMB amounted to HK$825,099,000 and HK$35,644,000, respectively.

As at 31 December 2019, the Group's bank borrowings denominated in HK$ amounted to HK$802,348,000.

26. DEFERRED TAX

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

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Total HK$'000
At 1 January 2019	19,077	17,475	36,552
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year (note 11)	2,293	(4,987)	(2,694)
Exchange realignment	(33)	—	(33)
At 31 December 2019 and 1 January 2020	21,337	12,488	33,825
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	(729)	(4,179)	(4,908)
Exchange realignment	112	—	112
Gross deferred tax liabilities at 31 December 2020	20,720	8,309	29,029

26. DEFERRED TAX (continued)

Deferred tax assets

	Losses available for offsetting against future taxable profits HK$'000
At 1 January 2019	28,592
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	1,231
Exchange realignment	(213)
At 31 December 2019 and 1 January 2020	**29,610**
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	**36,640**
Exchange realignment	**823**
Gross deferred tax assets at 31 December 2020	**67,073**

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

	2020 HK$'000	2019 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**49,294**	11,832
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(11,250)**	(16,047)
	38,044	(4,215)

The Group has tax losses arising in Hong Kong of HK$32,541,000 (2019: HK$27,439,000) that are available indefinitely for offsetting against future taxable profit of the company in which the loss arose.

The Group has tax losses arising from foreign operations other than Hong Kong in an aggregate amount of HK$248,204,000 (2019: HK$195,765,000) that are either available indefinitely or with expiry date ranged from one year to twenty years for offsetting against future taxable profits of the companies in which the losses arose.

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26. DEFERRED TAX (continued)

Deferred tax assets (continued)

At 31 December 2020, deferred tax assets have not been recognised in respect of tax losses of HK$50,813,000 (2019: HK$55,165,000). Deferred tax assets have not been recognised in respect of the above tax losses as it is not considered probable that taxable profits will be available against which the above items can be utilised.

At 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established outside Hong Kong. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries outside Hong Kong for which deferred tax liabilities have not been recognised totalled approximately HK$578,172,000 at 31 December 2020 (2019: HK$520,059,000).

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

27. SHARE CAPITAL

	2020 US$'000	2019 US$'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

27. SHARE CAPITAL (continued)

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		1,000,000,000	77,500	(16,459)	683,069	744,110
2018 final dividend		—	—	—	(13,814)	(13,814)
2019 interim dividend		—	—	—	(30,271)	(30,271)
Shares repurchased	(a)	—	—	(30,819)	—	(30,819)
Shares cancelled	(a)	(18,354,000)	(1,422)	25,482	(24,060)	—
At 31 December 2019 and 1 January 2020		981,646,000	76,078	(21,796)	614,924	669,206
2019 final dividend		—	—	—	(21,172)	(21,172)
Shares repurchased	(b)	—	—	(9,934)	—	(9,934)
Shares cancelled	(b)	(19,169,000)	(1,486)	28,624	(27,138)	—
At 31 December 2020		962,477,000	74,592	(3,106)	566,614	638,100

Note:

a. On 23 May 2019, the Company's shareholders granted a general mandate (the "**Repurchase Mandate 2019**") to the directors of the Company to repurchase shares of the Company at the annual general meeting. Pursuant to the Repurchase Mandate 2019, the Company is allowed to repurchase up to 98,674,600 shares, being 10% of the total number of issued shares of the Company as at the date of the general meeting, on the Hong Kong Stock Exchange.

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

b. On 28 May 2020, the Company's shareholders granted a general mandate (the "**Repurchase Mandate 2020**") to the directors of the Company to repurchase shares of the Company at the annual general meeting. Pursuant to the Repurchase Mandate 2020, 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 year ended 31 December 2020, the Company repurchased 6,850,000 of its ordinary shares on the Hong Kong Stock Exchange at an aggregate consideration of HK$9,934,000 (before expenses). Out of 6,850,000 repurchased ordinary shares, 4,600,000 ordinary shares 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 year ended 31 December 2020, while the remaining 2,250,000 repurchased ordinary shares of HK$3,067,000 (before expenses) were recognised as treasury shares as at 31 December 2020.

