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*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3600)**

## **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020**

### **RESULTS HIGHLIGHTS**

- The Revenue for the six months ended 30 June 2020 was approximately HK\$897,223,000 (six months ended 30 June 2019: HK\$1,191,378,000), representing a decrease of approximately HK\$294,155,000 or 24.7% as compared with that of the six months ended 30 June 2019.
- The Gross Profit Margin for the six months ended 30 June 2020 was approximately 46.1% (six months ended 30 June 2019: 47.8%). Gross profit for the six months ended 30 June 2020 was approximately HK\$414,023,000, representing a decrease of approximately HK\$156,000,000 or 27.4% as compared with that of the six months ended 30 June 2019.
- The Group's EBITDA for the six months ended 30 June 2020 was approximately HK\$107,491,000 (six months ended 30 June 2019: HK\$194,262,000).
- The Group's Profit from core operation (excluding an one-off non-cash impairment loss of goodwill for our North America region of approximately HK\$150,132,000 (six months ended 30 June 2019: Nil) and restructuring and reorganisation cost of approximately HK\$3,888,000 (six months ended 30 June 2019: HK\$1,597,000)) for the six months ended 30 June 2020 was approximately HK\$14,518,000 (six months ended 30 June 2019: HK\$88,557,000).

- The Loss for the six months ended 30 June 2020 was approximately HK\$139,502,000 (six months ended 30 June 2019: profit of HK\$86,960,000) due to (i) a recognition of an one-off non-cash impairment loss of goodwill for our North America region of approximately HK\$150,132,000 (six months ended 30 June 2019: Nil); and (ii) the decrease in sales by approximately 24.7% as a result of the decline in sales orders volumes in countries affected by the COVID-19 pandemic during the six months ended 30 June 2020.
- Net cash flows from operating activities was approximately HK\$77,313,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$109,360,000), reflecting a decrease of approximately 29.3%.
- Basic loss per share for the six months ended 30 June 2020 amounted to HK14.48 cents (six months ended 30 June 2019: basic earnings per share amounted to HK8.89 cents).
- The Board does not recommend the payment of an interim dividend.
- Despite the difficult operating environment, and excluding the one-off non-cash impairment loss of goodwill, the Group continued to (i) generate positive EBITDA and net cash inflows from operating activities; (ii) record a profit from core operations (the net profit would have been to be approximately HK\$14,518,000 if impairment of goodwill and restructuring and reorganisation cost are excluded) and; (iii) maintain a healthy cash and cash equivalents of approximately HK\$393,644,000 as at 30 June 2020 (31 December 2019: HK\$393,905,000). The Board is therefore of the opinion that the financial position of the Group remains solid and healthy.
- Towards the end of the six months ended 30 June 2020, sales of the Group had recovered and were strong, in particular, Australia, Europe, the Greater China regions delivered increased sales in June 2020 when compared with June 2019, indicating a solid recovery reflecting deferred sales orders accumulated during the lockdown period.

## INTERIM RESULTS

The board of directors (the “**Board**” or the “**Directors**”) of Modern Dental Group Limited (the “**Company**”) is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2020, together with the comparative figures for the corresponding period in 2019, as follows:

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF  
COMPREHENSIVE INCOME**

*FOR THE SIX MONTHS ENDED 30 JUNE 2020*

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

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT 30 JUNE 2020*

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**

*AS AT 30 JUNE 2020*

	<i>Notes</i>	<b>30 June 2020</b> <b>(Unaudited)</b> <b><i>HK\$'000</i></b>	31 December 2019 <b>(Audited)</b> <b><i>HK\$'000</i></b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b><u>2,660,476</u></b>	<b><u>2,884,801</u></b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	14	<b>681,688</b>	696,012
Deferred tax liabilities		<b>13,928</b>	16,047
Lease liabilities		<b>127,173</b>	145,132
Other non-current liabilities		<b><u>5,598</u></b>	<u>5,203</u>
Total non-current liabilities		<b><u>828,387</u></b>	<u>862,394</u>
<b>NET ASSETS</b>		<b><u><u>1,832,089</u></u></b>	<b><u><u>2,022,407</u></u></b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		<b>74,592</b>	76,078
Treasury shares		<b>(39)</b>	(21,796)
Reserves		<b><u>1,756,097</u></b>	<u>1,966,538</u>
		<b>1,830,650</b>	2,020,820
Non-controlling interests		<b><u>1,439</u></b>	<u>1,587</u>
<b>TOTAL EQUITY</b>		<b><u><u>1,832,089</u></u></b>	<b><u><u>2,022,407</u></u></b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE AND GROUP INFORMATION

