



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

ANNUAL REPORT

2021





现代牙科集团
MODERN DENTAL GROUP

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CHAIRMAN'S STATEMENT

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



Chan Ronald Yik Long
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 2021.

2021 was a year filled with challenges and opportunities, during which the Group was continually affected by the ongoing pandemic but also capitalized on key tailwinds, such as the consolidation of the dental prosthetics industry and digitalization. The pandemic 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. Secondly, the digitalization of the dental industry

has further accelerated and therefore, the Group's strong positioning of being a digitally-powered dental prosthetics company has never been more important. Our continued digital transformation is expected to improve our customers' and patients' experiences, further allowing the Group to differentiate itself from its competition and outperform industry peers. whilst we aim to become a better version of a one-stop-shop dental prosthetics provider; for example, we have further enhanced and broadened our educational and product offerings such as our successful global launch of our clear aligner products, continued our research and development into our digital platforms which will further reinforce our exceptional customer experience by providing dental education and dentist-patient communication tools.

The Group exited 2021 in a stronger position with our revenues and profitability at record highs. The Group's revenue increased by 34.9% in 2021 compared with 2020. Revenue from Europe, North America, Greater China and Australia in 2021 increased by 36.9%, 25.8%, 42.9% and 30.0% compared with 2020, respectively. In addition, EBITDA and Net Profit in 2021 increased by 41.5% and 234.7%, respectively, compared with 2020.

The European market remains our key revenue and profit driver for the Group, going from strength-to-strength. For 2021, our European market contributed 42.5% of the Group's total revenue (increasing from 41.9% in 2020), 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. In 2021, 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 to improve. MicroDental Group contributed a Net Profit of HK\$44.0 million which is a strong and noteworthy showing considering the circumstances. Our Mainland China market is becoming a more and more important market for the Group with our Dongguan phase 1 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 centers to better serve our clients. As for our Australian market, our strategies to provide full range products to corporate dental groups have continued to pay off resulting 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 strategic co-operations, acquisitions, joint ventures and/or partnerships, to further expand and complement our product-offering (in particular, our clear aligner products), distribution and sales networks which should in turn, drive our business expansion. The Group's investment in Dongguan phase 2 and Vietnam production facilities are expected to provide the Group with greater production solutions and optionality which will in turn, increase the Group' level of research and development in further enhancing our production and products.

Looking forward to the rest of 2022, 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 2022 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.

Chan Ronald Yik Long

Chairman

29 March 2022

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 (including clear aligner), sports guards and anti-snoring devices, raw materials, dental equipment and the services of educational events and seminars rendered. Including in "others" segment, the sales of TrioClear (our own aligner) is approximately HK\$21,007,000 (2020: HK\$4,723,000).



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CLEAR

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS HIGHLIGHTS

- The Revenue for the year ended 31 December 2021 was approximately HK\$2,955,172,000 (2020: HK\$2,190,208,000), representing an increase of approximately HK\$764,964,000 or 34.9%.
- The Gross Profit Margin for the year ended 31 December 2021 was approximately 52.5% (2020: 49.8%). Gross profit for the year ended 31 December 2021 was approximately HK\$1,550,651,000, representing an increase of approximately HK\$460,663,000 or 42.3%.
- The Group's EBITDA for the year ended 31 December 2021 was approximately HK\$626,393,000 (2020: HK\$442,551,000), representing an increase of approximately HK\$183,842,000 or 41.5%.
- The Group's Net Profit and Profit from core operations for the year ended 31 December 2021 were approximately HK\$360,375,000 and HK\$382,118,000 (2020: Net Profit and Profit from core operations were approximately HK\$107,659,000 and HK\$224,170,000), representing an increase of approximately HK\$252,716,000 and HK\$157,948,000, respectively.
- Basic earnings per share for the financial year ended 31 December 2021 amounted to HK37.7 cents (2020: HK11.2 cents), representing an increase of approximately 236.6%.
- The Board recommended a final dividend of HK4.4 cents per ordinary share, out of the share premium account, for the year ended 31 December 2021 (2020: HK7.0 cents). Subject to the approval of the Company's shareholders at the forthcoming annual general meeting, the final dividend will be payable on 22 June 2022 to shareholders of the Company whose names appear on the Register of Members of the Company on 1 June 2022.

Further highlights:

- For the year ended 31 December 2021, the Group's revenue from its European market increased by 36.9%, its North American market increased by 25.8%, its Greater China market increased by 42.9% (in particular, Mainland China increased by 53.8%) and its Australian market increased by 30.0%, in each case, compared with the year ended 31 December 2020.
- For the year ended 31 December 2021, the Group's digital solution cases (overseas and domestic) that are produced from its Mainland China production facilities (which, for the avoidance of doubt, does not include digital solution cases produced in the Group's non-Mainland China production facilities or overseas/satellite dental laboratories) increased to approximately 301,212 cases reflecting an increase of 183.2% as compared with the same period in 2020 (approximately 106,374 cases) as a result of our clients' increased adoption of intra-oral scanners.

MANAGEMENT DISCUSSION AND ANALYSIS

- The following table sets forth summary of key financial results for the years ended 31 December 2021, 2020 and 2019.

	Year ended 31 December			2021v2020	2021v2019
	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	Changes %	Changes %
Revenue	2,955,172	2,190,208	2,399,548	34.9%	23.2%
Gross Profit	1,550,651	1,089,988	1,152,931	42.3%	34.5%
Gross Profit Margin (%)	52.5%	49.8%	48.0%	5.4%	9.4%
EBITDA	626,393	442,551	391,544	41.5%	60.0%
EBITDA Margin (%)	21.2%	20.2%	16.3%	5.0%	30.1%
Net Profit	360,375	107,659	160,445	234.7%	124.6%
Net Profit Margin (%)	12.2%	4.9%	6.7%	149.0%	82.1%
Profit from core operations	382,118	224,170	163,698	70.5%	133.4%
Profit from core operations Margin (%)	12.9%	10.2%	6.8%	26.5%	89.7%

- The following table sets forth a breakdown of the revenue generated from the aforesaid markets for the years ended 31 December 2021, 2020 and 2019.

Sales by region	Year ended 31 December			2021 VS 2020		2021 VS 2019	
	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	Change in currency (%)	Organic growth rate (%)	Change in currency (%)	Organic growth rate (%)
Europe	1,254,596	916,731	957,616	4.0%	31.6%	4.8%	25.0%
North America	718,776	571,170	697,082	—	25.8%	—	3.1%
Greater China	699,246	489,234	527,033	8.0%	32.3%	6.1%	25.0%
Australia	250,339	192,569	198,983	9.2%	19.1%	7.2%	17.4%
Others	32,215	20,504	18,834	—	57.1%	—	71.0%
	2,955,172	2,190,208	2,399,548				

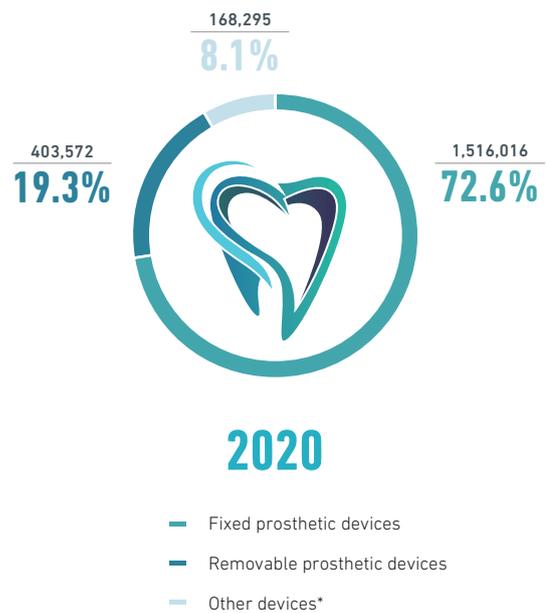
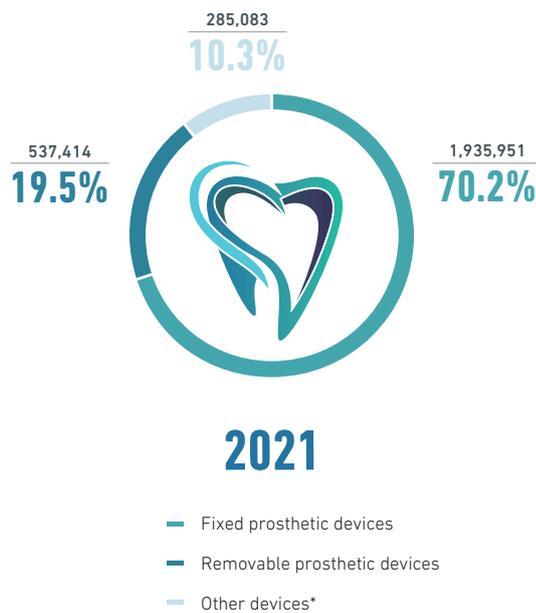
MANAGEMENT DISCUSSION AND ANALYSIS

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 2021 and 2020 respectively:

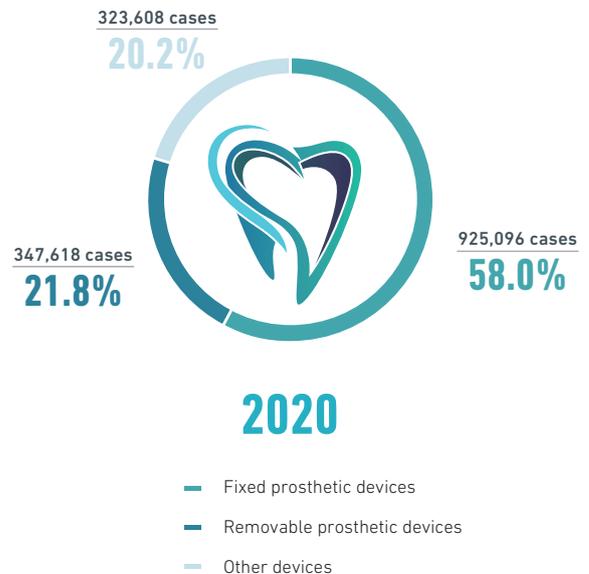
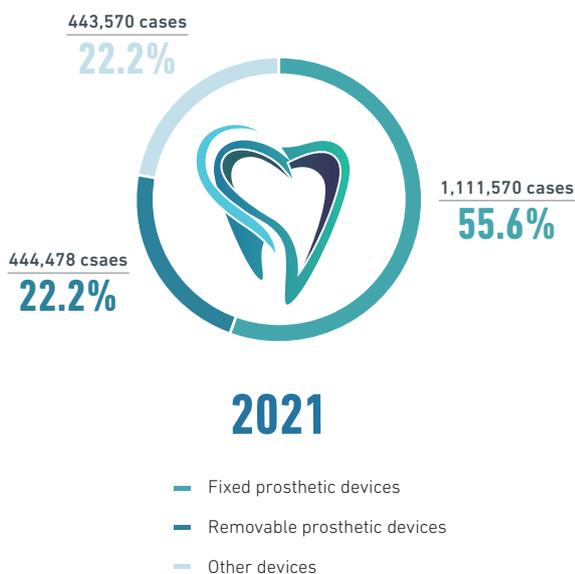
Breakdown of Revenue

(HK\$'000 and %)



Breakdown of Sales Volume

(no. of cases and %)



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

MANAGEMENT DISCUSSION AND ANALYSIS

Fixed Prosthetic Devices

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

During the year ended 31 December 2021, fixed prosthetic devices business segment recorded a revenue of approximately HK\$1,935,951,000, representing an increase of approximately HK\$419,935,000 as compared with the year ended 31 December 2020. This business segment accounted for approximately 70.2% of the Group's total revenue as compared with approximately 72.6% in the year ended 31 December 2020.

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 2021, removable prosthetic devices business segment recorded a revenue of approximately HK\$537,414,000, representing an increase of approximately HK\$133,842,000 as compared with the year ended 31 December 2020. This business segment accounted for approximately 19.5% of the Group's total revenue as compared with approximately 19.3% in the year ended 31 December 2020.

Other Devices

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

During the year ended 31 December 2021, other devices business segment recorded a revenue of approximately HK\$285,083,000, representing an increase of approximately HK\$116,788,000 as compared with the year ended 31 December 2020. This business segment accounted for approximately 10.3% of the Group's total revenue as compared with approximately 8.1% in the year ended 31 December 2020.



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 2021 and 2020 respectively:

Product category	Year ended 31 December					
	2021			2020		
	Sales Volume (number of cases)	Revenue (HK\$'000)	ASP (HK\$ per case)	Sales Volume (number of cases)	Revenue (HK\$'000)	ASP (HK\$ per case)
Fixed prosthetic devices	1,111,570	1,935,951	1,742	925,096	1,516,016	1,639
Removable prosthetic devices	444,478	537,414	1,209	347,618	403,572	1,161
Other devices*	443,570	285,083	643	323,608	168,295	520
Total	1,999,618	2,758,448	1,379	1,596,322	2,087,883	1,308

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

Sales volume and average selling price

For the year ended 31 December 2021, the sales volume and ASP of the Group's products across its markets were 1,999,618 cases (2020: 1,596,322 cases) and HK\$1,379 per case (2020: HK\$1,308 per case), representing an increase of 25.3% and 5.4%, respectively.

For the year ended 31 December 2021, the Group's digital solution cases (overseas and domestic) that are produced from its Mainland China production facilities (which, for the avoidance of doubt, does not include digital solution cases produced in the Group's non- Mainland China production facilities or overseas/satellite dental laboratories) increased to approximately 301,212 cases reflecting an increase of 183.2% as compared with the same period in 2020 (approximately 106,374 cases) as a result of our clients' increased adoption of intra-oral scanners.

MANAGEMENT DISCUSSION AND ANALYSIS

GEOGRAPHIC MARKET

By leveraging on our sales and distribution network, we achieved a leading position in the dental prosthetics industry across Europe, North America, Greater China, Australia, and other countries. The following table sets forth a breakdown of the revenue generated from the aforesaid markets in their respective original currency against HK\$ for the years ended 31 December 2021, 2020 and 2019 respectively:

Market	Original currency	Year ended 31 December									
		2021		2020		2019		2021 vs 2020		2021 vs 2019	
		Conversion rate # (Original currency per HK\$)	Revenue (HK\$'000)	Conversion rate # (Original currency per HK\$)	Revenue (HK\$'000)	Conversion rate # (Original currency per HK\$)	Revenue (HK\$'000)	Change in currency (%)	Organic growth rate (%)	Change in currency (%)	Organic growth rate (%)
Europe	EUR	9.20	1,254,596	8.85	916,731	8.78	957,616	4.0%	31.6%	4.8%	25.0%
North America	US\$	7.75	718,776	7.75	571,170	7.75	697,082	—	25.8%	—	3.1%
Greater China	RMB	1.21	699,246	1.12	489,234	1.14	527,033	8.0%	32.3%	6.1%	25.0%
Australia	AUD	5.84	250,339	5.35	192,569	5.45	198,983	9.2%	19.1%	7.2%	17.4%
Others			32,215		20,504		18,834	—	57.1%	—	71.0%
Total			2,955,172		2,190,208		2,399,548				

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.



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

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 2021.

Our Europe region experienced unprecedented demand for its products and services in 2021 as revenue significantly exceeded pre-pandemic levels of 2019 (for the same period). Significant tailwinds were generated by an increase in spending by consumers on specialty dental treatments and by digitalization of, and adoption of intra-oral scanners in, the dental market. In particular, sales of intra-oral scanners in the Europe region increased by 106% during the year.

The European region benefited from a significant increase in new clients as the lasting effects of the pandemic continued to disproportionately affect our smaller and mid-scaled competitors leading to, in the Group's view, a material increase in market share in this region. As the leading dental prosthetics supplier in Europe, the Group is in an ideal position to take advantage of the aforementioned trends.