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28. PRE-IPO RESTRICTED SHARE UNIT SCHEME

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

The offer of a grant of RSUs may be accepted within the time period and in a manner prescribed in the grant letter. The Board or the Award Committee (if authority is delegated) has the sole discretion to determine the vesting schedule and vesting criteria (if any) for any grant of award(s) to any grantee, which may also be adjusted and re-determined by the Board or the Award Committee from time to time. RSUs do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No RSUs were granted, vested and lapsed under the Pre-IPO RSU Scheme during the years ended 31 December 2020 and 31 December 2019, and no RSUs were outstanding under the Pre-IPO RSU Scheme as at 31 December 2020 and 2019.

29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 70 to 71 of the financial statements.

i. Statutory reserve

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

ii. Capital reserve

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

30. BUSINESS COMBINATIONS

Deemed acquisition of STM Digital Dentistry Holding Limited ("STM Dental")

During the year, the Company entered into a supplementary agreement with Straumann Holding AG ("**Straumann**"), which hold 49% of the issued capital of STM Digital Dentistry Holding Limited ("**STM Dental**"), the number of directors of STM Dental should be nominated by the Company increased from one to two while the total number of directors remained at three. Board resolution was passed on 9 November 2020 to appoint 1 director nominated by the Company and 1 director nominated by Straumann resigned. The group therefore obtained control in STM Dental by virtue of the supplementary agreement. STM Dental ceased to be an associate of the Company on 9 November 2020 and became and is accounted for as a subsidiary of the Company thereafter.

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

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	14	6,442
Right-of-use assets	17(a)	418
Inventories		842
Trade receivables		1,730
Prepayments, deposits and other receivables		1,339
Cash and cash equivalents		5,595
Trade payables		(137)
Other payables and accruals		(1,024)
Lease liabilities	17(b)	(462)
Total identifiable net assets at fair value		14,743
Non-controlling interests		(7,225)
		7,518
Satisfied by:		
Fair value of 51% equity interests in STM Dental		7,518

The fair value of the trade receivables as at the date of acquisition amounted to HK$1,730,000. The gross contractual amounts of trade receivables were HK$1,730,000, none of which is expected to be uncollectible.

No transaction costs has been incurred for this acquisition.

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30. BUSINESS COMBINATIONS (continued)

Deemed acquisition of STM Digital Dentistry Holding Limited ("STM Dental") (continued)

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

	HK$'000
Cash and bank balances obtained	5,595
Net inflow of cash and cash equivalents included in cash flows from investing activities in 2020	5,595

Since the acquisition, STM Dental contributed HK$615,000 to the Group's turnover and loss of HK49,000 to the consolidated profit for the year ended 31 December 2020.

Had the combination taken place at the beginning of the year ended 31 December 2020, the revenue and the profit of the Group for the year ended 31 December 2020 would have been HK$2,192,473,000 and HK$107,077,000, respectively.

Acquisition of DD Dental GmbH ("DD Dental")

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

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

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	14	1,923
Intangible assets	16	177
Inventories		215
Trade receivables		3,947
Prepayments, deposits and other receivables		723
Cash and cash equivalents		1,533
Trade payables		(3,142)
Other payables and accruals		(516)
Total identifiable net assets at fair value		4,860
Non-controlling interests		(103)
		4,757
Satisfied by:		
Cash		4,757

30. BUSINESS COMBINATIONS (continued)

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

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

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

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

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

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

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

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Non-cash transaction

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$17,344,000 (2019: HK$33,135,000) and HK$17,344,000 (2019: HK$33,135,000), respectively, in respect of lease arrangements for buildings, fixture and furniture and motor vehicles.

During the year, additions of property, plant and equipment of HK$268,000 (2019: HK$523,000) were transferred from the prepayments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2020

	Bank loans HK$'000	Lease liabilities HK$'000
At 1 January 2020	802,348	198,469
Changes from financing cash flows	52,609	(54,454)
Non-cash flows:		
Foreign exchange movement	1,912	5,254
New leases	—	17,344
Acquisition of a subsidiary (note 30)	—	462
Interest on lease liabilities (note 8)	—	5,964
Revision of lease term arising from a change in the non-cancellable period of a lease	—	(8,639)
Finance charges on bank loans (note 8)	3,874	—
At 31 December 2020	860,743	164,400

2019

	Bank loans HK$'000	Lease liabilities HK$'000
At 1 January 2019	808,137	226,313
Changes from financing cash flows	(9,970)	(66,994)
Non-cash flows:		
Foreign exchange movement	—	(1,018)
New leases	—	33,135
Interest on lease liabilities (note 8)	—	7,033
Finance charges on bank loans (note 8)	4,181	—
At 31 December 2019	802,348	198,469

(c) Total cash outflow for leases

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

	2020 HK$'000	2019 HK$'000
Within operating activities	9,620	1,961
Within investing activities	—	8,802
Within financing activities	54,454	66,994
	64,074	77,757

32. CONTINGENT LIABILITIES

The Group has no significant contingent liabilities as at 31 December 2020 and 31 December 2019.