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

### 2.1 BASIS OF PREPARATION

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

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

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

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

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

## **2.2 CHANGES IN ACCOUNTING POLICIES**

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

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to IFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to IAS 1 and IAS 28	<i>Definition of Material</i>

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



### 3. OPERATING SEGMENT INFORMATION

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

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

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

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

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

## **Geographical information**

### (a) Revenue from external customers

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

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

### (b) Non-current assets

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

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

#### 4. REVENUE, OTHER INCOME AND GAINS

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

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

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

- \* 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.

## 5. (LOSS)/PROFIT BEFORE TAX

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

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

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

\*\* Included in “other operating expenses” in the interim condensed consolidated statement of profit or loss.

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

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

## 6. FINANCE COSTS

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

## 7. INCOME TAX EXPENSE

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

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

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

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

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

The Group had no potentially dilutive ordinary shares in issue during the six months period ended 30 June 2020 and 2019.

The calculations of basic and diluted (loss)/earnings per share are based on:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<u>(Loss)/earnings</u>		
(Loss)/profit attributable to ordinary equity holders of the Company, used in the basic and diluted (loss)/earnings per share calculation	<u><b>(139,354)</b></u>	<u>87,556</u>
	<hr/> <b>Number of shares</b> <hr/>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>(Unaudited)</b>	(Unaudited)
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted (loss)/earnings per share calculation	<u><b>962,431,994</b></u>	<u>985,249,226</u>

## 9. DIVIDENDS

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

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

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

## 10. PROPERTY, PLANT AND EQUIPMENT

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



## 11. GOODWILL

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

Management performed impairment testing of goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As a result of the material impact on the economy and market conditions caused by the global COVID-19 pandemic, the management performed impairment testing of the relevant assets affected. Based on the valuation performed by an external valuer, Brilliant Appraisal Limited, engaged by the Company, certain cash generating unit's carrying amount is greater than its recoverable amount. Except for a non-cash impairment loss of goodwill for our North America region, being MicroDental and Modern US, of HK\$150,132,000 is recorded for the period ended 30 June 2020 (30 June 2019: Nil) due to the on-going spreading of the COVID-19 in the North America region, no impairment loss for other relevant assets was noted.

## 12. TRADE RECEIVABLES

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

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

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

### 13. TRADE PAYABLES

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

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

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.

## 14. INTEREST-BEARING BANK BORROWINGS

	30 June 2020 (Unaudited)			31 December 2019 (Audited)		
	Effective/ contractual interest rate (%)	Maturity	HK\$'000	Effective/ contractual interest rate (%)	Maturity	HK\$'000
	<b>Current</b>					
Bank loan – secured	—	—	—	HIBOR+1.10	On demand	20,000
Current portion of long term bank loans – secured	<b>Hong Kong Interbank Offered Rate ("HIBOR")+1.60</b>	<b>2021</b>	<b>141,612</b>	HIBOR+1.60	2020	86,336
			<u>141,612</u>			<u>106,336</u>
<b>Non-current</b>						
Long term bank loans - secured	<b>HIBOR+1.60</b>	<b>2022-2025</b>	<b>681,688</b>	HIBOR+1.60	2021-2023	696,012
			<u>681,688</u>			<u>696,012</u>
			<u><b>823,300</b></u>			<u><b>802,348</b></u>

	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>(Unaudited)</b>	(Audited)
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Analysed into:		
Bank loans repayable:		
Within one year or on demand	<b>141,612</b>	106,336
In the second year	<b>162,558</b>	207,340
In the third to fifth years, inclusive	<b>519,130</b>	488,672
	<b><u>823,300</u></b>	<u>802,348</u>

Notes:

- (a) As at 30 June 2020 (unaudited) and 31 December 2019 (audited), all the amounts borrowed from these facilities are secured by the corporate guarantees of the Company and certain of its subsidiaries.
- (b) As at 30 June 2020 (unaudited) and 31 December 2019 (audited), the Group's bank borrowings denominated in HK\$ amounted to HK\$823,300,000 and HK\$802,348,000, respectively.