The Group has been the frontrunner to provide comprehensive digital solutions offerings, ranging from numerous minimal invasive and aesthetic prosthetic solutions to intra-oral scanners and clear aligners, and is well positioned to capture the opportunities arising from the accelerated digitalisation trend of the dental industry. The Group is committed and would continue to equip ourselves to provide the state-of-the-art digital solutions offering to the dental community in the market.

During the year ended 31 December 2021, the European market recorded a revenue of approximately HK\$1,254,596,000, representing an increase of approximately HK\$337,865,000 as compared with year ended 31 December 2020. This geographic market accounted for 42.5 % of the Group's total revenue as compared with approximately 41.9% for the year ended 31 December 2020. The increase of revenue from the European market was attributable to (i) the continued increase in sales orders volume since June 2020 (after the first lockdown) throughout the pandemic; (ii) the success in offering comprehensive latest state-of-the-art digital solutions to our clients that brought new clients on board; drove the increase in sales order volumes; and sales of new equipment (primarily intra-oral scanners); and (iii) the appreciation of EUR against HK\$ of 4.0% compared with the year ended 31 December 2020.

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 2021.

MicroDental Laboratories, Inc. and its subsidiaries ("**MicroDental Group**") contributed approximately HK\$570,959,000 (2020: HK\$457,417,000) to the Group's revenue, approximately HK\$76,745,000 (2020: HK\$46,648,000) to the Group's Adjusted EBITDA; approximately HK\$44,009,000 of profit (2020: HK\$98,413,000 of loss) to the Group's profit; and approximately HK\$44,009,000 of profit from core operations (2020: HK\$13,744,000) to the Group's profit from core operations for the year ended 31 December 2021.

The Group is focused on ensuring solid execution of its North American business operationally and financially. We continue to implement substantial cost controls and restructuring while maintaining appropriate operational and critical customer centric support service levels. Although the Group has closed a few unprofitable businesses during 2021 and has encountered the general softness and constraints, the revenue of the North American market has increased by approximately 25.8% in 2021 compared with 2020 (approximately 3.1% compared with 2019) and the profit from core operations of MicroDental Group has increased by 220.2% in 2021 compared with 2020 (approximately by 1,774.4% compared with 2019). The continued increase in sales and profitability of the North American region were driven by the increase in demand for its products as a direct result of the re-opening of the North American economy, pent-up demand and certain fiscal policies and fiscal stimulus adopted by the existing administration.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2021, our clients' interest surrounding digital dentistry continued to increase. 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 2021, the North American market recorded a revenue of approximately HK\$718,776,000, representing an increase of approximately HK\$147,606,000 as compared with the year ended 31 December 2020. This geographic market accounted for approximately 24.3% of the Group's total revenue as compared with approximately 26.1% in the year ended 31 December 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 2021.

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 at full operation, and new products addressing the mid-market segment of the dental industry, we expect to further consolidate our leading status in the Greater China market. The Mainland China market benefited from a significant increase in clients as the lasting effects of the pandemic continued to disproportionately affect our smaller and mid-scaled competitors leading to, in the Group's view, a material increase in market share in this region.

The management is cautiously optimistic on the long-term prospect of the Greater China region. The potential policy development in the Mainland China market in relation to a potential inclusion of the implant dental treatment in the social insurance benefits and the relevant price control on implant components (dental prosthetic teeth is not part of the implant component) shall lead to volume growth in implant related dental prosthetic teeth in the market. The Group is committed to support the development of the dental community in the region for long-term by (i) continuing to expand the depth and width of our products portfolios offering, such as adding mid-end products in the Mainland China; expansion of the production facilities in Shanghai; and adding implants and clear aligners products in Hong Kong and Macau; (ii) 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; and (iii) launching of our own dental digital platform in Hong Kong.

For the year ended 31 December 2021, the Greater China market recorded a revenue of approximately HK\$699,246,000, representing an increase of approximately HK\$210,012,000 as compared with the year ended 31 December 2020. This geographic market accounted for approximately 23.7% of the Group's total revenue as compared with approximately 22.3% in the year ended 31 December 2020. The increase of revenue from the Greater China market was largely attributable to (i) the continued increase in sales orders volume after the first lockdown in first half of 2020; (ii) the increase in sales orders volumes as a result of the expansion of product range offering; and (iii) the appreciation of RMB against HK\$ of 8.0% in the year ended 31 December 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Australia

The Australian market includes both Australia and New Zealand. In Australia and New Zealand, individuals are primarily responsible for financing their own dental treatments. Our Australian region experienced unprecedented demand for its products and services in 2021 as revenues significantly exceeded pre-pandemic levels of 2019 (for the same period) although the Australian market experienced pandemic related lockdown or restrictive measures during the 2nd half of 2021 that affected its profitability. The Group is focused on ensuring solid execution of its Australian business operationally and financially, driven by organic growth and acquisitions.

For the year ended 31 December 2021, the Australian market recorded a revenue of approximately HK\$250,339,000, representing an increase of approximately HK\$57,770,000 as compared with the year ended 31 December 2020. This geographic market accounted for approximately 8.5% of the Group's total revenue as compared with approximately 8.8% in the year ended 31 December 2020. The increase of revenue from the Australian market was largely attributable to (i) the increase in sales order volume; and (ii) the appreciation of AUD against HK\$ of 9.2% for the year ended 31 December 2021 compared with last year.

Others

Other markets primarily include Indian Ocean countries, Japan, Taiwan and Singapore. For the year ended 31 December 2021, these markets recorded a revenue of approximately HK\$32,215,000, representing an increase of approximately HK\$11,711,000 as compared with the year ended 31 December 2020. This geographic market accounted for approximately 1.0% of the Group's total revenue as compared with approximately 0.9% last year. The increase of revenue from the other markets was largely attributable to the increase in sales order volume.

FUTURE PROSPECTS AND STRATEGIES

Notwithstanding any short term challenges the global economy may face such as the emergence of new variants of COVID-19, the Board is confident that the medium and long-term global demand for dental prosthetics is expected to continue due to key irreversible demographic factors and trends. While it may be unpredictable as to how the new variants of COVID-19 may affect our clients' businesses in the short term (e.g. various degree of distortions to our logistics and production operations) and government-imposed restrictions on our production facilities in Mainland China, it is evident that the lasting effects of the pandemic has disproportionately affected our smaller or mid-scaled competitors and has accelerated the adoption of intra-oral scanners by our customers in certain markets, 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.

The unique global distribution network of the Group brings additional opportunities to the Group and the Board is of the view that through further acquisitions, continuing organic growth, additional distribution and joint venture arrangements with upstream suppliers, venturing into new markets (including the setup of the scalable production facilities in Vietnam) and the introduction of new products (such as our own clear aligners, TrioClear and QJ Smile), the Group will go from strength-to-strength in consolidating its status as the leading global dental prosthetic device provider.

The Group has operated over 35 years and has withstood various shocks within the global economy and natural disasters in the past decades and evidently 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.

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2021, the revenue of the Group amounted to approximately HK\$2,955,172,000, representing an increase of approximately 34.9% as compared with approximately HK\$2,190,208,000 for the year ended 31 December 2020. The increase was largely attributable to (i) the continued increase in sales orders volume and number of new clients amid the pandemic since the 1st round of lockdown in various countries in 1st half of 2020; (ii) appreciation of foreign currencies against HK\$ when compared with same period in 2020 (in particular, EUR and AUD although both currencies depreciated against HK\$ in the 2nd half of 2021 compared with the 1st half of 2021 whereas RMB against HK\$ remained strong throughout 2021); and (iii) increase in sales of dental equipment (including intra-oral scanners) and clear aligner products.

Gross Profit and Gross Profit Margin

The gross profit for the year ended 31 December 2021 was approximately HK\$1,550,651,000, which was approximately 42.3% higher than that of last year. The increase of the gross profit margin of approximately 2.7% compared with last year was mainly attributable to (i) the increase in productivity of the production teams and (ii) the appreciation of foreign currencies against HK\$ when compared with 2020 (in particular, EUR and AUD although both currencies depreciated against HK\$ in the 2nd half of 2021 compared with the 1st half of 2021 whereas RMB against HK\$ remained strong throughout 2021) offset by the increase in production costs to deal with distortions in operations arose from various stringent restrictive measures as a result of resurgence of the new variants of COVID-19 in the 2nd half of 2021.

The gross profit margins of Fixed Prosthetic Devices business segment, Removable Prosthetic Devices business segment and Others business segment were approximately 54.4%, 54.6% and 42.3% respectively. The following table sets forth the breakdown of our gross profit and gross margin by product category.

Product category	Year ended 31 December			
	2021		2020	
	Gross profit HK\$'000	Gross margin (%)	Gross profit HK\$'000	Gross margin (%)
Fixed prosthetic devices	1,053,466	54.4	781,207	51.5
Removable prosthetic devices	293,608	54.6	203,670	50.5
Others	203,577	42.3	105,111	38.8
Total	1,550,651		1,089,988	

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 43.0% from approximately HK\$251,410,000 for the year ended 31 December 2020 to approximately HK\$359,466,000 for the year ended 31 December 2021, accounting for approximately 12.2% of the Group's revenue, as compared with approximately 11.5% for last year. The increase in the selling and distribution expenses was in line with the resumption in the ordinary face-to-face marketing activities (such as trade shows) in 2021 and the increase in promotions and marketing activities and sales headcount of our clear aligner business, including TrioClear and QJ Smile.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

The administrative expenses increased by approximately 25.5% to approximately HK\$697,311,000 for the year ended 31 December 2021 from approximately HK\$555,817,000 for the year ended 31 December 2020, accounting for approximately 23.6% of the Group's revenue, as compared with approximately 25.4% for last year. The increase in the administrative expenses was primarily attributable to (i) the increase in research and development expenses for products development (including TrioClear) by approximately HK\$30,072,000 (2021: approximately HK\$36,506,000; 2020: approximately HK\$6,434,000); (ii) the increase in labour costs (included the increase in financial performance linked bonus of approximately HK\$17,470,000 in 2021 compared with 2020 and the increase in number of headcount); (iii) the decrease in government subsidies on labour costs under COVID-19 related employment support schemes; and (iv) costs incurred for setting up a Vietnam production facilities. The decrease in the administrative expenses as a percentage of revenue was mainly due to the strengthened costs control measures and enhancement in the economies of scale as a result of the significant increase in sales.

Impairment of Goodwill

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 as a result of the on-going spreading of the COVID-19 in the North America region for the year ended 31 December 2020. During the year ended 31 December 2021, due to strong recovery of the dental industry, no further impairment loss of goodwill is therefore required to be made.

Other Operating Expenses

During the year ended 31 December 2021, the other operating expenses increased by approximately 3,288.1% from approximately HK\$563,000 for the year ended 31 December 2020 to approximately HK\$19,075,000 for the year ended 31 December 2021, accounting for 0.6% of the Group's revenue, as compared with less than 0.1% for the corresponding period in 2020. Other operating expenses mainly represented exchange losses, net, incurred of HK\$17,303,000 (2020: Nil) as a result of the depreciation of foreign currencies during the 2nd half of 2021.

Finance Costs

During the year ended 31 December 2021, the finance costs decreased by approximately 31.6% from approximately HK\$33,699,000 for the year ended 31 December 2020 to approximately HK\$23,061,000 for the year ended 31 December 2021, accounting for approximately 0.8% of the Group's revenue, as compared with approximately 1.5% for the corresponding period in 2020. The decrease in finance costs were mainly driven by the reduction in bank loans and decrease in interest rate in 2021 compared with 2020.

Income Tax Expense

Income tax expense increased by approximately 526.1% from approximately HK\$16,565,000 for the year ended 31 December 2020 to approximately HK\$103,712,000 for the year ended 31 December 2021. The increase was primarily attributable to (i) the increase in profit before tax of the Group in 2021 and (ii) a recognition of an one-off provision for income tax and charges related to prior years of approximately HK\$19,450,000 (2020:Nil).

Profit for the Year

Profit for the year increased by approximately 234.7% from approximately HK\$107,659,000 for the year ended 31 December 2020 to approximately HK\$360,375,000 for the year ended 31 December 2021. The increase in profit for the year was due to operating profit generated by the Group as a result of the strong sales performance; and no one-off non-cash impairment loss of goodwill for North America region recognised in the year ended 31 December 2021 (2020: HK\$150,132,000)

MANAGEMENT DISCUSSION AND ANALYSIS

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company for the year ended 31 December 2021 amounted to approximately HK\$360,825,000, representing an increase of approximately HK\$253,062,000, or approximately 234.8%, as compared with profit attributable to owners of the Company of approximately HK\$107,763,000 for the corresponding period in 2020.

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 2021, 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 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	
	2021 HK\$'000	2020 HK\$'000
EBITDA and Adjusted EBITDA		
Net profit	360,375	107,659
Tax	103,712	16,565
Finance costs	23,061	33,699
Depreciation of right-of-use assets	47,723	47,658
Depreciation of property, plant and equipment	64,286	58,641
Amortisation of intangible assets	28,393	29,452
Impairment of goodwill	—	150,132
Less:		
Bank interest income	(1,157)	(1,255)
EBITDA	626,393	442,551
Add:		
One-off transaction cost in connection with acquisitions and disposals	2,293	—
One-off cost in connection with restructuring and reorganisation	—	4,354
Adjusted EBITDA	628,686	446,905
Adjusted EBITDA Margin	21.3%	20.4%

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	
	2021 HK\$'000	2020 HK\$'000
Profit from core operations		
Net Profit	360,375	107,659
Add:		
Impairment of goodwill	—	150,132
One-off transaction cost in connection with acquisitions and disposals	2,293	—
One-off cost in connection with restructuring and reorganisation	—	4,354
One-off tax provision related to prior years	19,450	—
Less:		
Tax credit related to impairment of goodwill	—	(37,975)
Profit from core operations	382,118	224,170
Profit from core operations Margin	12.9%	10.2%

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the years ended 31 December 2021 and 31 December 2020 respectively:

	For the year ended 31 December	
	2021 HK\$'000	2020 HK\$'000
Net cash flows from operating activities	525,144	400,177
Net cash flows used in investing activities	(142,653)	(46,964)
Net cash flows used in financing activities	(452,117)	(56,664)

The Group derives its working capital mainly from cash on hand and 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\$633,157,000 as of 31 December 2021, which was mainly denominated in HK\$, RMB, US\$, EUR and AUD.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2021, the net cash flows from operating activities has increased to approximately HK\$525,144,000 (2020: HK\$400,177,000). 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\$473,105,000 as at 31 December 2020 to approximately HK\$528,976,000 as at 31 December 2021. The trade receivable turnover days (the average of the beginning and ending trade receivable balances/revenue \times 365 days) decreased from approximately 75 days for the year ended 31 December 2020 to approximately 62 days for the year ended 31 December 2021. The shorter turnover days was caused by better debt collection control policies implemented.

The amount of trade payables increased from approximately HK\$67,670,000 as at 31 December 2020 to approximately HK\$80,082,000 as at 31 December 2021. The trade payable turnover days (the average of the beginning and ending trade payable balances/cost of sales \times 365 days) decreased from approximately 23 days for the year ended 31 December 2020 to approximately 19 days for the year ended 31 December 2021. The general credit terms granted by suppliers normally ranged from 30–90 days.

The amount of inventory increased from approximately HK\$128,021,000 as at 31 December 2020 to approximately HK\$142,488,000 as at 31 December 2021. The inventory turnover days (the average of the beginning and ending inventory balances/cost of sales \times 365 days) decreased from approximately 40 days for the year ended 31 December 2020 to approximately 35 days for the year ended 31 December 2021 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 2021 of approximately HK\$142,653,000, of which approximately HK\$141,451,000 was used primarily for the expansion of our production facilities and upgrade of our computer-aided/manufacturing production equipment, approximately HK\$4,677,000 was used for acquisition of a business net off with proceeds from disposal of property, plant and equipment of approximately HK\$5,364,000.