33. COMMITMENTS

	2020 HK$'000	2019 HK$'000
Contracted, but not provided for:		
Leasehold improvement	2,407	2,428
Land and buildings	84,521	113,795
	86,928	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$292,286,000) for the acquisition of land, construction and renovation of a factory in the Songshan Lake High-tech Industrial Development Zone. As at 31 December 2020, the Group has paid approximately RMB154,664,000 (equivalent to HK$183,765,000) for the construction and renovation of a factory and approximately RMB18,839,000 (equivalent to HK$22,384,000) for the acquisition of land, respectively, and the remaining commitment was approximately RMB72,497,000 (equivalent to HK$86,137,000).

During the year, the Group entered a construction agreement for setting up the production lines in a leased ready-built in Vietnam and as of 31 December 2020, the remaining commitments was approximately VND2,325,000,000 (equivalent to HK$791,000).

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

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34. RELATED PARTY TRANSACTIONS

(1) Transactions with related parties

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

			2020 HK$'000	2019 HK$'000
(a)				
	i.	Acquisition of right-of-use assets from Most Wealth International limited	6,646	—
	ii.	Lease payment to Most Wealth International Limited	3,888	3,888
(b)				
	i.	Acquisition of right-of-use assets from directors	312	—
	ii.	Lease payment to directors	1,212	1,251
(c)				
	i.	Acquisition of right-of-use assets from directors and an associate of a director	4,251	—
	ii.	Lease payment to an associate of a director	2,566	2,648
(d)				
	i.	Acquisition of right-of use assets from an associate of a director	415	—
	ii.	Lease payment to an associate of a director	185	191
(e)				
	i.	Acquisition of right-of-use assets from an associate of a director	415	—
	ii.	Lease payment to an associate of a director	139	143
(f)				
	i.	Acquisition of right-of-use assets from an associate of a director	935	—
	ii.	Lease payment to an associate of a director	417	430
(g)	Training fee paid to ShenZhen Nanshan District Modern Denture Technology Training Centre		2,052	3,587
(h)	Sales of finished goods to Trident Dental Group Limited		413	370
(i)	Sales of finished goods to Kong Hong Holdings Limited		254	—
(j)	Sales of finished goods to Dr. William Cheung & Associates		135	—

Notes:

(a) Most Wealth International Limited is controlled by Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and Mr. Ngai Shing Kin. The transactions with Most Wealth International Limited were made on prices and conditions as mutually agreed.

(b) Tenancy agreement entered with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan. The tenancy agreement was entered into on prices and conditions as mutually agreed.

(c) Tenancy agreements entered with 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) Tenancy agreement entered with an associate ("**Landlord B**") of Mr. Chan Kwun Pan. The tenancy agreement was entered into on prices and conditions as mutually agreed.

(e) Tenancy agreement entered with Landlord C. The tenancy agreement was entered into on prices and conditions as mutually agreed.

34. RELATED PARTY TRANSACTIONS (continued)

(1) Transactions with related parties (continued)

Notes: (continued)

(f) Tenancy agreement entered with an associate ("**Landlord A**") of Mr. Chan Kwun Fung. The tenancy agreement was entered into on prices and conditions as mutually agreed.

(g) ShenZhen Nanshan District Modern Denture Technology Training Centre (the "**Centre**") and the Group has a common director, Mr. Ngai Shing Kin. The transactions with the Centre were made on prices and conditions as mutually agreed.

(h) Trident Dental Group Limited is ultimately 33.3% owned by Mr. Chan Ronald Yik Long. The transactions with Trident Dental Group Limited were made on prices and conditions as mutually agreed.

(i) Kong Hong Holdings Limited is ultimately 40% owned by Mr. 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 Mr. 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 Mr. Chan Ronald Yik Long are shareholders and directors of the Company. Mr. Cheung Wai Man William is a director of the Company.