# MANAGEMENT DISCUSSION AND ANALYSIS

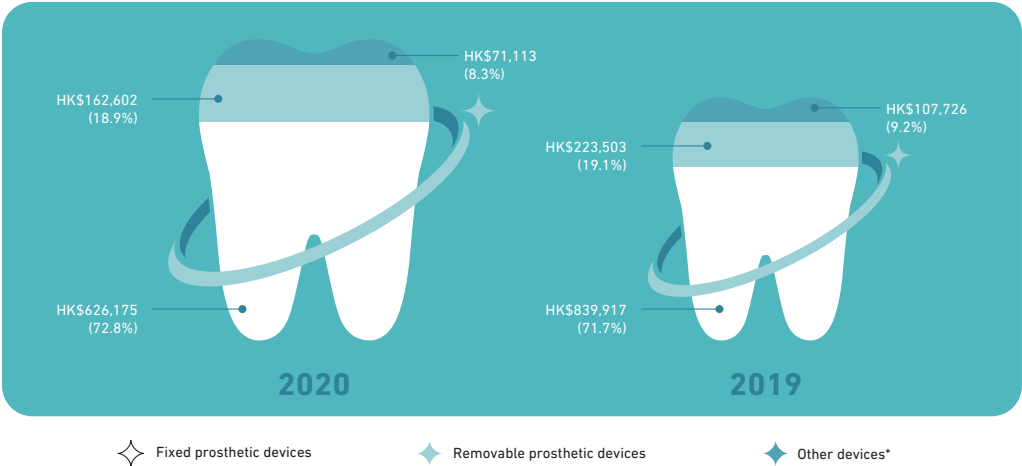
## BUSINESS REVIEW

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

### Product Category

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

**Breakdown of revenue (HK\$'000 and %)**



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

### ***Fixed Prosthetic Devices***

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

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

### ***Removable Prosthetic Devices***

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

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

### ***Other Devices***

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

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

## ***Product Category***

The following table sets forth the breakdown of sales volume, revenue, and average selling price (“ASP”) by product category for the six months ended 30 June 2020 and 2019 respectively:

	<b>Six months ended 30 June</b>					
	<b>2020</b>			<b>2019</b>		
<b>Product category</b>	<b>Sales</b>			<b>Sales</b>		
	<b>Volume</b>	<b>Revenue</b>	<b>ASP</b>	<b>Volume</b>	<b>Revenue</b>	<b>ASP</b>
	<b>(number</b>		<b>(HK\$</b>	<b>(number</b>		<b>(HK\$</b>
	<b>of cases)</b>	<b>(HK\$'000)</b>	<b>per case)</b>	<b>of cases)</b>	<b>(HK\$'000)</b>	<b>per case)</b>
Fixed prosthetic devices	<b>376,988</b>	<b>626,175</b>	<b>1,661</b>	513,512	839,917	1,636
Removable prosthetic devices	<b>139,752</b>	<b>162,602</b>	<b>1,164</b>	205,267	223,503	1,089
Other devices*	<b>127,009</b>	<b>71,113</b>	<b>560</b>	167,055	107,726	645
<b>Total</b>	<b><u>643,749</u></b>	<b><u>859,890</u></b>	<b><u>1,336</u></b>	<b><u>885,834</u></b>	<b><u>1,171,146</u></b>	<b><u>1,322</u></b>