Financing Activities

The Group recorded a net cash outflow used in financing activities of approximately HK\$452,117,000 for the year ended 31 December 2021. The outflow was mainly attributable to (i) repayment of bank borrowings of approximately HK\$191,026,000; (ii) payment for dividend of approximately HK\$186,508,000; (iii) repurchase of the Company's ordinary shares of approximately HK\$7,896,000; (iv) payment for lease liabilities of approximately HK\$54,065,000; and (v) payment for interest expenses of approximately HK\$14,427,000.

Capital Expenditure and Research and Development expenses

During the year ended 31 December 2021, the Group's capital expenditure amounted to approximately HK\$141,451,000 which was mainly used for improvement on our production equipment and renovation of factory premises. All of the capital expenditure was financed by internal resources and bank borrowings. The management is committed to invest in research and development activities and keep abreast of the latest development of the technologies in the dental prosthetic market. In 2021, the Group has invested in acquisition of the latest state-of-the-art machineries of approximately HK\$46,061,000 (2020: approximately HK\$41,549,000) and incurred research and development costs of approximately HK\$36,506,000 (2020: approximately HK\$6,434,000). The aggregate amounts collectively represented approximately 3% of the revenue of the Group (2020: 2%).

Save as disclosed in this Annual Report, there were no significant investments held by the Company for the year ended 31 December 2021, 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 2021 amounted to approximately HK\$673,062,000 as compared to approximately HK\$860,743,000 as of 31 December 2020. As of 31 December 2021, the bank borrowings of approximately HK\$673,062,000 were denominated in HK\$. As of 31 December 2021, 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 Annual Report.

Gearing ratio

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital (equity attributable to owners of the Company) plus net debt. Net debt includes interest-bearing bank 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 2021, the gearing ratio of the Group was approximately 18% (2020: 22%), reflecting that the Group's financial position was at a sound level.

Debt securities

As of 31 December 2021, the Group did not have any debt securities.

Contingent liabilities

As of 31 December 2021, the Group did not have any contingent liabilities.

Charge of group assets

During the year ended 31 December 2021, 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 2021 amounted to approximately HK\$4,848,000 as compared to approximately HK\$4,828,000 as of 31 December 2020.

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\$300,881,000) for the acquisition of land, and construction and renovation of a factory in the Dongguan Songshan Lake High-tech Industrial Development Zone.

MANAGEMENT DISCUSSION AND ANALYSIS

As of 31 December 2021, the Group has paid approximately RMB172,589,000 (equivalent to approximately HK\$211,092,000) for the construction and renovation of the factory and approximately RMB18,839,000 (equivalent to approximately HK\$23,042,000) for the acquisition of land, and the remaining commitments was approximately RMB54,572,000 (equivalent to approximately HK\$66,747,000).

Save as disclosed above, the Group had no other significant capital commitments as of 31 December 2021.

DETAILS OF MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 9 July 2021, MDPCH Pty Ltd, a wholly-owned subsidiary of the Company, entered into a share purchase agreement with independent third parties, Panagiotis (Peter) Nouris and Alexander Petratos, to acquire the business of Swift Dental Laboratory ("Swift") at a cash consideration of AUD800,000 (equivalent to approximately HK\$4,677,000) and a contingent consideration of AUD370,000 (equivalent to approximately HK\$2,168,000). Swift is principally engaged in provision of dentures in Australian market. The acquisition was completed on 9 July 2021. The acquisition will provide the Group with an important foundation to build on its existing Australian-made denture work to further expand the Group's product offering and services to its existing clients.

On 24 December 2021, Modern Dental Holding Limited, a wholly-owned subsidiary of the Company, entered into a subscription and shareholders' agreement and a shares purchase agreement in relation to the subscription and acquisition of shares in aggregate representing 70% equity interests of Apex Digital Dental SDN BHD ("Apex Digital"), a leading digital dental laboratory in Malaysia at a cash consideration of MYR2,073,000 (equivalent to approximately HK\$3,872,000) with an earn-out clause that may increase it up to MYR3,073,000 (equivalent to approximately HK\$5,739,000) depending on the achievement of the target performance by Apex Digital. The acquisition is completed in January 2022. The subscription and acquisition will provide the Group with an important foundation to further expand digital offering in the Malaysian market and a sales network to introduce the Group's comprehensive product offering and services to the Malaysian market.

For details of the acquisition of subsidiaries disclosed above, please refer to the announcements of the Company dated 15 July 2021 and 28 December 2021.

Save as disclosed above, the Group had no other material acquisitions and disposals of subsidiaries, associates and joint ventures for the year ended 31 December 2021 and there is no plan for material investments or capital assets as at the date of this Annual Report.

OFF-BALANCE SHEET TRANSACTIONS

As of 31 December 2021, the Group did not enter into any material off-balance sheet transactions.

IMPORTANT EVENTS AFTER THE YEAR

On 24 December 2021, Modern Dental Holding Limited, a wholly-owned subsidiary of the Company, entered into a subscription and shareholders' agreement and a shares purchase agreement in relation to the subscription and acquisition of shares in aggregate representing 70% equity interests of Apex Digital, a leading digital dental laboratory in Malaysia at a cash consideration of MYR2,073,000 (equivalent to approximately HK\$3,872,000) with an earn-out clause that may increase it up to MYR3,073,000 (equivalent to approximately HK\$5,739,000) depending on the achievement of the target performance by Apex Digital. The acquisition is completed in January 2022.

Save as disclosed above, the Group has no important events after the year ended 31 December 2021 and up to the date of this Annual Report.

MANAGEMENT DISCUSSION AND ANALYSIS

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Global Economy and Cross Countries Operations

As a global business, the Group is exposed to the development of the global economy and continued changes in government policies, political, social, legal and regulatory requirements as well as the industries and geographical markets in which it operates. As a result, the Group's financial condition and results of operations may be influenced by the general state of the economy and operating environment of markets in which it operates. Any significant decrease in the level of economic growth in the global or regional or a specific economy could adversely affect the Group's financial condition or results of operations. 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. The efficacy of the vaccines against new virus mutations, the new wave of infection particularly across developing countries with low vaccination rates, the effectiveness of policy support to facilitate the transition back to normalcy and the associated inflationary risks and supply constraints from subdued mobility caused by the pandemic, continue to pose risks and uncertainties ahead. The Group may implement cost cutting measures (including salaries reduction, deferring marketing expenses, etc) to reduce the risks and uncertainties brought by the global COVID-19 pandemic.

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 (2021: ranged between 12% and 20%; 2020: ranged between 13% and 20%); the budgeted sales growth rates (2021: ranged between 0% and 9%; 2020: ranged between 0% and 10%); and budgeted EBITDA margins (2021: ranged between 12% and 32%; 2020: ranged between 8% and 30%), are determined with reference to historical performance of the Group; market research of the prosthetic devices industry and the specific business plans of the Group. Please refer to Note 15 in this Annual Report for details.

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 2021, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest Rate Risk

Our exposure to the interest rate risk relates primarily to our long-term debt obligations with floating interest rates. We manage our interest rate exposure with a focus on reducing our overall cost of debt and exposure to changes in interest rate. Our management continues to monitor the cash flows of our operation and the debt markets, where we would expect to refinance these borrowings with a lower cost of debt when desirable. For the year ended 31 December 2021, the interest rate on floating-rate bank loans were approximately HIBOR+1.60% per annum for term loans. The Group had not entered into any type of interest rate agreements or derivative transactions to hedge against the fluctuations in interest rates.

Foreign Currency Risk

In light of the nature of our business, we are exposed to various foreign currencies, among which, RMB, EUR, AUD and US\$ are mostly used apart from HK\$. To minimise the impact of foreign currency rate volatility, we monitor foreign currency risk 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 related parties, 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 Annual report.

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 6,596 (2020: 5,838) dedicated full-time employees at our production facilities, service centers, points of sales and other sites as of 31 December 2021, mainly including 4,777 (2020: 4,219) production staff members, 669 (2020: 610) general management staff members and 408 (2020: 341) customer service staff members.

Total staff costs of the Group (excluding the Directors' and chief executive's remuneration) for the year ended 31 December 2021 was approximately HK\$1,322,111,000 (2020: HK\$1,005,405,000). 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 YIK LONG,
RONALD**

BOARD OF DIRECTORS

As at 31 December 2021, 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

Dr. CHAN Ronald Yik Long (陳奕朗醫生), aged 35, is the chairman of the Board, an executive Director and a member of the nomination committee of the Company. He is also a 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 and appointed as the chairman of the Board on 31 March 2021.

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 (executive Director and substantial shareholder of the Company) and brother of Ms. Chan Yik Yu (executive Director and chief marketing officer of the Company), nephew of Mr. Chan Kwun Fung (executive Director and substantial shareholder of the Company), and cousin of Mr. Chan Chi Yuen (executive Director).

DIRECTORS AND SENIOR MANAGEMENT



**NGAI CHI HO,
ALWIN**

Mr. NGAI Chi Ho, Alwin (魏志豪先生), aged 44, is the vice-chairman of the Board, 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 and appointed as the vice-chairman of the Board on 31 March 2021.

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 15 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, chief executive officer and substantial shareholder of the Company).

DIRECTORS AND SENIOR MANAGEMENT



**NGAI SHING KIN,
GODFREY**

Mr. NGAI Shing Kin (魏聖堅先生), aged 73, is an executive Director, the chief executive officer and a member of the remuneration committee of the Company. He is also a 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 54 years of experience in the dental prosthesis field. Prior to joining the Group, Mr. Ngai was a student dental technician and a dental technician in Department of Health, the Government of the Hong Kong Special Administrative Region (formerly known as Medical and Health Department, the Government of Hong Kong) from 1967 to 1970 and from 1970 to 1979, respectively. From 1979 to 1981, he was a lecturer at The Hong Kong Polytechnic University (formerly known as The Hong Kong Polytechnic) and was primarily responsible for teaching dental technology. From 1981 to 1998, he was an instructor dental technologist at the Faculty of Dentistry, The University of Hong Kong and was primarily responsible for teaching dental technology. Mr. Ngai is the co-author of "A Colour Atlas of Resin Bond Retained Prosthesis – A practical guide", a book published in 1989.

Mr. Ngai is the father of Mr. Ngai Chi Ho, Alwin (vice-chairman of the Board, executive Director and chief operating officer of the Company).

DIRECTORS AND SENIOR MANAGEMENT



**CHAN YIK YU,
EDITH**

Ms. CHAN Yik Yu (陳奕茹女士), aged 34, 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 (executive Director and substantial shareholder of the Company), sister of Dr. Chan Ronald Yik Long (chairman of the Board and executive Director), niece of Mr. Chan Kwun Fung (executive Director and substantial shareholder of the Company) and cousin of Mr. Chan Chi Yuen (executive Director).

DIRECTORS AND SENIOR MANAGEMENT



**CHAN KWUN FUNG,
MICHAEL**

Mr. CHAN Kwun Fung (陳冠峰先生), aged 67, is an executive Director. He is also a 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 since 19 June 2015. He was the chairman of the Board from 19 June 2015 to 31 March 2021.

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 (executive Director and substantial shareholder of the Company), father of Mr. Chan Chi Yuen (executive Director), and uncle of Dr. Chan Ronald Yik Long (chairman of the Board and executive Director) and Ms. Chan Yik Yu (executive Director and chief marketing officer of the Company).

DIRECTORS AND SENIOR MANAGEMENT



**CHAN KWUN PAN,
BEN**

Mr. CHAN Kwun Pan (陳冠斌先生), aged 64, is the founder of the Group and an executive Director. He is also a 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 since 19 June 2015. He was the vice-chairman of the Board from 19 June 2015 to 31 March 2021.

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 (executive Director and substantial shareholder of the Company), father of Dr. Chan Ronald Yik Long (chairman of the Board and executive Director) and Ms. Chan Yik Yu (executive Director and chief marketing officer of the Company) and uncle of Mr. Chan Chi Yuen (executive Director).

DIRECTORS AND SENIOR MANAGEMENT



**CHAN CHI YUEN,
ALEX**

Mr. CHAN Chi Yuen (陳志遠先生), aged 37, is an executive Director. He is also a 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 (executive Director and substantial shareholder of the Company), nephew of Mr. Chan Kwun Pan (executive Director and substantial shareholder of the Company), and cousin of Dr. Chan Ronald Yik Long (chairman of the Board and executive Director) and Ms. Chan Yik Yu (executive Director and chief marketing officer of the Company).

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Dr. CHEUNG Wai Bun Charles, J.P. (張惠彬博士、太平紳士), aged 85, 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 was formerly an independent non-executive director of Fullsun International Holdings Group Co., Limited (stock code: 627), the shares of which are listed on the Main Board of the Stock Exchange, during the period from 14 December 2017 to 10 December 2020. He was formerly an independent non-executive director of Yin He Holdings Limited (in liquidation) (stock code: 8260), the shares of which are listed on the GEM of the Stock Exchange, during the period from 1 September 2014 to 23 August 2021.

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 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 70, 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 as the adviser of the Quality Tourism Services Association. Dr. Y.K. Chan is also the honorary chairman of the Hong Kong Institute of Marketing and Legacy Academy.

DIRECTORS AND SENIOR MANAGEMENT

Dr. CHEUNG Wai Man William (張偉民博士), aged 67, is an independent non-executive Director, chairman of the remuneration and a member of the nomination 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 Emeritus Member 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 is now the Chair of the Education Committee of the FDI World Dental Federation since August 2018.

Dr. Yau Ka Po (邱家寶醫生), aged 41, is an independent non-executive Director and a member of each of the audit committee and the remuneration committee of the Company. He has been an independent non-executive Director since 27 May 2021.

Dr. Yau is an orthodontist and a director of Kowloon Orthodontic Centre Limited. Dr. Yau has over 10 years of experience in the field of orthodontics. He has been appointed as honorary clinical assistant professor in the Department of Orthodontics, Faculty of Dentistry of The University of Hong Kong since 2017.

Dr. Yau obtained a bachelor of dental surgery from The University of Hong Kong in December 2004, a master of orthodontics from The University of Hong Kong in November 2010, a diploma of membership in orthodontics of the Royal College of Surgeons of Edinburgh in February 2011 and an advanced diploma in orthodontics from The University of Hong Kong in September 2012. Dr. Yau has been a fellow of the College of Dental Surgeons of Hong Kong in the Specialty of Orthodontics and a fellow of the Hong Kong Academy of Medicine (Dental Surgery) since 2014.

Dr. Yau has been a member of The Hong Kong Dental Association since 2004, member of the Hong Kong Society of Orthodontists since 2010, and he was a member of the European Orthodontic Society from 2010 to 2014. Dr. Yau is now a registered specialist in orthodontics in Hong Kong, under the specialist register, with The Dental Council of Hong Kong since 2014.

SENIOR MANAGEMENT

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

Mr. August Wilhelm Torsten Schwafert, aged 57, is the chief executive officer of Modern Dental Europe B.V., which is a Company's subsidiary.

Mr. Schwafert is also a 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.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Schwafert has over 29 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 47, is the president of Labocast SAS, which is a Company's subsidiary.

Mr. G. Scialom is also a 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 21 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 49, is the chief executive officer of Modern Dental Pacific Pty Ltd, which is a Company's subsidiary.

Mr. J. Squirrell is also a director of 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.