The related party transactions in respect of items (ai), (bi), (ci), (di), (ei) and (fi) above also constitute connected transactions and (aii), (bii), (cii), (dii), (eii), (fii), (g), (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 purpose of operating the Company's business in Hong Kong, on 30 December 2020, Modern Dental Laboratory Company Limited ("**MDLCL**"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "**Tenancy Agreements I**") 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 Tenancy Agreement I, Most Wealth International Limited shall lease premises to MDLCL for a term of two years commencing from 1 January 2021 to 31 December 2022 at a monthly rent of HK$288,000.

(b) For the purposes of residential use, on 30 December 2020, Yangzhijin Dental Laboratory (Shenzhen) Company Limited ("**YZJSZ**"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "**Tenancy Agreements II**") with with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan, and an associate ("**Landlord C**") of Mr. Ngai Shing Kin, an executive director of the Company. Pursuant to the Tenancy Agreements II, Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and Landlord C shall lease premises to YZJSZ for a term of two years from 1 January 2021 to 31 December 2022 at a monthly rent of RMB119,006.64.

(c) For the purposes of residential use, on 30 December 2020, Modern Dental Laboratory (Shenzhen) Company Limited ("**MDLSZ**") entered into a tenancy agreement (the "**Tenancy Agreements III**") with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan and Landlord C. Pursuant to the Tenancy Agreements III, 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 2021 to 31 December 2022 at a monthly rent of RMB37,293.

(d) For the purposes of residential use, on 30 December 2020, MDLSZ entered into a tenancy agreement (the "**Tenancy Agreement IV**") with an associate ("**Landlord B**") of Mr. Chan Kwun Pan. Pursuant to the Tenancy Agreement IV, Landlord B shall lease premises to MDLSZ for a term of two years from 1 January 2021 to 31 December 2022 at a monthly rent of RMB15,280.

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34. RELATED PARTY TRANSACTIONS (continued)

(2) Commitments with related parties (continued)

(e) For the purposes of residential use, on 30 December 2020, MDLSZ entered into a tenancy agreement (the "**Tenancy Agreement V**") with Landlord C. Pursuant to the Tenancy Agreement V, Landlord C shall lease premises to MDLSZ for a term of two years from 1 January 2021 to 31 December 2022 at a monthly rent of RMB15,280.

(f) For the purposes of residential use, on 30 December 2020, MDLSZ entered into a tenancy agreement (the "**Tenancy Agreement VI**") with an associate ("**Landlord A**") of Mr. Chan Kwun Fung. Pursuant to the Tenancy Agreement VI, Landlord A shall lease premises to MDLSZ for a term of two years from 1 January 2021 to 31 December 2022 at a monthly rent of RMB34,380.

(g) For the purpose of operating the Company's business in Hong Kong, on 30 December 2020, MDLCL, entered into a tenancy agreement (the "**Tenancy Agreements VII**") with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan. Pursuant to the Tenancy Agreements VII, Mr. Chan Kwun Fung and Mr. Chan Kwun Pan shall lease premises to MDLCL for a term of two years from 1 January 2021 to 31 December 2022 at a monthly rent of HK$13,500.

In accordance with IFRS 16, which came into effect on leases entered into after 1 January 2019, the Group as lessee shall recognise a lease as a right-of-use asset and a lease liability. The right-of-use asset represents its right to use the underlying leased assets over the lease term and the lease liability represents its obligation to make lease payments.

(3) Balances with related parties

At 31 December 2020, the Group's balances due from/to related parties were as follows:

	2020 HK$'000	2019 HK$'000
Due from related parties (note 21):		
Trident Dental Group Limited	152	64
Kong Hong Holdings Limited	76	—
Dr. William Cheung & Associates	12	—
	240	64
Due to a related party (note 24):		
Shenzhen Nanshan District Modern Denture Technology Training Centre	10	87

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

34. RELATED PARTY TRANSACTIONS (continued)

(4) Compensation of key management personnel of the Group

	2020 HK$'000	2019 HK$'000
Short term employee benefits	32,574	31,329
Post-employment benefits	1,920	2,151
Total compensation paid to key management personnel	34,494	33,480