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



## ***Sales volume and average selling price***

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

## **Geographic Market**

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

	Six months ended 30 June						
		2020		2019			
Market	Original currency	Conversion rate <sup>#</sup>	Revenue (HK\$'000)	Conversion rate <sup>#</sup>	Revenue (HK\$'000)	Change in currency (%)	Organic growth rate (%)
Europe*	EUR	8.55	363,699	8.87	464,258	-3.6%	-18.7%
North America	US\$	7.75	240,286	7.75	358,651	—	-33.0%
Greater China**	RMB	1.10	174,442	1.16	241,585	-5.2%	-23.9%
Australia***	AUD	5.10	73,957	5.54	97,595	-7.9%	-17.7%
Others			7,506		9,057		
Total			<u>859,890</u>		<u>1,171,146</u>		

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

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

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

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

## *Europe*

The revenue generated from sales in the European markets, including France, Germany, the Netherlands, Belgium, Denmark, Sweden, Norway, Spain, the United Kingdom and other European countries, accounted for the largest portion of our revenue in the period under review.

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

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

### ***North America***

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

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

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

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

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

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

The ongoing Sino-US trade tension imposed uncertainty over the global operation environment. No tariff is being imposed on the Group's products during the period under review. In view of the relatively small portion of products (less than one-fifth of the sales in the United States) being manufactured in the PRC and supplied to the United States market and the fact that certain production facilities of the Group are strategically located outside of the PRC, it is considered that the financial performance of the Group will not be materially and adversely affected by any potential import tariffs. And it may be beneficial to our production and sale in the United States in the medium to long term on the assumption that the Group would be in an ideal market position to capture the market share lost by its competitors who source their products from the PRC as a result of any potential import tariffs. In addition, the Group has strategically started to set up a production facility in Vietnam to further mitigate the potential risk.

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

### ***Greater China***

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

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

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

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

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

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

### ***Australia***

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

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

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

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

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

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

### ***Others***

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



## **FUTURE PROSPECTS AND STRATEGIES**

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

The Board expects the long-term global demand for dental prosthetics to continue to be stable and growing due to the growing global population and the aging population, notwithstanding any short term challenges the global economy facing brought by the global COVID-19 pandemic in 2020.

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

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

- (i) The Group kick-off setting up a new production site in Vietnam in order to increase the Group's production capacities and also benefit from lower labour and manufacturing cost in Vietnam.
- (ii) The unique global distribution network of the Group brings additional opportunities to the Group, including:
  - (a) additional distribution and joint venture arrangements with upstream suppliers;
  - (b) new products, such as clear aligners.

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

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

## **FINANCIAL REVIEW**

### ***Revenue***

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

### ***Gross Profit and Gross Profit Margin***

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

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

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

### ***Selling and Distribution Expenses***

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

### ***Administrative Expenses***

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

### ***Impairment of Goodwill***

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

### ***Other Operating Expenses***

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

### ***Finance Costs***

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

### ***Income Tax Expense***

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

### ***(Loss) / Profit for the Period***

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

### ***(Loss) / Profit Attributable to Owners of the Company***

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

### ***Non-IFRS Measures***

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

### ***EBITDA and Adjusted EBITDA***

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

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

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

## LIQUIDITY AND FINANCIAL RESOURCES

### Cash Flows

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

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

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

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

### Operating Activities

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



## **Investing Activities**

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

## **Financing Activities**

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

## **Capital Expenditure**

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

## **CAPITAL STRUCTURE**

### **Bank loans**

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

## **Cash and cash equivalents**

The amount in which cash and cash equivalents were held are set out in the paragraph headed “Liquidity and Financial Resources” in this Announcement.

## **Gearing ratio**

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

## **Debt securities**

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

## **Contingent liabilities**

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

## **CHARGE OF GROUP ASSETS**

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

## **Commitments**

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

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

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

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

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

## **OFF-BALANCE SHEET TRANSACTIONS**

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

## **IMPORTANT EVENTS AFTER THE PERIOD UNDER REVIEW**

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

## **QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

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

### **Global Economy and Cross Countries Operations**

As a global business, the Group is exposed to the development of the global economy and continued changes in government policies, political, social, legal and regulatory requirements as well as the industries and geographical markets in which it operates. As a result, the Group's financial condition and results of operations may be influenced by the general state of the economy and operating environment of markets in which it operates. Any significant decrease in the level of economic growth in the global or regional or a specific economy could adversely affect the Group's financial condition or results of operations.