Mr. J. Squirrell has over 14 years of experience as an 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.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Laura Kelly, aged 59, 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 31 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 42, has been the chief financial officer, authorised representative and the company secretary of the Company since 26 October 2016. Mr. Kwan, has over 15 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 restructuring in July 2020; A & S Group (Holdings) Limited (stock Code: 1737) and Vobile Group Limited (stock code: 3738), the shares of which are listed on the Main Board of the Stock Exchange. 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. He was also an independent non-executive director of Lai Group Holding Company Limited (stock code: 8455) from 24 March 2017 to 6 August 2021, the shares of which are listed on the GEM of the Stock Exchange.

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 2021.

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 2021 is set out in Note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss on page 68 of this Annual Report.

DIVIDENDS

In celebration of the Group's 35th anniversary and in special recognition of Chan Kwun Fung's (former chairman of the Company) and Chan Kwun Pan's (former vice-chairman of the Company) extraordinary contribution to the Group for their decades of commitment, dedication and professionalism, the Board declared a special dividend of HK5.0 cents (six months ended 30 June 2020: Nil) per ordinary share, together with an interim dividend of HK7.5 cents (six months ended 30 June 2020: Nil) per ordinary share for the six months ended 30 June 2021.

The Board recommended a final dividend of HK4.4 cents (2020: HK7.0 cents) per ordinary share, out of the share premium account, for the year ended 31 December 2021 (the "**Proposed Final Dividend**"). Subject to the approval by the Shareholders in the forthcoming annual general meeting of the Company (the "**AGM**") to be held on 24 May 2022, the Proposed Final Dividend will be paid on 22 June 2022 to Shareholders whose names appear on the Register of Members of the Company as at the close of business on 1 June 2022.

CLOSURE OF REGISTER OF MEMBERS

To determine the entitlement to attend and vote at the AGM to be held on 24 May 2022, the Register of Members of the Company will be closed from Thursday, 19 May 2022 to Tuesday, 24 May 2022, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify to attend and vote at the forthcoming AGM, unregistered holders of shares of the Company shall ensure that, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 18 May 2022, 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 Monday, 30 May 2022 to Wednesday, 1 June 2022, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the Proposed Final Dividend, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 27 May 2022.

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 154 of this Annual Report.

SUBSIDIARIES

Particulars of the Company's principal 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 2021, the purchase amounts placed with the Group's five largest suppliers accounted for 32.5% (2020: 33.8%) of the Group's total purchases and the purchase amount placed with our single largest supplier accounted for 11.9% (2020: 12.2%) of the Group's total purchases.

The relationship between the Group and our customers has been stable. For the year ended 31 December 2021, the revenue amounts from the Group's five largest customers accounted for 1.8% (2020: 1.7%) of the Group's total revenue and the revenue amount from our single largest customer accounted for 0.4% (2020: 0.4%) 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 2021 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 2021 are set out in Note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2021, the Company had distributable reserves of approximately HK\$494,007,000 (2020: approximately HK\$416,626,000) 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\$489,094,000 (2020: approximately HK\$566,614,000).

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2021 are set out in the section headed "Management Discussion and Analysis" in this Annual Report and Note 25 to the consolidated financial statements.

DIRECTORS' REPORT

DIRECTORS

The Directors who held office during the year ended 31 December 2021 and up to the date of this Annual Report are:

Executive Directors:

Dr. Chan Ronald Yik Long (*appointed as Chairman on 31 March 2021*)
Mr. Ngai Chi Ho Alwin (*appointed as Vice-Chairman on 31 March 2021 and Chief Operating Officer*)
Mr. Ngai Shing Kin (*Chief Executive Officer*)
Ms. Chan Yik Yu (*Chief Marketing Officer*)
Mr. Chan Kwun Fung (*retired as Chairman on 31 March 2021*)
Mr. Chan Kwun Pan (*retired as Vice-Chairman on 31 March 2021*)
Mr. Chan Chi Yuen

Independent Non-executive Directors:

Dr. Cheung Wai Bun Charles J.P.
Dr. Chan Yue Kwong Michael
Dr. Cheung Wai Man William
Dr. Yau Ka Po (*appointed on 27 May 2021*)
Dr. Wong Ho Ching (*retired on 27 May 2021*)

Pursuant to Article 84(1) 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. Ngai Chi Ho Alwin, Mr. Ngai Shing Kin, Mr. Chan Kwun Pun and Dr. Chan Yue Kwong Michael will retire by rotation as Directors at the AGM and, being eligible, will offer themselves for re-election.

Pursuant to Article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting. Accordingly, Dr. Yau Ka Po will retire from office as Director at the AGM and, being eligible, offer himself for re-election.

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

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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS' REPORT

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

During the year ended 31 December 2021 and up to the date of this Annual Report, changes in the information of the Directors are as follows:

1. Mr. Chan Kwun Fung retired as the chairman of the Board and Dr. Chan Ronald Yik Long succeed Mr. Chan Kwun Fung as the chairman of the Board effective from 31 March 2021.
2. Mr. Chan Kwun Pan retired as the vice chairman of the Board and Mr. Ngai Chi Ho Alwin succeed Mr. Chan Kwun Pan as the vice chairman of the Board effective from 31 March 2021.
3. Dr. Wong Ho Ching retired as an independent non-executive Director and ceased to be the chairman of the Remuneration Committee and a member of the audit committee of the Company effective from 27 May 2021.
4. Dr. Yau Ka Po was appointed as an independent non-executive Director and a member of each of the Remuneration Committee and the Audit Committee effective from 27 May 2021.
5. Dr. Cheung Wai Man William was appointed as the chairman of the Remuneration Committee effective from 27 May 2021.
6. Dr. Cheung Wai Bun Charles J.P. has been resigned as an independent non-executive director of Yin He Holdings Limited (stock code: 8260), which is listed on the GEM of the Stock Exchange, on 23 August 2021.

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 further term of three years commencing from 15 December 2021.

Dr. Yau Ka Po has signed a letter of appointment with the Company for an initial term of three years commencing from 27 May 2021. Each of the other independent non-executive Directors has signed a letter of appointment with the Company for a further term of three years commencing from 15 December 2021.

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 2021.

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 2021.

DIRECTORS' REPORT

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

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

PERMITTED INDEMNITY

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

Such permitted indemnity provision has been in force for the year ended 31 December 2021. 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 15 December 2015 (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 2021, 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 2021, 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' REPORT

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 2021, 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 <i>(Note 1)</i>	474,375,263	49.57%
	Other	3,450,000 <i>(Note 1)</i>		
	Interest of controlled corporation	470,459,263 <i>(Note 1)</i>		
Mr. Chan Kwun Pan	Beneficial owner	3,450,000 <i>(Note 1)</i>	474,375,263	49.57%
	Other	466,000 <i>(Note 1)</i>		
	Interest of controlled corporation	470,459,263 <i>(Note 1)</i>		
Mr. Ngai Shing Kin	Beneficial owner	4,191,345	98,040,998	10.25%
	Interest of controlled corporation	93,849,653 <i>(Note 2)</i>		
Mr. Ngai Chi Ho Alwin	Beneficial owner	277,934	63,122,304	6.60%
	Interest of controlled corporation	62,844,370 <i>(Note 3)</i>		
Dr. Yau Ka Po	Beneficial owner	200,000	200,000	0.02%

Notes:

- Mr. Chan Kwun Fung and Mr. Chan Kwun Pan signed a confirmation letter on 10 August 2015 confirming their acting-in-concert arrangement whereby they operate the Group collectively, through discussions, and reached consensus between themselves before making any commercial decisions for the Group on a unanimous basis. As such and by virtue of the SFO, (i) each of Mr. Chan Kwun Fung and Mr. Chan Kwun Pan is deemed to be interested in the 470,459,263 Shares owned by Trieria Holdings Limited, (ii) Mr. Chan Kwun Fung is deemed to be interested in the 3,450,000 Shares owned by Mr. Chan Kwun Pan, and (iii) Mr. Chan Kwun Pan is deemed to be interested in the 466,000 Shares owned by Mr. Chan Kwun Fung.
- These Shares were held by Prosperity Worldwide Investment Holdings Limited, which is wholly owned by Mr. Ngai Shing Kin.
- These Shares were held by NCHA Holdings Limited, which is wholly owned by Mr. Ngai Chi Ho Alwin.

Save as disclosed above, as at 31 December 2021, none of the Directors and chief executives of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' Interests and Short Positions in Shares and underlying Shares and Debentures of the Company or any of its Associated Corporations" in this Annual Report, at no time during the year ended 31 December 2021 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 2021, 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 <i>(Note 1)</i>	Beneficial owner	470,459,263	49.16%
Prosperity Worldwide Investment Holdings Limited <i>(Note 2)</i>	Beneficial owner	93,849,653	9.81%
NCHA Holdings Limited <i>(Note 3)</i>	Beneficial owner	62,844,370	6.57%

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 2021, no person, other than the Directors whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations" above, had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' REPORT

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

During the year ended 31 December 2021, the Company repurchased 3,286,000 of its Shares on the Stock Exchange at an aggregate consideration of approximately HK\$7,896,000 (before expenses), details of the repurchase are summarised as follows:

Month	Number of Shares repurchased	Price per Share		Aggregate consideration paid (before expenses) HK\$'000
		Highest HK\$	Lowest HK\$	
January 2021	650,000	1.43	1.34	895
March 2021	241,000	1.83	1.76	432
April 2021	2,166,000	3.91	2.34	5,662
May 2021	229,000	3.99	3.90	907
	3,286,000			7,896

All of 3,286,000 repurchased Shares of approximately HK\$7,896,000 (before expenses) were cancelled during the year ended 31 December 2021.

The repurchase of the Shares were effected by the directors, pursuant to the mandate from Shareholders received at the annual general meetings on 28 May 2020 and 27 May 2021, 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 2021, 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 2021, 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, Trieria Holdings Limited and the Company entered into a deed of non-competition (the "**Deed of Non-competition**") in favour of the Company dated 25 November 2015, pursuant to which the Controlling Shareholders have undertaken to the Company (for itself and for the benefit of its subsidiaries) that it or he would not, and would procure that its or his associates (other than any member of the Group) would not, directly or indirectly, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, principal, agent, director, employee or otherwise) any business which is or may be in competition with the current business of the Group during the restricted period.

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

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

CONTINUING CONNECTED TRANSACTIONS/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 2021. 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.

Master purchase agreements

- (i) Modern Dental Laboratory Company Limited ("**MDLCL**"), a wholly-owned subsidiary of the Company, 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.

MDLCL 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.

DIRECTORS' REPORT

- (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.

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.

- (vii) PDSHK entered into a master purchase agreement (the "**Master Purchase Agreement VII**") with Precious Orthodontics and Kowloon Orthodontic Centre Limited ("**POKO**"). POKO, companies incorporated in Hong Kong, are held 100% by Dr. Yau Ka Po. Dr. Yau Ka Po is an independent non-executive Director of the Company.

Pursuant to the Master Purchase Agreement VII signed on 27 May 2021, POKO shall purchase dental prosthetic devices from PDSHK for a term commencing from 27 May 2021 to 31 December 2023, the annual caps for each of the years ended 31 December are HK\$500,000.

- (viii) MDLCL entered into a master purchase agreement (the "**Master Purchase Agreement VIII**") with POKO.

Pursuant to the Master Purchase Agreement VIII signed on 27 May 2021, POKO shall purchase dental prosthetic devices from MDLCL for a term commencing from 27 May 2021 to 31 December 2023, the annual caps for each of the years ended 31 December are HK\$500,000.

The following transactions of the Group constituted connected transactions (the "**Connected Transactions**") for the Group for the year ended 31 December 2021. 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.

DIRECTORS' REPORT

Tenancy agreements

- (i) For the purpose of operating the Company's business in Hong Kong, on 31 December 2020, MDLCL entered into a tenancy agreement (the "**Tenancy Agreement I**") with Most Wealth International Limited, which is held as to 37.5%, 37.5% and 25% by Mr. Chan Kwun Fung (executive director and controlling shareholder of the Company), Mr. Chan Kwun Pan (executive director and controlling shareholder of the Company) and Mr. Ngai Shing Kin (executive director, chief executive director and substantial shareholder 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 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, Yangzhijin Dental Laboratory (Shenzhen) Company Limited ("**YZJSZ**"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "**Tenancy Agreement II**") with Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and an associate ("**Landlord C**") of Mr. Ngai Shing Kin. 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.
- (iii) For the purposes of residential use, on 31 December 2020, Modern Dental Laboratory (Shenzhen) Company Limited ("**MDLSZ**"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement (the "**Tenancy Agreement III**") with Mr. Chan Kwun Fung, Mr. Chan Kwun Pan and Landlord C. Pursuant to the Tenancy Agreement 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.
- (iv) For the purposes of residential use, on 31 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.
- (v) For the purposes of residential use, on 31 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.
- (vi) For the purposes of residential use, on 31 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.
- (vii) For the purposes of commercial use, on 31 December 2020, MDLCL entered into a tenancy agreement (the "**Tenancy Agreement VII**") with Mr. Chan Kwun Fung and Mr. Chan Kwun Pan. Pursuant to the Tenancy Agreement 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.

DIRECTORS' REPORT

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 announcements 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 2021 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 (g), (h), (i), (j) and (k) 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 2021.

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 YEAR

On 24 December 2021, Modern Dental Holding Limited, a wholly owned subsidiary of the Company, entered into a subscription and shareholders' agreement and a shares purchase agreement in relation to the subscription and acquisition of shares in aggregate representing 70% equity interests of Apex Digital Dental SDN BHD ("**Apex Digital**"), a leading digital dental laboratory in Malaysia at a cash consideration of MYR2,073,000 with an earn-out clause that may increase it up to MYR3,073,000 depending on the achievement of the target performance by Apex Digital. The subscription and acquisition are completed in January 2022. The subscription and acquisition will provide the Group with an important foundation to further expand digital offering in the Malaysian market and a sales network to introduce the Group's comprehensive product offering and services to the Malaysian market.

Save as disclosed above, the Group has no important events after the year ended 31 December 2021 and up to the date of this Annual Report.

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 2021.

DEBENTURE ISSUED

The Group has not issued any debenture during the year ended 31 December 2021.

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 2021 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 on the websites of the Company and the Stock Exchange no later than five months after the financial year ended 31 December 2021.

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.

DIRECTORS' REPORT

SPONSORSHIP AND DONATIONS

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

Charitable and other donations made by the Group during the year ended 31 December 2021 amounted to approximately HK\$1,127,000.

By order of the Board

Dr. Chan Ronald Yik Long

Chairman

Hong Kong,
29 March 2022

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 2021, (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 during the Reporting Year and up to the date of this Annual Report were as follows:

Name of Director	Membership of Board Committee(s)
<i>Executive Directors:</i>	
Dr. Chan Ronald Yik Long (<i>appointed as Chairman on 31 March 2021</i>)	Member of Nomination Committee
Mr. Ngai Chi Ho Alwin (<i>appointed as Vice-Chairman on 31 March 2021 and Chief Operating Officer</i>)	Member of Nomination Committee
Mr. Ngai Shing Kin (<i>Chief Executive Officer</i>)	Member of Remuneration Committee
Ms. Chan Yik Yu (<i>Chief Marketing Officer</i>)	Member of Remuneration Committee
Mr. Chan Kwun Fung (<i>retired as Chairman on 31 March 2021</i>)	—
Mr. Chan Kwun Pan (<i>retired as Vice-Chairman on 31 March 2021</i>)	—
Mr. Chan Chi Yuen	—

CORPORATE GOVERNANCE REPORT

Name of Director	Membership of Board Committee(s)
<i>Independent Non-executive Directors:</i> Dr. Cheung Wai Bun Charles J.P.	Chairman of Audit Committee Member of Remuneration Committee Member of Nomination Committee
Dr. Chan Yue Kwong Michael	Chairman of Nomination Committee Member of Audit Committee
Dr. Cheung Wai Man William	Chairman of Remuneration Committee Member of Nomination Committee
Dr. Yau Ka Po (<i>appointed on 27 May 2021</i>)	Member of Remuneration Committee Member of Audit Committee
Dr. Wong Ho Ching (<i>retired on 27 May 2021</i>)	Chairman of Remuneration Committee Member of Audit 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 Triaera 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

During the Reporting Year, Mr. Ngai Shing Kin is the Chief Executive Officer of the Company (the "CEO"). Mr. Chan Kwun Fung had been the Chairman until 30 March 2021 and Dr. Chan Ronald Yik Long was appointed as the Chairman with effect from 31 March 2021 following the retirement of Mr. Chan Kwun Fung as Chairman. 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.