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

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

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

2020

Financial assets

	Financial assets at amortised cost HK$'000
Trade receivables	473,105
Financial assets included in deposits and other receivables	56,401
Due from related parties	240
Due from an associate	4,159
Pledged deposits	4,828
Cash and cash equivalents	697,827
Total	1,236,560

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	67,670
Financial liabilities included in other payables and accruals	65,046
Interest-bearing bank borrowings	860,743
Lease liabilities	164,400
Due to a non-controlling shareholder	4,800
Due to a related party	10
Total	1,162,669

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35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2019

Financial assets

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

Financial liabilities

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

36. 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	
	2020 HK$'000	2019 HK$'000	**2020 HK$'000**	2019 HK$'000
Financial liabilities				
Interest-bearing bank borrowings	**860,743**	802,348	**860,743**	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 an associate, an amount due to a non-controlling shareholder, and financial liabilities included in other payables and accruals approximate to their carrying amounts and accordingly no disclosure of the fair values of these items is presented.

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2020 and 2019 were assessed to be insignificant.

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

Liabilities for which fair values are disclosed:

As at 31 December 2020	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Interest-bearing bank borrowings	—	860,743	—	860,743

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

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial assets of the Group include trade receivables, deposits and other receivables, amounts due from related parties, an amount due from an associate, pledged deposits and cash and cash equivalents. Financial liabilities of the Group include trade payables, other payables and accruals, interest-bearing bank borrowings, lease liabilities and an amount due to a related party and a non-controlling shareholder.

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

Interest rate risk

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

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

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

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

	Increase/ (decrease) in interest rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
Year ended 31 December 2020			
HK$	**1**	**(8,607)**	**—**
HK$	**(1)**	**8,607**	**—**
Year ended 31 December 2019			
HK$	1	(8,023)	—
HK$	(1)	8,023	—

* Excluding retained profits

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 11% and 9% of the Group's sales for the years ended 31 December 2020 and 2019 were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 10% and 10% of costs for the years ended 31 December 2020 and 2019 were denominated in currencies other than the units' functional currencies, respectively.

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

	Increase/ (decrease) in EUR/AUD exchange rate %	Increase/ (decrease) in profit before tax HK$'000
As at 31 December 2020		
If HK$ weakens against EUR	**5**	**13,300**
If HK$ strengthens against EUR	**(5)**	**(13,300)**
If HK$ weakens against AUD	**5**	**5,871**
If HK$ strengthens against AUD	**(5)**	**(5,871)**
As at 31 December 2019		
If HK$ weakens against EUR	5	15,080
If HK$ strengthens against EUR	(5)	(15,080)
If HK$ weakens against AUD	5	3,789
If HK$ strengthens against AUD	(5)	(3,789)

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31 December 2020

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Maximum exposure and year-end staging

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

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Trade receivables*	—	—	—	506,090	506,090
Financial assets included in prepayments, other receivables and other assets					
– Normal**	56,401	—	—	—	56,401
Due from related parties					
– Normal**	240	—	—	—	240
Due from an associate					
– Normal**	4,159	—	—	—	4,159
Pledged deposits					
– Not yet past due	4,828	—	—	—	4,828
Cash and cash equivalents					
– Not yet past due	697,827	—	—	—	697,827
	763,455	—	—	506,090	1,269,545

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2019

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents and have available funding through capital contribution, bank borrowings and the cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	31 December 2020					
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Trade payables	—	67,670	—	—	—	67,670
Other payables and accruals	—	65,046	—	—	—	65,046
Interest-bearing bank borrowings	35,644	142,196	25,206	688,825	—	891,871
Lease liabilities	—	12,113	33,532	106,411	27,949	180,005
Due to a non-controlling shareholder	—	—	4,800	—	—	4,800
Due to a related party	10	—	—	—	—	10
	35,654	287,025	63,538	795,236	27,949	1,209,402

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

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended in December 2020 and 2019.