CORPORATE GOVERNANCE REPORT

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

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

Continuous Professional Development of Directors

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

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

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

CORPORATE GOVERNANCE REPORT

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

Directors	Types of Training ^{Note}
<i>Executive Directors</i>	
Chan Ronald Yik Long	A and B
Ngai Chi Ho Alwin	A and B
Ngai Shing Kin	B
Chan Yik Yu	B
Chan Kwun Fung	B
Chan Kwun Pan	B
Chan Chi Yuen	B
<i>Independent Non-executive Directors</i>	
Cheung Wai Bun Charles	A and B
Chan Yue Kwong Michael	A and B
Cheung Wai Man William	A and B
Yau Ka Po	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. Yau Ka Po. 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.

CORPORATE GOVERNANCE REPORT

The Audit Committee held three meetings to review, in respect of the year ended 31 December 2021 and performed the following work:

i) Financial Reporting

- reviewed the audited consolidated financial statements for the year ended 31 December 2020 in conjunction with the external auditors of the Company and the unaudited financial statements for the six months ended 30 June 2021;
- reviewed the accounting principles and practices adopted by the Group;
- reviewed the significant issues on operational and compliance controls;
- reviewed the auditing and financial reporting matters, including the key audit matters of the consolidated financial statements for the year ended 31 December 2020 which are set out in the annual report of the Company for the year ended 31 December 2020;
- reviewed the audit planning for the year ended 31 December 2021 in conjunction with the external auditor;

ii) External Auditors

- reviewed the remuneration, terms of engagement and the independence of the external auditors of the Company;
- reviewed the engagement of non-audit services and relevant scope of works;
- reviewed with external auditors the continuing connected transactions of the Company;
- reviewed the re-appointment of external auditors of the Company and was satisfied with their work, their independence, and their objectivity, and therefore recommended the re-appointment of Ernst & Young (which had indicated their willingness to continue in office) as the Group's external auditors for Shareholders' approval at the annual general meeting held on 27 May 2021;

iii) Internal Audit

- reviewed the internal audit plan in conjunction with the independent professional adviser;
- reviewed the effectiveness of the internal audit function performed by independent professional adviser;
- considered the major internal audit issues for the year ended 31 December 2021.

CORPORATE GOVERNANCE REPORT

iv) Risk Management and Internal Controls

- reviewed the Internal Control Review Report;
- reviewed the effectiveness of risk management and internal control systems; and
- reviewed the arrangements for employees to raise concerns about possible improprieties.

Each member of the Audit Committee has unrestricted access to the auditors and all senior management of the Group. During the year ended 31 December 2021, 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. Cheung Wai Man William, Dr. Cheung Wai Bun Charles J.P. and Dr. Yau Ka Po, as Independent Non-executive Directors, Mr. Ngai Shing Kin and Ms. Chan Yik Yu, as Executive Directors. Dr. Cheung Wai Man William 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 twice to determine the remuneration packages of Executive Directors and senior management, and to review and make recommendation to the Board on the remuneration policy and structure of the Company, and other related matters.

The remuneration by band of members of the senior management (excluding Directors) of the Group for the year ended 31 December 2021 is set out below:

Remuneration	Number of person
HK\$2,500,001 to HK\$3,000,000	3
HK\$6,500,001 to HK\$7,000,000	1
HK\$14,500,001 to HK\$15,000,000	1

Details of the fees and other emoluments paid or payable to the Directors and the details of the five highest paid employees for the year ended 31 December 2021 are set out in details in Notes 9 and 10 to the audited consolidated financial statements contained in this Annual Report, respectively.

CORPORATE GOVERNANCE REPORT

Nomination Committee

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

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

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 twice 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.

CORPORATE GOVERNANCE REPORT

Director Nomination Policy

1. The Board has adopted the Director Nomination Policy setting out (i) the criteria in evaluating and selecting candidates for directorships and (ii) the nomination process.
2. In evaluating and selecting any candidate for directorship, the following criteria should be considered:
 - Character and integrity.
 - Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy.
 - Willingness to devote adequate time to discharge duties as a director, other directorships and significant commitments.
 - Independency.
 - Any measurable objectives adopted for achieving diversity on the Board.
 - Such other perspectives that are appropriate to the Company's business, succession plan, etc.
3. In identifying and selecting suitable candidates for directorships, the Nomination Committee will evaluate the candidates based on the prescribed criteria, rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable) and recommend to the Board to appoint the appropriate candidate for directorship, as applicable.
4. For re-election of retiring director, the Nomination Committee will review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board, determine whether the retiring director continues to meet the prescribed criteria and make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

Corporate Governance 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 2021 is set out in the table below:

Name of Director	Attendance/Number of Meetings				Annual General Meeting
	Board	Audit Committee	Remuneration Committee	Nomination Committee	
Chan Ronald Yik Long	5/5	N/A	N/A	2/2	1/1
Ngai Chi Ho Alwin	5/5	N/A	N/A	2/2	1/1
Ngai Shing Kin	5/5	N/A	2/2	N/A	1/1
Chan Yik Yu	5/5	N/A	2/2	N/A	1/1
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
Chan Chi Yuen	5/5	N/A	N/A	N/A	1/1
Cheung Wai Bun Charles J.P.	5/5	3/3	2/2	2/2	1/1
Chan Yue Kwong Michael	5/5	3/3	N/A	2/2	1/1
Cheung Wai Man William	5/5	N/A	2/2	2/2	1/1
Yau Ka Po (<i>appointed on 27 May 2021</i>)	4/4	2/2	N/A	N/A	1/1
Wong Ho Ching (<i>resigned on 27 May 2021</i>)	1/1	1/1	1/1	N/A	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 2021.

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.

CORPORATE GOVERNANCE REPORT

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 unauthorised 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 2021.

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 2021. 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 unauthorised access and use of inside information are strictly prohibited. The Group has implemented the Policy on Handling of Confidential and Price-sensitive Inside Information.

CORPORATE GOVERNANCE REPORT

The policy also adopts additional precautions which should be taken by employees who are in possession of inside information, including identification of project by code name and communication of information for stated purpose and on a need-to-know basis only. Whilst all employees are absolutely prohibited at all times from dealing in the securities of the Company when they are in possession of unpublished inside information, certain members of senior management are subject to specific additional compliance requirements as are communicated to them individually from time to time (including but not limited to obtaining written pre-clearance from designated members of management prior to any dealing in any such securities is allowed).

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2021.

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 63 to 67 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 2021 is set out below:

Service Category	Fees Paid/ Payable HK\$
Audit Services	7,592,000
Non-audit Services (including tax compliance and other tax services)	1,162,000

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.

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

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

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

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

- Following completion of the Global Offering, we may distribute dividends by way of cash or by other means that our Directors consider appropriate. A decision to distribute any interim dividend or recommend any final dividend would require the approval of our Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. Our Board will review our Company's dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:
 - our financial results;
 - Shareholders' interests;
 - general business conditions, strategies and future expansion needs;
 - the Group's capital requirements;
 - the payment by its subsidiaries of cash dividends to the Company;
 - possible effects on liquidity and financial position of the Group;
 - other factors the Board may deem relevant.
- Our Directors may declare dividends after taking into account, among other things, our results of operations, financial condition and position, the amount of distributable profits, our Memorandum and Articles of Association, the Companies Law, applicable laws and regulations and other factors that our Directors deem relevant. Prospective investors should note that historical dividend distributions are not indicative of our future dividend distribution policy.

COMPANY SECRETARY

Mr. Kwan Ngai Kit is the chief financial officer and the company secretary of the Company. He has complied with 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 2021.

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 68 to 153, which comprise the consolidated statement of financial position as at 31 December 2021 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 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

INDEPENDENT AUDITOR'S REPORT

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
<i>Goodwill and intangible assets impairment review</i>	
<p>As at 31 December 2021, the Group recorded goodwill and intangible assets of approximately HK\$1,185.7 million and approximately HK\$255.2 million, respectively, as a result of previous acquisitions. Under IFRSs, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Company performs its annual impairment test on each cash-generating unit to assess whether the goodwill might be impaired as at 31 December. In addition, each year, the Company assesses whether a change in useful life is applicable and/or whether there are any indications of impairment for intangible assets. The test and assessment are largely based on management's expectations and estimates of future results of the (group of) cash-generating units which include the entities acquired in the past. The impairment test is based on the recoverable value of the relevant cash-generating units. The key assumptions and results of the test performed are disclosed in note 15 to the consolidated financial statements.</p> <p>The accounting policies, significant accounting judgements and estimates and disclosures for goodwill and intangible assets are included in notes 3, 4, 15 and 16 to the consolidated financial statements.</p>	<p>We examined the Group's forecasted cash flows which underpin management's impairment review. We tested the basis of preparing those forecasts taking into account the historical data supporting underlying assumptions. Future cash flow assumptions were examined through comparison of current business performance, seeking corroborative evidences and enquiry with management in respect of key growth and business assumptions. The key assumptions such as the discount rate and terminal growth rate were tested with appropriate inputs from our internal valuation experts. We also tested the mathematical integrity of management's model. We considered the adequacy of the Group's disclosure about the key assumptions involved in arriving at the recoverable amount.</p>

INDEPENDENT AUDITOR'S REPORT

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of trade receivables</i>	
<p>As at 31 December 2021, the Group had trade receivables of approximately HK\$563.9 million before allowance for doubtful debts of approximately HK\$34.9 million.</p> <p>Management used a provision matrix to calculate expected credit losses for trade receivables. The matrix is initially based on the Group's historical default rates, and specific factors that management considered in the estimation of the rates including the type of customers, ageing of the balances and recent historical payment patterns. Management then calibrated the matrix to adjust the historical credit loss experience with forward-looking information, such as forecasted economic conditions. We focused on this area because it requires a high level of management's judgement and due to the materiality of the amounts involved.</p> <p>The significant accounting judgements and estimates and disclosures for trade receivables are included in notes 4 and 20 to the consolidated financial statements.</p>	<p>We tested the controls over the Group's collection procedures and the Group's estimation of expected credit losses.</p> <p>We evaluated the appropriateness of the allowance of doubtful debts recognised taking into account the historical cash collection trend, subsequent settlements, ageing analysis of the trade receivables and evaluated whether the historical loss rates are appropriately adjusted based on current local economic environment and forward-looking information, and considered the adequacy of the Group's disclosure about the degree of estimation involved in arriving at the allowance amount.</p>

Other information included in the Annual Report

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

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

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

INDEPENDENT AUDITOR'S REPORT

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

As part of an audit in accordance with HKSA's, 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.

INDEPENDENT AUDITOR'S REPORT

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

29 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
REVENUE	6	2,955,172	2,190,208
Cost of sales		(1,404,521)	(1,100,220)
Gross profit		1,550,651	1,089,988
Other income and gains	6	11,807	27,394
Selling and distribution expenses		(359,466)	(251,410)
Administrative expenses		(697,311)	(555,817)
Impairment of goodwill		—	(150,132)
Other operating expenses		(19,075)	(563)
Finance costs	8	(23,061)	(33,699)
Share of profit/(loss) of an associate		542	(1,537)
PROFIT BEFORE TAX	7	464,087	124,224
Income tax expense	11	(103,712)	(16,565)
PROFIT FOR THE YEAR		360,375	107,659
ATTRIBUTABLE TO:			
Owners of the Company		360,825	107,763
Non-controlling interests		(450)	(104)
		360,375	107,659
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	13	HK37.7 cents	HK11.2 cents
Diluted	13	HK37.7 cents	HK11.2 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	2021 HK\$'000	2020 HK\$'000
PROFIT FOR THE YEAR	360,375	107,659
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	(65,633)	150,184
Other comprehensive income/(loss) for the year, net of tax	(65,633)	150,184
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	294,742	257,843
ATTRIBUTABLE TO:		
Owners of the Company	295,192	257,947
Non-controlling interests	(450)	(104)
	294,742	257,843

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	586,980	518,915
Right-of-use assets	17(a)	160,107	162,867
Goodwill	15	1,185,682	1,240,088
Intangible assets	16	255,178	287,670
Investment in an associate	18	3,230	761
Deferred tax assets	26	49,633	49,294
Long term prepayments and deposits	21	21,170	14,756
Total non-current assets		2,261,980	2,274,351
CURRENT ASSETS			
Inventories	19	142,488	128,021
Trade receivables	20	528,976	473,105
Prepayments, deposits and other receivables	21	74,869	71,783
Due from an associate	18	—	4,159
Current tax assets		11,061	11,014
Pledged deposits	22	4,848	4,828
Cash and cash equivalents	22	633,157	697,827
Total current assets		1,395,399	1,390,737
CURRENT LIABILITIES			
Trade payables	23	80,082	67,670
Other payables and accruals	24	233,055	230,627
Lease liabilities	17(b)	47,211	41,395
Interest-bearing bank borrowings	25	173,402	187,680
Tax payable		134,535	73,881
Total current liabilities		668,285	601,253
NET CURRENT ASSETS		727,114	789,484
TOTAL ASSETS LESS CURRENT LIABILITIES		2,989,094	3,063,835

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		2,989,094	3,063,835
NON-CURRENT LIABILITIES			
Lease liabilities	17(b)	112,812	123,005
Interest-bearing bank borrowings	25	499,660	673,063
Deferred tax liabilities	26	11,933	11,250
Other non-current liabilities	24	6,029	—
Total non-current liabilities		630,434	807,318
Net assets		2,358,660	2,256,517
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	74,163	74,592
Treasury shares	27	(39)	(3,106)
Reserves	29	2,274,325	2,176,175
		2,348,449	2,247,661
Non-controlling interests		10,211	8,856
Total equity		2,358,660	2,256,517

NGAI Shing Kin
Director

CHAN Ronald Yik Long
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Attributable to owners of the Company									Non-controlling interests HK\$'000	Total equity HK\$'000
	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			
	At 1 January 2021	74,592	566,614	(3,106)	18,912	556,017	(86,136)	1,120,768	2,247,661		
Profit for the year	—	—	—	—	—	—	360,825	360,825	(450)	360,375	
Other comprehensive loss for the year:											
Exchange differences on translation of foreign operations	—	—	—	—	—	(65,633)	—	(65,633)	—	(65,633)	
Total comprehensive income for the year	—	—	—	—	—	(65,633)	360,825	295,192	(450)	294,742	
Transfer from retained profits	—	—	—	4,134	—	—	(4,134)	—	—	—	
2020 final dividend	—	(66,986)	—	—	—	—	—	(66,986)	—	(66,986)	
2021 interim dividend	—	—	—	—	—	—	(71,713)	(71,713)	—	(71,713)	
2021 special dividend	—	—	—	—	—	—	(47,809)	(47,809)	—	(47,809)	
Shares repurchased (note 27(b))	—	—	(7,896)	—	—	—	—	(7,896)	—	(7,896)	
Shares cancelled (note 27(b))	(429)	(10,534)	10,963	—	429	—	(429)	—	—	—	
Capital contribution by non-controlling shareholders	—	—	—	—	—	—	—	—	1,805	1,805	
At 31 December 2021	74,163	489,094 ^a	(39)	23,046 ^a	556,446 ^a	(151,769) ^a	1,357,508 ^a	2,348,449	10,211	2,358,660	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Attributable to owners of the Company								Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital	Share premium	Treasury shares	Statutory reserve	Capital reserve	Exchange reserve	Retained profits	Total		
	HK\$'000 (note 27)	HK\$'000 (note 27)	HK\$'000 (note 27)	HK\$'000 (note 29 (i))	HK\$'000 (note 29 (ii))	HK\$'000	HK\$'000	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(a))	—	—	(9,934)	—	—	—	—	(9,934)	—	(9,934)
Shares cancelled (note 27(a))	(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

* These reserve accounts comprise the consolidated reserves of HK\$2,274,325,000 (2020: HK\$2,176,175,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		464,087	124,224
Adjustments for:			
Finance costs	8	23,061	33,699
Bank interest income	6	(1,157)	(1,255)
Loss/(gains) on disposal of items of property, plant and equipment, net	7	504	(1,521)
Gains on lease modification, net	7	(7)	(675)
Impairment of goodwill	7	—	150,132
Write-off of property, plant and equipment	7	608	319
Depreciation and amortization	7	140,402	135,751
Share of (profits)/losses of an associate		(542)	1,537
		626,956	442,211
Increase in inventories		(14,745)	(4,838)
Increase in trade receivables		(60,598)	(23,284)
Decrease/(increase) in prepayments, deposits and other receivables		(11,077)	1,321
Increase in amounts due from related parties		(24)	(176)
Decrease/(increase) in an amount due from an associate		4,159	(4,101)
Increase/(decrease) in trade payables		14,053	(4,815)
Increase in other payables and accruals		8,416	16,789
Decrease in an amount due to a related party		(3)	(77)
		567,137	423,030
Cash generated from operations		567,137	423,030
Interest received		1,157	1,255
Income tax paid		(43,150)	(24,108)
		525,144	400,177
Net cash flows from operating activities		525,144	400,177

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and intangible assets	31(a)	(141,451)	(72,446)
Proceeds from disposal of items of property, plant and equipment		5,364	19,385
Acquisition of a business/subsidiary	30	(4,677)	5,595
(Increase)/decrease in pledged deposits		(20)	502
Capital contribution for investment in an associate		(1,869)	—
Net cash flows used in investing activities		(142,653)	(46,964)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings	31(b)	—	232,484
Repayment of bank borrowings	31(b)	(191,026)	(179,875)
Dividend paid		(186,508)	(21,172)
Interest paid		(14,427)	(23,861)
Repurchase of shares		(7,896)	(9,934)
Payment for the principal portion of lease liabilities	31(b)	(48,395)	(48,490)
Payment for the interest portion of lease liabilities	31(b)	(5,670)	(5,964)
Capital contribution by non-controlling shareholders		1,805	148
Net cash flows used in financing activities		(452,117)	(56,664)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(69,626)	296,549
Effect of foreign exchange rate changes, net		4,956	7,373
Cash and cash equivalents at beginning of year		697,827	393,905
CASH AND CASH EQUIVALENTS AT END OF YEAR		633,157	697,827
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	633,086	697,751
Non-pledged time deposits with original maturity of less than three months when acquired	22	71	76
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows	22	633,157	697,827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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

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

During the year ended 31 December 2021, the Group acquired the business of Swift Dental Laboratory from independent third parties. Further details of this acquisition are included in note 30 to the financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2021. 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 2021

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i> (early adopted)

The nature and the impact of the revised IFRSs are described below:

- (a) 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 risk-free rate (“RFR”). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities 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 Group had interest-bearing bank borrowings denominated in HK\$ based on the Hong Kong Interbank Offered Rate as at 31 December 2021. The Group expects that Hong Kong Interbank Offered Rate (“HIBOR”) will continue to exist and the interest rate benchmark reform has not had an impact on the Group's HIBOR-based borrowings. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply the above-mentioned practical expedient upon the modification of these instruments provided that the “economically equivalent” criterion is met.

- (b) Amendment to IFRS 16 issued in March 2021 extends the availability of the 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 by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the year ended 31 December 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the COVID-19 pandemic. A reduction in the lease payments arising from the rent concessions has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2021. There was no impact on the opening balance of equity as at 1 January 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i> ¹
Amendments to IFRS 10 and IAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
IFRS 17	<i>Insurance Contracts</i> ²
Amendments to IFRS 17	<i>Insurance Contracts</i> ^{2,4}
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> ²
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ²
Amendments to IAS 8	<i>Disclosure of Accounting Estimates</i> ²
Amendments to IAS 12	<i>Definition Tax related to Assets and Liabilities arising from a Single Transaction</i> ²
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ¹
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> ¹
<i>Annual Improvements to IFRSs 2018-2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41 ¹

¹ Effective for annual periods beginning on or after 1 January 2022

² Effective for annual periods beginning on or after 1 January 2023

³ No mandatory effective date yet determined but available for adoption

⁴ 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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

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 resulting from a downstream transaction 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.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* 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 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to IAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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

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 IFRSs 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 an associate

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 an associate 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 an associate.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g. a headquarter building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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 2 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 2 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

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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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at 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.

Financial liabilities at fair value through profit or loss

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

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognized in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognized in the statement of profit or loss does not include any interest charged on these financial liabilities.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

Deferred tax assets are recognised for all deductible temporary differences, 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

31 December 2021

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. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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 United States 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 participant of the 401(k) plan, 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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 judgements, apart from those involving estimations, which have 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 2021 was HK\$1,185,682,000 (2020: HK\$1,240,088,000). Further details are given in note 15 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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:

- The fixed prosthetic devices segment is a supplier of restorative dental procedures, such as crowns, bridge and implants.
- The removable prosthetic devices segment produces full dentures and partial dentures. Dentures can be further classified as dentures with metal frameworks and dentures without metal frameworks.
- The "others" segment comprises, principally, orthodontic devices (including clear aligner), sport guards and anti-snoring devices, raw materials, dental equipment, the service of educational events and seminars rendered.

Management monitors the revenue and cost of the Group's operating segments separately for the purpose of making decisions about 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.

	2021			2020		
	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	1,935,951	882,485	1,053,466	1,516,016	734,809	781,207
Removable prosthetic devices	537,414	243,806	293,608	403,572	199,902	203,670
Others	481,807	278,230	203,577	270,620	165,509	105,111
Total	2,955,172	1,404,521	1,550,651	2,190,208	1,100,220	1,089,988

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

5. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2021 HK\$'000	2020 HK\$'000
Europe	1,254,596	916,731
North America	718,776	571,170
Greater China	699,246	489,234
Australia	250,339	192,569
Others	32,215	20,504
	2,955,172	2,190,208

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

	2021 HK\$'000	2020 HK\$'000
Europe	702,157	773,781
North America	533,000	540,642
Australia	434,507	458,110
Greater China	466,308	377,279
Others	76,375	75,245
	2,212,347	2,225,057

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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:

	2021 HK\$'000	2020 HK\$'000
Revenue		
Sale of goods transferred at a point in time	2,955,172	2,190,208
Other income		
Bank interest income	1,157	1,255
Government subsidies*	4,958	7,202
Others	5,685	6,566
	11,800	15,023
Gains		
Foreign exchange gain, net	—	10,175
Gains on disposal of items of property, plant and equipment, net	—	1,521
Gains on lease modification, net	7	675
	7	12,371
Other income and gains	11,807	27,394

* 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:

	2021 HK\$'000	2020 HK\$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	8,744	6,200

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

7. PROFIT BEFORE TAX

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

	Notes	2021 HK\$'000	2020 HK\$'000
Cost of inventories sold [#]		1,404,521	1,100,220
Depreciation of right-of-use assets	17(a)	47,723	47,658
Depreciation of property, plant and equipment	14	64,286	58,641
Amortisation of intangible assets	16	28,393	29,452
Lease payments not included in the measurement of lease liabilities	17(c)	11,951	9,620
Research and development costs ^{##}		36,506	6,434
Auditors' remuneration		10,779	9,713
Employee benefit expense (excluding directors' and chief executive's remuneration (note 9)):			
Wages and salaries*		1,170,452	900,258
Pension scheme contributions		151,659	105,147
		1,322,111	1,005,405
Bank interest income		(1,157)	(1,255)
Loss/(gains) on disposal of items of property, plant and equipment, net**		504	(1,521)
Gains on lease modification, net**		(7)	(675)
Write-off of property, plant and equipment**	14	608	319
Impairment of goodwill	15	—	150,132
Allowance for impairment of trade receivables, net	20	4,202	5,053
Foreign exchange loss/(gain), net**		17,303	(10,175)

[#] Cost of inventories sold includes HK\$823,487,000 (2020: HK\$653,323,000) 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\$28,970,000 (2020: HK\$5,505,000) 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 nil (2020: HK\$26,265,000) 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. Loss on disposal of items of property, plant and equipment, net, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. FINANCE COSTS

	2021 HK\$'000	2020 HK\$'000
Interest on bank loans, overdrafts and other loans	14,427	23,861
Finance charges on bank loans	2,964	3,874
Interest on lease liabilities (note 17(b))	5,670	5,964
	23,061	33,699

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:

	2021 HK\$'000	2020 HK\$'000
Fees	1,124	1,099
Other emoluments:		
Salaries, allowances and benefits in kind	20,794	17,235
Pension scheme contributions	90	99
	20,884	17,334
	22,008	18,433

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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:

	2021 HK\$'000	2020 HK\$'000
Mr. Cheung Wai Man, William	281	261
Mr. Cheung Wai Bun, Charles J.P.	281	316
Mr. Chan Yue Kwong, Michael	281	261
Mr. Yau Ka Po	171	—
Mr. Wong Ho Ching	110	261
	1,124	1,099

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
2021			
Executive directors:			
Mr. Chan Ronald Yik Long	3,000	18	3,018
Mr. Ngai Chi Ho Alwin	3,262	18	3,280
Mr. Ngai Shing Kin	4,500	—	4,500
Ms. Chan Yik Yu	2,400	18	2,418
Mr. Chan Kwun Fung	2,682	—	2,682
Mr. Chan Kwun Pan	2,682	18	2,700
Mr. Chan Chi Yuen	2,268	18	2,286
	20,794	90	20,884

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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
2020			
Executive directors:			
Mr. Chan Ronald Yik Long	2,040	18	2,058
Mr. Ngai Chi Ho Alwin	2,773	18	2,791
Mr. Ngai Shing Kin	3,808	9	3,817
Ms. Chan Yik Yu	2,040	18	2,058
Mr. Chan Kwun Fung	2,272	9	2,281
Mr. Chan Kwun Pan	2,272	9	2,281
Mr. Chan Chi Yuen	2,030	18	2,048
	17,235	99	17,334

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 three (2020: 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 two (2020: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2021 HK\$'000	2020 HK\$'000
Salaries, allowances and benefits in kind	5,860	10,198
Performance related bonuses	14,094	2,302
Pension scheme contributions	1,683	1,622
	21,637	14,122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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:

	2021	2020
HK\$4,000,001 to HK\$4,500,000	—	1
HK\$4,500,001 to HK\$5,000,000	—	1
HK\$5,000,001 to HK\$5,500,000	—	1
HK\$6,500,001 to HK\$7,000,000	1	—
HK\$14,500,001 to HK\$15,000,000	1	—
	2	3

11. INCOME TAX EXPENSE

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

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

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

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 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 (2020: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% (2020: 8.25%) and the remaining assessable profits are taxed at 16.5% (2020: 16.5%).

Pursuant to the PRC Income Tax Law and the respective regulations, companies of the Group 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 2021 and 2020.

Pursuant to the rules and regulations of the United States, companies of the Group, except limited liability companies ("LLC"), which operate in the United States are subject to a flat rate of 21% (2020: 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.

Companies of the Group 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.

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11. INCOME TAX EXPENSE (continued)

Pursuant to the rules and regulations of Australia, companies of the Group which operate in Australia are subject to income tax at the rate of 30% (2020: 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.

	2021 HK\$'000	2020 HK\$'000
Current	103,866	58,113
Deferred (note 26)	(154)	(41,548)
Total tax charge for the year	103,712	16,565

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 rate, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

	2021		2020	
	HK\$'000	%	HK\$'000	%
Profit before tax	464,087		124,224	
Tax at the statutory tax rates	93,007	20.0	23,665	19.0
Adjustment in respect of current tax of previous periods	19,450	4.2	(2,935)	(2.4)
Income not subject to tax	(293)	(0.1)	(5,250)	(4.2)
Expenses not deductible for tax	3,001	0.6	4,958	4.0
Tax losses not recognised	6,303	1.4	2,581	2.1
Tax effect of utilisation of tax losses not previously recognised	(8,912)	(1.9)	(417)	(0.3)
Others	(8,844)	(1.9)	(6,037)	(4.9)
Tax charge at the Group's effective rate	103,712	22.3	16,565	13.3

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12. DIVIDENDS

	2021 HK\$'000	2020 HK\$'000
Interim – HK7.5 cents (2020: Nil) per ordinary share	71,968	—
Special – HK5.0 cents (2020: Nil) per ordinary share	47,979	—
Proposed final – HK4.4 cents (2020: HK7.0 cents) per ordinary share	42,105	67,373

In 2021, the calculations of the interim dividend and special dividend are based on 959,577,000 ordinary shares in issue. The calculation of proposed final dividend is based on 956,941,000 ordinary shares in issue.

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

On 29 March 2022, the Board recommended a final dividend of HK4.4 cents per ordinary share for the year ended 31 December 2021. The proposed final dividend for the year ended 31 December 2021 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 957,223,602 (2020: 961,914,338) in issue during the year, as adjusted to reflect the number of shares of 498,045 (2020: 2,748,045) held as treasury shares.

The Group had no potential dilutive ordinary shares in issue during the years ended 31 December 2021 and 2020.

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

	2021 HK\$'000	2020 HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	360,825	107,763

	Number of shares	
	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the years used in the basic and diluted earnings per share calculation	957,223,602	961,914,338

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14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2021							
At 1 January 2021							
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
At 1 January 2021, net of accumulated depreciation	258,407	114,360	37,835	96,469	6,017	5,827	518,915
Additions	1,811	9,693	24,503	46,061	2,678	50,413	135,159
Disposals	—	(616)	(1,265)	(3,408)	(579)	—	(5,868)
Acquisition of a business (note 30)	—	—	713	—	—	—	713
Transfer from CIP	2,165	—	—	—	—	(2,165)	—
Write-off	—	—	(14)	(594)	—	—	(608)
Depreciation provided during the year	(8,420)	(16,551)	(15,860)	(21,349)	(2,106)	—	(64,286)
Exchange realignment	2,198	399	(1,155)	887	(223)	849	2,955
At 31 December 2021, net of accumulated depreciation	256,161	107,285	44,757	118,066	5,787	54,924	586,980
At 31 December 2021							
Cost	307,867	187,910	105,006	280,927	14,902	54,924	951,536
Accumulated depreciation	(51,706)	(80,625)	(60,249)	(162,861)	(9,115)	—	(364,556)
Net carrying amount	256,161	107,285	44,757	118,066	5,787	54,924	586,980

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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 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							
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							
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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15. GOODWILL

	HK\$'000
At 1 January 2020:	
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
Cost at 1 January 2021, net of accumulated impairment	1,240,088
Acquisition of a business (note 30)	5,839
Exchange realignment	(60,245)
At 31 December 2021	1,185,682
At 31 December 2021:	
Cost	1,345,495
Accumulated impairment	(159,813)
Net carrying amount	1,185,682

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 Cash-generating units ("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.