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, lease liabilities, other payables and accruals, other non-current liabilities, less cash and cash equivalents and pledged deposits. The gearing ratios as at the end of the reporting periods were as follows:

	2020 HK$'000	2019 HK$'000
Interest-bearing bank borrowings	860,743	802,348
Trade payables	67,670	70,026
Lease liabilities	164,400	198,469
Other payables and accruals	230,627	197,839
Other non-current liabilities	—	5,203
Less:		
Pledged deposits	(4,828)	(5,330)
Cash and cash equivalents	(697,827)	(393,905)
Net debt	620,785	874,650
Equity attributable to owners of the Company	2,247,661	2,020,820
Capital and net debt	2,868,446	2,895,470
Gearing ratio	22%	30%

38. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Company repurchased 650,000 of its ordinary shares on the Stock Exchange at an aggregate consideration of approximately HK$895,000 (before expenses).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	488	735
Investments in subsidiaries	530,236	522,856
Investments in associates	—	7,967
Loan to a subsidiary	214,121	—
Total non-current assets	744,845	531,558
CURRENT ASSETS		
Due from subsidiaries	899,534	1,102,820
Prepayments, deposits and other receivables	847	3,409
Cash and cash equivalents	14,849	16,581
Total current assets	915,230	1,122,810
CURRENT LIABILITIES		
Other payables and accruals	582	4,958
Due to subsidiaries	584,530	545,795
Total current liabilities	585,112	550,753
NET CURRENT ASSETS	330,118	572,057
TOTAL ASSETS LESS CURRENT LIABILITIES	1,074,963	1,103,615
Net assets	1,074,963	1,103,615
EQUITY		
Share capital	74,592	76,078
Treasury shares	(3,106)	(21,796)
Reserves (note)	1,003,477	1,049,333
Total equity	1,074,963	1,103,615

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

Note:

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

	Share premium HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2019	683,069	588,219	(4,276)	(118,705)	1,148,307
2018 final dividend	(13,814)	—	—	—	(13,814)
2019 interim dividend	(30,271)	—	—	—	(30,271)
Shares cancelled	(24,060)	1,422	—	(1,422)	(24,060)
Loss for the year	—	—	—	(30,829)	(30,829)
At 31 December 2019 and 1 January 2020	614,924	589,641	(4,276)	(150,956)	1,049,333
2019 final dividend	(21,172)	—	—	—	(21,172)
Shares cancelled	(27,138)	1,486	—	(1,486)	(27,138)
Profit for the year	—	—	—	2,454	2,454
At 31 December 2020	566,614	591,127	(4,276)	(149,988)	1,003,477

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2021.

FINANCIAL SUMMARY

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

	Year ended 31 December				
	2020 HK$'000	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000
RESULTS					
REVENUE	**2,190,208**	2,399,548	2,315,467	2,181,292	1,642,176
Cost of sales	**(1,100,220)**	(1,246,617)	(1,236,131)	(1,119,780)	(761,515)
Gross profit	**1,089,988**	1,152,931	1,079,336	1,061,512	880,661
Other income and gains	**27,394**	14,737	11,344	23,912	4,072
Selling and distribution expenses	**(251,410)**	(294,352)	(275,142)	(265,926)	(185,222)
Administrative expenses	**(555,817)**	(615,725)	(630,558)	(586,525)	(499,549)
Impairment of goodwill	**(150,132)**	—	—	—	(9,832)
Other operating expenses	**(563)**	(17,177)	(12,533)	(1,582)	(8,603)
Finance costs	**(33,699)**	(37,902)	(51,516)	(28,582)	(28,411)
Share of losses of associates	**(1,537)**	(504)	(1,929)	(1,288)	—
PROFIT BEFORE TAX	**124,224**	202,008	119,002	201,521	153,116
Income tax expense	**(16,565)**	(41,563)	(35,762)	(44,158)	(50,048)
PROFIT FOR THE YEAR	**107,659**	160,445	83,240	157,363	103,068
Attributable to:					
Owners of the Company	**107,763**	161,557	85,391	155,371	101,483
Non-controlling interests	**(104)**	(1,112)	(2,151)	1,992	1,585
	107,659	160,445	83,240	157,363	103,068

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2020 HK$'000	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000
TOTAL ASSETS	**3,665,088**	3,361,241	3,106,061	3,140,230	2,744,503
TOTAL LIABILITIES	**(1,408,571)**	(1,338,834)	(1,113,859)	(1,035,237)	(922,273)
NON-CONTROLLING INTERESTS	**(8,856)**	(1,587)	4,042	(7,503)	(6,491)
	2,247,661	2,020,820	1,996,244	2,097,490	1,815,739

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
Certified Public Accountant
Registered Public Interest Entity Auditor
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Cayman Islands

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CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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Cayman Islands

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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