The recoverable amounts of CGUs were assessed at 31 December 2021 and no impairment on goodwill was considered necessary.

For the year ended 31 December 2020, 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 our 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 on-going spreading of the COVID-19 in the North America region during that period. 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.

	2021 HK\$'000	2020 HK\$'000
Labocast SAS and Labo Ocean Indien SA	60,104	64,805
Quantum Dental Laboratory Inc.	11,221	11,153
Permadental Holding B.V.	259,741	280,056
Elysee Dental Holding B.V.*	208,760	225,087
Modern Dental Pacific Holdings Pty Limited	324,609	334,814
Dentrade Group	18,200	18,386
MicroDental and Modern US	265,560	265,560
CDI Dental AB & CDI Supply AB	29,365	31,661
Others**	8,122	8,566
	1,185,682	1,240,088

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

15. GOODWILL (continued)

Impairment testing of goodwill and trademark (continued)

The recoverable amount of a CGU or a group of CGUs is determined based on value-in-use calculations. These calculations used discounted cash flow projections based on financial estimates reviewed by management covering a five to ten-year period. Cash flows beyond the five to ten-year period are extrapolated using estimated terminal 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 made an impairment loss on goodwill for CGU – MicroDental and Modern US by using discount rate of 16% and terminal growth rate of 2%, and as of 31 December 2020 and 31 December 2021, the Group has reassessed its recoverable amount. The discount rates applied to cash flow projections and the terminal growth rates used to extrapolate the cash flows of each CGU beyond the five to ten-year period are as follows:

		2021	2020
Labocast SAS and Labo Ocean Indien SA	discount rates	15%-20%	18%-20%
	terminal growth rates	1%-6%	1%-6%
Quantum Dental Laboratory Inc.	discount rates	15%	14%
	terminal growth rates	2%	2%
Permidental Holding B.V.	discount rates	15%	15%
	terminal growth rates	2%	2%
Elysee Dental Holding B.V.*	discount rates	13%	15%
	terminal growth rates	2%	2%
Modern Dental Pacific Holdings Pty Limited	discount rates	17%	17%
	terminal growth rates	2%	2%
Dentrade Group	discount rates	13%	13%
	terminal growth rates	3%	3%
MicroDental and Modern US	discount rates	15%	16%
	terminal growth rates	3%	2%
CDI Dental AB & CDI Supply AB	discount rates	15%	15%
	terminal growth rates	2%	2%
Others**	discount rates	14%-16%	13%-16%
	terminal growth rates	1%-2%	2%-3%

* Goodwill and intangible assets of Schmidt Dentalkeramik Aps have been aggregated and allocated to the CGU of Elysee Dental Holdings B.V., following the restructuring of their business and the synergies in the selling and distribution network.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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 2021 and 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Terminal 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. 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 and 31 December 2021. The excess of the estimated recoverable amount over carrying amount of each CGU as of 31 December 2020 and 31 December 2021 ranged generally from 10% to more than 100%.

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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 2021 and 31 December 2020 with changes in the key assumptions of the CGUs disclosed above:

		2021		2020	
		+50 bps HK\$'000	-50 bps HK\$'000	+50 bps HK\$'000	-50 bps HK\$'000
Europe	discount rates	(74,495)	79,507	(64,122)	69,242
	terminal growth rates	45,739	(43,369)	38,630	(35,802)
North America	discount rates	(32,840)	29,573	(24,869)	26,870
	terminal growth rates	9,220	(14,018)	12,378	(11,473)
Australia	discount rates	(16,875)	18,136	(18,620)	19,897
	terminal growth rates	5,220	(4,831)	8,233	(7,720)

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 2021	Customer relationship HK\$'000	Software HK\$'000	Trademark* HK\$'000	Business licence HK\$'000	Total HK\$'000
Cost at 1 January 2021, net of accumulated amortisation	68,640	10,742	207,593	695	287,670
Additions	—	6,292	—	—	6,292
Acquisition of a business (note 30)	381	—	—	—	381
Amortisation provided during the year	(26,993)	(1,108)	—	(292)	(28,393)
Exchange realignment	(3,199)	(985)	(6,604)	16	(10,772)
Net carrying amount	38,829	14,941	200,989	419	255,178
At 31 December 2021:					
Cost	308,302	20,282	200,989	1,480	531,053
Accumulated amortisation	(269,473)	(5,341)	—	(1,061)	(275,875)
Net carrying amount	38,829	14,941	200,989	419	255,178

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

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

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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 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 and 1 January 2021	20,944	131,234	848	9,841	162,867
Additions	—	45,565	8	3,326	48,899
Depreciation for the year	(454)	(42,417)	(197)	(4,655)	(47,723)
Revision of lease term arising from a change in the non-cancellable period of a lease	—	(1,754)	—	(94)	(1,848)
Exchange realignment	608	(2,284)	(28)	(384)	(2,088)
As at 31 December 2021	21,098	130,344	631	8,034	160,107

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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:

	2021 HK\$'000	2020 HK\$'000
Carrying amount at 1 January	164,400	198,469
New leases	48,899	17,344
Acquisition of a subsidiary (note 30)	—	462
Accretion of interest recognised during the year (note 8)	5,670	5,964
Revision of lease term arising from a change in the non-cancellable period of a lease	(1,855)	(8,639)
Payments	(54,065)	(54,454)
Exchange realignment	(3,026)	5,254
Carrying amount at 31 December	160,023	164,400
Analysed into:		
Current portion	47,211	41,395
Non-current portion	112,812	123,005
	160,023	164,400

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:

	2021 HK\$'000	2020 HK\$'000
Interest on lease liabilities	5,670	5,964
Depreciation charge of right-of-use assets	47,723	47,658
Gains on lease modification, net	(7)	(675)
Expenses relating to low-value assets and short-term leases and other leases with remaining lease terms ended on or before 31 December	11,951	9,620
Total amount recognised in profit or loss	65,337	62,567

(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.

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18. INVESTMENT IN AN ASSOCIATE

	2021 HK\$'000	2020 HK\$'000
Share of net assets	3,230	761

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

Particulars of the principal associate is as follows:

Company name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of			Principal activity
			Ownership interest	Voting power	Profit sharing	
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 unanimous with the other parties. Accordingly, the Company could not exercise control over HuaXi and the investment in HuaXi was classified as investment in an associate.

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

	2021 HK\$'000	2020 HK\$'000
Share of the associate's profit/(loss) for the year	542	(1,537)
Aggregate carrying amount of the Group's investments in an associate	3,230	761

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19. INVENTORIES

	2021 HK\$'000	2020 HK\$'000
Raw material	112,035	100,866
Work in progress	13,671	18,811
Finished goods	16,782	8,344
	142,488	128,021

20. TRADE RECEIVABLES

	2021 HK\$'000	2020 HK\$'000
Trade receivables	563,895	506,090
Impairment	(34,919)	(32,985)
	528,976	473,105

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.

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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:

	2021 HK\$'000	2020 HK\$'000
Within 1 month	240,514	282,483
1 to 2 months	80,195	63,603
2 to 3 months	41,002	33,811
3 months to 1 year	141,185	70,541
Over 1 year	26,080	22,667
	528,976	473,105

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

	2021 HK\$'000	2020 HK\$'000
At 1 January	32,985	26,887
Impairment losses, net (note 7)	4,202	5,053
Amount written off as uncollectible	(1,712)	(294)
Exchange realignment	(556)	1,339
At 31 December	34,919	32,985

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 2021

	Current	Less than 1 month	Past due			Total
			1 to 3 months	3 months to 1 year	Over 1 year	
Expected credit loss rate	0.71%	1.38%	5.92%	33.54%	41.31%	
Gross carrying amount (HK\$'000)	288,877	67,344	147,820	19,623	40,231	563,895
Expected credit losses (HK\$'000)	2,039	927	8,753	6,581	16,619	34,919

As at 31 December 2020

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2021 HK\$'000	2020 HK\$'000
Current		
Prepayments	39,606	22,656
Deposits and other receivables	34,999	48,887
Due from related parties (note 34(3))	264	240
	74,869	71,783
Non-current		
Prepayments	780	791
Deposits	20,390	13,965
	21,170	14,756

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21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

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

	2021 HK\$'000	2020 HK\$'000
At 1 January	—	2,843
Write-off	—	(2,843)
At 31 December	—	—

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

	2021 HK\$'000	2020 HK\$'000
Cash and bank balances	633,086	697,751
Time deposits	4,919	4,904
	638,005	702,655
Less: Pledged deposits for bank facilities	(4,848)	(4,828)
Cash and cash equivalents	633,157	697,827

As at 31 December 2021, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$199,416,000 (2020: HK\$122,229,000). 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:

	2021 HK\$'000	2020 HK\$'000
Within 1 month	58,033	48,795
1 to 2 months	17,616	10,585
2 to 3 months	2,402	4,623
Over 3 months	2,031	3,667
	80,082	67,670

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	2021 HK\$'000	2020 HK\$'000
Current			
Contract liabilities	(a)	7,432	8,744
Deferred revenue		3,189	2,937
Contingent consideration	36	870	—
Accruals		171,908	164,544
Other payables		49,649	49,592
Due to a related party (note 34(3))		7	10
Due to a non-controlling shareholder	(b)	—	4,800
		233,055	230,627
Other non-current liabilities			
Due to a non-controlling shareholder	(b)	4,800	—
Contingent consideration	36	1,229	—
		6,029	—

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24. OTHER PAYABLES AND ACCRUALS (continued)

Notes:

- a. Details of contract liabilities are as follows:

	31 December 2021 HK\$'000	31 December 2020 HK\$'000	1 January 2020 HK\$'000
Short-term deposits received from customers			
Sale of goods	7,432	8,744	6,200

Contract liabilities represent short-term deposits received to deliver goods. The decrease in contract liabilities in 2021 was mainly due to the decrease in short-term deposits received from customers in relation to the sale of goods at the end of the year. The increase in contract liabilities in 2020 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 2 years (2020: 1 year).
- c. Other payables and accruals are unsecured and non-interest-bearing. The carrying amounts of other payables and accruals approximate to their fair values, except for amount due to a non-controlling shareholder mentioned in note (b).

25. INTEREST-BEARING BANK BORROWINGS

	2021			2020		
	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
Current portion of long term bank loans – secured	Hong Kong Interbank Offered Rate ("HIBOR") +1.60	2022	173,402	HIBOR+1.60	2021	152,036
			173,402			187,680
Non-current						
Long term bank loans – secured	HIBOR+1.60	2023-2025	499,660	HIBOR+1.60	2022-2025	673,063
			499,660			673,063
			673,062			860,743

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25. INTEREST-BEARING BANK BORROWINGS (continued)

	2021 HK\$'000	2020 HK\$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	173,402	187,680
In the second year	389,769	173,402
In the third to fifth years, inclusive	109,891	499,661
	673,062	860,743

Notes:

- a. As at 31 December 2021 and 2020, all bank borrowings are secured by the corporate guarantees of the Company and certain of its subsidiaries.
- b. As at 31 December 2021, the Group's bank borrowings are denominated in HK\$.
- 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.

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 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
At 31 December 2020 and 1 January 2021	20,720	8,309	29,029
Deferred tax charged/(credited) to the consolidated statement of profit or loss during the year (note 11)	4,738	(4,109)	629
Exchange realignment	53	—	53
Gross deferred tax liabilities at 31 December 2021	25,511	4,200	29,711

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26. DEFERRED TAX (continued)

Deferred tax assets

	Losses available for offsetting against future taxable profits HK\$'000
At 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
At 31 December 2020 and 1 January 2021	67,073
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	783
Exchange realignment	(445)
Gross deferred tax assets at 31 December 2021	67,411

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

	2021 HK\$'000	2020 HK\$'000
Net deferred tax assets recognised in the consolidated statement of financial position	49,633	49,294
Net deferred tax liabilities recognised in the consolidated statement of financial position	(11,933)	(11,250)
	37,700	38,044

The Group has tax losses arising in Hong Kong of HK\$39,851,000 (2020: HK\$32,541,000) 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\$308,739,000 (2020: HK\$248,204,000) 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 2021, deferred tax assets have not been recognised in respect of tax losses of HK\$88,281,000 (2020: HK\$50,813,000). 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 2021, 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\$693,847,000 at 31 December 2021 (2020: HK\$578,172,000).

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

27. SHARE CAPITAL

	2021 US\$'000	2020 US\$'000
Shares		
Issued and fully paid:		
956,941,000 (31 December 2020: 962,477,000) ordinary shares of US\$0.01 each	9,569	9,625
Equivalent to HK\$'000	74,163	74,592

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27. SHARE CAPITAL (continued)

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

	Notes	Number of shares in issue	Share capital HK\$'000	Treasury shares HK\$'000	Share premium HK\$'000	Total HK\$'000
At 1 January 2020		981,646,000	76,078	(21,796)	614,924	669,206
2019 final dividend		—	—	—	(21,172)	(21,172)
Shares repurchased	(a)	—	—	(9,934)	—	(9,934)
Shares cancelled	(a)	(19,169,000)	(1,486)	28,624	(27,138)	—
At 31 December 2020 and 1 January 2021		962,477,000	74,592	(3,106)	566,614	638,100
2020 final dividend		—	—	—	(66,986)	(66,986)
Shares repurchased	(b)	—	—	(7,896)	—	(7,896)
Shares cancelled	(b)	(5,536,000)	(429)	10,963	(10,534)	—
At 31 December 2021		956,941,000	74,163	(39)	489,094	563,218

Notes:

- a. 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 was 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.

- b. On 27 May 2021, the Company's shareholders granted a general mandate (the "**Repurchase Mandate 2021**") to the directors of the Company to repurchase shares of the Company at the annual general meeting. Pursuant to the Repurchase Mandate 2021, the Company is allowed to repurchase up to 95,957,700 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 2021, the Company repurchased 3,286,000 of its ordinary shares on the Hong Kong Stock Exchange at an aggregate consideration of HK\$7,896,000 (before expenses). All of 3,286,000 repurchased ordinary shares of HK\$7,896,000 (before expenses), together with 2,250,000 ordinary shares of HK\$3,067,000 (before expenses) repurchased during the year ended 31 December 2020, were cancelled during the year ended 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 2021 and 31 December 2020, and no RSUs were outstanding under the Pre-IPO RSU Scheme as at 31 December 2021 and 2020.

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 72 to 73 of the financial statements.

i. Statutory reserve

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

ii. Capital reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. BUSINESS COMBINATIONS

Acquisition of business of Swift Dental Laboratory ("Swift")

On 9 July 2021, MDPCH Pty Ltd, a wholly-owned subsidiary of the Company, entered into a share purchase agreement with independent third parties, Panagiotis (Peter) Nouris and Alexander Petratos, to acquire the business of Swift Dental Laboratory ("Swift") at a cash consideration of AUD800,000 and a contingent consideration of AUD371,000. Swift is principally engaged in provision of dentures in Australian market. The acquisition was completed on 9 July 2021. The acquisition will provide the Group with an important foundation to build on its existing Australian-made denture work to further expand the Group's product offering and services to its existing clients.

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

	Notes	Fair value recognised on acquisition HK\$'000
Property, plant and equipment	14	713
Intangible assets	16	381
Other payables and accruals		(88)
Total identifiable net assets at fair value		1,006
Goodwill on acquisition	15	5,839
		6,845
Satisfied by:		
Cash		4,677
Contingent consideration	36	2,168
		6,845

The Group incurred transaction costs of HK\$390,000 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 Swift is as follows:

	HK\$'000
Cash consideration paid in the year ended 31 December 2021	(4,677)
Net outflow of cash and cash equivalents included in cash flows from investing activities in 2021	(4,677)
Transaction costs of the acquisition included in cash flows from operating activities in 2021	(390)
	(5,067)

Since the acquisition, Swift contributed HK\$2,897,000 to the Group's turnover and profit of HK\$269,000 to the consolidated profit for the year ended 31 December 2021.

Had the combination taken place at the beginning of the year ended 31 December 2021, the revenue and the profit of the Group for the year ended 31 December 2021 would have been HK\$2,960,480,000 and HK\$360,889,000, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. BUSINESS COMBINATIONS (continued)

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

During the year ended 31 December 2020, 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"), whereby 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 was 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 incurred loss of HK\$49,000 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.

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\$48,899,000 (2020: HK\$17,344,000) and HK\$48,899,000 (2020: HK\$17,344,000), respectively, in respect of lease arrangements for buildings, fixture and furniture and motor vehicles.

During the year ended 31 December 2020, additions of property, plant and equipment of HK\$268,000 were transferred from the prepayments.

(b) Changes in liabilities arising from financing activities were as follows:**2021**

	Bank loans HK\$'000	Lease liabilities HK\$'000
At 1 January 2021	860,743	164,400
Changes from financing cash flows	(191,026)	(54,065)
Non-cash flows:		
Foreign exchange movement	381	(3,026)
New leases	—	48,899
Interest on lease liabilities (note 8)	—	5,670
Revision of lease term arising from a change in the non-cancellable period of a lease	—	(1,855)
Finance charges on bank loans (note 8)	2,964	—
At 31 December 2021	673,062	160,023

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: (continued)

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

(c) Total cash outflow for leases

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

	2021 HK\$'000	2020 HK\$'000
Within operating activities	11,951	9,620
Within financing activities	54,065	54,454
	66,016	64,074

32. CONTINGENT LIABILITIES

The Group has no significant contingent liabilities as at 31 December 2021 and 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. COMMITMENTS

	2021 HK\$'000	2020 HK\$'000
Contracted, but not provided for:		
Leasehold improvement	976	2,407
Land and buildings	69,509	84,521
	70,485	86,928

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\$300,881,000) for the acquisition of land, construction and renovation of a factory in the Songshan Lake High-tech Industrial Development Zone. As of 31 December 2021, the Group has paid approximately RMB172,589,000 (equivalent to approximately HK\$211,092,000) for the construction and renovation of the factory and approximately RMB18,839,000 (equivalent to approximately HK\$23,042,000) for the acquisition of land, and the remaining commitments was approximately RMB54,572,000 (equivalent to approximately HK\$66,747,000).

Except for such agreements, the Group did not have any other significant commitments as at 31 December 2021 and 2020.

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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:

	2021 HK\$'000	2020 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	3,456	3,888
(b)		
i. Acquisition of right-of-use assets from directors	—	312
ii. Lease payment to directors	162	1,212
(c)		
i. Acquisition of right-of-use assets from directors and an associate of a director	—	4,251
ii. Lease payment to directors and an associate of a director	2,263	2,566
(d)		
i. Acquisition of right-of-use assets from an associate of a director	—	415
ii. Lease payment to an associate of a director	221	185
(e)		
i. Acquisition of right-of-use assets from an associate of a director	—	415
ii. Lease payment to an associate of a director	221	139
(f)		
i. Acquisition of right-of-use assets from an associate of a director	—	935
ii. Lease payment to an associate of a director	497	417
(g) Training fee paid to ShenZhen Nanshan District Modern Denture Technology Training Centre	1,450	2,052
(h) Sales of finished goods to Trident Dental Group Limited	385	413
(i) Sales of finished goods to Kong Hong Holdings Limited	261	254
(j) Sales of finished goods to Dr. William Cheung & Associates	213	135
(k) Sales of finished goods to Precious Orthodontics and Kowloon Orthodontic Centre Limited	186	—
(l) Purchase of finished goods from an associate	6,688	—

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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.
- (k) Precious Orthodontics and Kowloon Orthodontic Centre Limited are ultimately 100% owned by Mr. Yau Ka Po. The transactions with Precious Orthodontics and Kowloon Orthodontic Centre Limited were made on prices and conditions as mutually agreed.
- (l) The cost of purchases from an associate was made at pre-determined prices agreed between the parties.

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 and Mr. Yau Ka Po are directors 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), (j) and (k) 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 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 RMB119,066.64.
- (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.

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31 December 2021

34. RELATED PARTY TRANSACTIONS (continued)

(2) Commitments with related parties (continued)

- (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.
- (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.

As at 31 December 2021, right-of-use assets of approximately HK\$6,035,000 and lease liabilities of approximately HK\$6,113,000 related to the leases were recognised in consolidated statement of financial position. During the year ended 31 December 2021, depreciation of these right-of-use assets of approximately HK\$6,035,000 and finance costs on these lease liabilities of approximately HK\$316,000 were recognised in consolidated income statement.

(3) Balances with related parties

At 31 December 2021 and 2020, the Group's balances due from/to related parties were as follows:

	2021 HK\$'000	2020 HK\$'000
Due from related parties (note 21):		
Trident Dental Group Limited	142	152
Kong Hong Holdings Limited	46	76
Dr. William Cheung & Associates	21	12
Precious Orthodontics and Kowloon Orthodontic Centre Limited	55	—
	264	240
Due to a related party (note 24):		
Shenzhen Nanshan District Modern Denture Technology Training Centre	7	10

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

34. RELATED PARTY TRANSACTIONS (continued)

(4) Compensation of key management personnel of the Group

	2021 HK\$'000	2020 HK\$'000
Short term employee benefits	49,971	32,574
Post-employment benefits	1,993	1,920
Total compensation paid to key management personnel	51,964	34,494

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:

2021

Financial assets

	Financial assets at amortised cost HK\$'000
Trade receivables	528,976
Financial assets included in deposits and other receivables	55,389
Due from related parties	264
Pledged deposits	4,848
Cash and cash equivalents	633,157
Total	1,222,634

Financial liabilities

	Financial liabilities at amortised cost HK\$'000
Trade payables	80,082
Financial liabilities included in other payables and accruals	67,410
Interest-bearing bank borrowings	673,062
Lease liabilities	160,023
Due to a non-controlling shareholder	4,800
Due to a related party	7
Total	985,384

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Financial liabilities				
Contingent consideration	2,099	—	2,099	—
Interest-bearing bank borrowings	673,062	860,743	673,062	860,743
Due to a non-controlling shareholder	4,800	—	4,800	—
	679,961	860,743	679,961	860,743

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, 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 and an amount due to a non-controlling shareholder 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 and an amount due to a non-controlling shareholder as at 31 December 2021 and 2020 were assessed to be insignificant. The fair value of contingent consideration in relation to the acquisition of a business has been calculated by discounting the expected values of future payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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

Liabilities measured at fair value:

As at 31 December 2021	Fair value measurement using			Total HK\$'000
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
(Level 1)	(Level 2)	(Level 3)		
HK\$'000	HK\$'000	HK\$'000		
Contingent consideration	—	—	2,099	2,099

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

	2021 HK\$'000
At 1 January	—
Acquisition of a business (note 30)	2,168
Exchange realignment	(69)
At 31 December	2,099

During the year ended 31 December 2021, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers of Level 3 for both financial assets and financial liabilities.

Liabilities for which fair values are disclosed:

As at 31 December 2021	Fair value measurement using			Total HK\$'000
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
(Level 1)	(Level 2)	(Level 3)		
HK\$'000	HK\$'000	HK\$'000		
Interest-bearing bank borrowings	—	673,062	—	673,062
Due to a non-controlling shareholder	—	4,800	—	4,800

As at 31 December 2020	Fair value measurement using			Total HK\$'000
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
(Level 1)	(Level 2)	(Level 3)		
HK\$'000	HK\$'000	HK\$'000		
Interest-bearing bank borrowings	—	860,743	—	860,743

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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.

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 2021			
HK\$	1	(6,731)	—
HK\$	(1)	6,731	—
Year ended 31 December 2020			
HK\$	1	(8,607)	—
HK\$	(1)	8,607	—

* Excluding retained profits

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 10% and 11% of the Group's sales for the years ended 31 December 2021 and 2020 were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 17% and 10% of costs for the years ended 31 December 2021 and 2020 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 2021		
If HK\$ weakens against EUR	5	8,508
If HK\$ strengthens against EUR	(5)	(8,508)
If HK\$ weakens against AUD	5	4,504
If HK\$ strengthens against AUD	(5)	(4,504)
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)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2021

	12-month	Lifetime ECLs			Total
	ECLs	Stage 1	Stage 2	Stage 3	
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables*	—	—	—	563,895	563,895
Financial assets included in prepayments, other receivables and other assets					
– Normal**	55,389	—	—	—	55,389
Due from related parties					
– Normal**	264	—	—	—	264
Pledged deposits					
– Not yet past due	4,848	—	—	—	4,848
Cash and cash equivalents					
– Not yet past due	633,157	—	—	—	633,157
	693,658	—	—	563,895	1,257,553

As at 31 December 2020

	12-month	Lifetime ECLs			Total
	ECLs	Stage 1	Stage 2	Stage 3	
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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

* 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 2021

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 2021					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	
Trade payables	—	80,082	—	—	—	80,082
Other payables and accruals	—	67,410	—	—	—	67,410
Interest-bearing bank borrowings	—	143,302	47,498	503,857	—	694,657
Lease liabilities	—	13,437	38,162	102,908	18,916	173,423
Due to a non-controlling shareholder	—	—	—	4,800	—	4,800
Due to a related party	7	—	—	—	—	7
	7	304,231	85,660	611,565	18,916	1,020,379

	31 December 2020					Total HK\$'000
	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	
Trade payables	—	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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 2021 and 2020.

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:

	2021 HK\$'000	2020 HK\$'000
Interest-bearing bank borrowings	673,062	860,743
Trade payables	80,082	67,670
Lease liabilities	160,023	164,400
Other payables and accruals	233,055	230,627
Other non-current liabilities	6,029	—
Less:		
Pledged deposits	(4,848)	(4,828)
Cash and cash equivalents	(633,157)	(697,827)
Net debt	514,246	620,785
Equity attributable to owners of the Company	2,348,449	2,247,661
Capital and net debt	2,862,695	2,868,446
Gearing ratio	18%	22%

38. EVENTS AFTER THE REPORTING PERIOD

On 24 December 2021, Modern Dental Holding Limited, a wholly owned subsidiary of the Company, entered into a subscription and shareholders' agreement and a shares purchase agreement in relation to the subscription and acquisition of shares in aggregate representing 70% equity interests of Apex Digital Dental SDN BHD ("**Apex Digital**"), a leading digital dental laboratory in Malaysia at a cash consideration of MYR2,073,000 with an earn-out clause that may increase it up to MYR3,073,000 depending on the achievement of the target performance by Apex Digital. The acquisition is completed in January 2022. The subscription and acquisition will provide the Group with an important foundation to further expand digital offering in the Malaysian market and a sales network to introduce the Group's comprehensive product offering and services to the Malaysian market.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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:

	2021 HK\$'000	2020 HK\$'000
NON-CURRENT ASSETS		
Property, plant and equipment	244	488
Investments in subsidiaries	530,236	530,236
Loan to subsidiaries	188,516	214,121
Total non-current assets	718,996	744,845
CURRENT ASSETS		
Due from subsidiaries	881,269	899,534
Prepayments, deposits and other receivables	421	847
Cash and cash equivalents	17,038	14,849
Total current assets	898,728	915,230
CURRENT LIABILITIES		
Other payables and accruals	738	582
Due to subsidiaries	461,575	584,530
Total current liabilities	462,313	585,112
NET CURRENT ASSETS	436,415	330,118
TOTAL ASSETS LESS CURRENT LIABILITIES	1,155,411	1,074,963
Net assets	1,155,411	1,074,963
EQUITY		
Share capital	74,163	74,592
Treasury shares	(39)	(3,106)
Reserves (note)	1,081,287	1,003,477
Total equity	1,155,411	1,074,963

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

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)/ retained profits HK\$'000	Total HK\$'000
At 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 and 1 January 2021	566,614	591,127	(4,276)	(149,988)	1,003,477
2020 final dividend	(66,986)	—	—	—	(66,986)
2021 interim dividend	—	—	—	(71,713)	(71,713)
2021 special dividend	—	—	—	(47,809)	(47,809)
Shares cancelled	(10,534)	429	—	(429)	(10,534)
Profit for the year	—	—	—	274,852	274,852
At 31 December 2021	489,094	591,556	(4,276)	4,913	1,081,287

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2022.

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				
	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000
RESULTS					
REVENUE	2,955,172	2,190,208	2,399,548	2,315,467	2,181,292
Cost of sales	(1,404,521)	(1,100,220)	(1,246,617)	(1,236,131)	(1,119,780)
Gross profit	1,550,651	1,089,988	1,152,931	1,079,336	1,061,512
Other income and gains	11,807	27,394	14,737	11,344	23,912
Selling and distribution expenses	(359,466)	(251,410)	(294,352)	(275,142)	(265,926)
Administrative expenses	(697,311)	(555,817)	(615,725)	(630,558)	(586,525)
Impairment of goodwill	—	(150,132)	—	—	—
Other operating expenses	(19,075)	(563)	(17,177)	(12,533)	(1,582)
Finance costs	(23,061)	(33,699)	(37,902)	(51,516)	(28,582)
Share of profits/(losses) of associates	542	(1,537)	(504)	(1,929)	(1,288)
PROFIT BEFORE TAX	464,087	124,224	202,008	119,002	201,521
Income tax expense	(103,712)	(16,565)	(41,563)	(35,762)	(44,158)
PROFIT FOR THE YEAR	360,375	107,659	160,445	83,240	157,363
Attributable to:					
Owners of the Company	360,825	107,763	161,557	85,391	155,371
Non-controlling interests	(450)	(104)	(1,112)	(2,151)	1,992
	360,375	107,659	160,445	83,240	157,363

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000
TOTAL ASSETS	3,657,379	3,665,088	3,361,241	3,106,061	3,140,230
TOTAL LIABILITIES	(1,298,719)	(1,408,571)	(1,338,834)	(1,113,859)	(1,035,237)
NON-CONTROLLING INTERESTS	(10,211)	(8,856)	(1,587)	4,042	(7,503)
	2,348,449	2,247,661	2,020,820	1,996,244	2,097,490

CORPORATE INFORMATION

PLACE OF INCORPORATION

Cayman Islands

BOARD OF DIRECTORS

Executive Directors

Dr. CHAN Ronald Yik Long (*Chairman*)

Mr. NGAI Chi Ho Alwin (*Vice-Chairman
and Chief Operating Officer*)

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

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

Mr. CHAN Kwun Fung

Mr. CHAN Kwun Pan

Mr. CHAN Chi Yuen

Independent Non-Executive Directors

Dr. CHEUNG Wai Bun Charles, J.P.

Dr. CHAN Yue Kwong Michael

Dr. CHEUNG Wai Man William

Dr. YAU Ka Po

BOARD COMMITTEES

Audit Committee

Dr. CHEUNG Wai Bun Charles, J.P. (*Chairman*)

Dr. CHAN Yue Kwong Michael

Dr. YAU Ka Po

Remuneration Committee

Dr. CHEUNG Wai Man William (*Chairman*)

Dr. CHEUNG Wai Bun Charles, J.P.

Dr. YAU Ka Po

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

Dr. CHAN Ronald Yik Long

Mr. NGAI Chi Ho Alwin

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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Quarry Bay, Hong Kong

REGISTERED OFFICE

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Grand Cayman KY1-1111

Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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77 Wing Hong Street

Cheung Sha Wan

Kowloon, Hong Kong

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited
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Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Chiyu Banking Corporation Limited
China Construction Bank (Asia) Corporation Limited

COMPANY WEBSITE

www.moderndentalgp.com

STOCK CODE

3600