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

The ongoing Sino-US trade tension imposed uncertainty over the global operation environment. No tariff is being imposed on the Group's products during the period under review. In view of the small portion of products being manufactured in the PRC and supplied to the United States market and the fact that certain production facilities of the Group are strategically located outside of the PRC, it is considered that the financial performance of the Group will not be materially and adversely affected by the potential import tariffs. And it may be beneficial to our production and sale in the United States in the medium to long term on the assumption that the Group would be in an ideal market position to capture the market share lost by its competitors who source their products from the PRC as a result of any potential import tariffs applied to the industry. The Group has already started to setup a new production facility in Vietnam to further mitigate the risk.

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

### **Mergers and Acquisitions Risk**

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

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

### **Centralisation of Production Facilities**

The production of the Group relied heavily on its existing production facilities in Shenzhen, Mainland China and in Dongguan, Mainland China. If there are disruptions to the production sites in Shenzhen and Dongguan, the Group may suffer from interruptions to its business. During the period ended 30 June 2020, the management has also started to set up a new production facility in Vietnam to further mitigate the risk. Apart from this, the Group has already had various smaller scale production sites in different parts of the world, such as the United States, Europe and Australia, etc, and will continue to explore opportunities around the world.

## **Interest Rate Risk**

Our exposure to the interest rate risk relates primarily to our long-term debt obligations with floating interest rates. We manage our interest rate exposure with a focus on reducing our overall cost of debt and exposure to changes in interest rate. Our management continues to monitor the cash flows of our operation and the debt markets, where we would expect to refinance these borrowings with a lower cost of debt when desirable. For the six months ended 30 June 2020, the interest rate on floating-rate bank loans were approximately HIBOR+1.60% per annum for term loans. The Group had not entered into any type of interest rate agreements or derivative transactions to hedge against the fluctuations in interest rates.

## **Foreign Currency Risk**

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

## **Credit Risk**

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

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

## **Liquidity Risk**

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

## **EMPLOYEE AND REMUNERATION POLICY**

The Group had a total of 5,541 (31 December 2019: 6,139) full-time employees at our production facilities, service centers, points of sales and other sites as of 30 June 2020, mainly including 3,960 (31 December 2019: 4,552) production staff members, 608 (31 December 2019: 521) general management staff members and 316 (31 December 2019: 361) customer service staff members.

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

## **SHARE OPTION SCHEME**

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

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

As at 30 June 2020, no options had been granted, agreed to be granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme.

### **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 of the Company passed on 19 June 2015 (the “**Pre-IPO RSU Scheme Adoption Date**”). The purpose of the Pre-IPO RSU Scheme is to give incentives thereto in order to retain key employees for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. The Pre-IPO RSU Scheme shall be valid and effective for a period of 10 years commencing on the Pre-IPO RSU Scheme Adoption Date, under the administration of the Board and the trustee.

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

### **DIVIDENDS**

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



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

During the six months period ended 30 June 2020, the Company repurchased 4,600,000 of its ordinary shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of approximately HK\$6,867,000 (before expenses), details of the repurchase are summarised as follows:

Month	Number of ordinary share repurchased	Price per ordinary share		Aggregate consideration paid (before expenses) HK\$'000
		Highest HK\$	Lowest HK\$	
January 2020	3,800,000	1.58	1.41	5,712
February 2020	800,000	1.49	1.39	1,155
	<u>4,600,000</u>			<u>6,867</u>

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

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

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

## **CORPORATE GOVERNANCE**

During the six months ended 30 June 2020, the Company has complied with the applicable code provisions of the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

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

The Company has adopted the Securities Dealing Code containing the provisions set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules, and after having made specific enquiry with regard to securities transactions by the Directors, all Directors have confirmed their compliance with the required standards set out in the Model Code regarding Directors’ securities transactions during the six months ended 30 June 2020.

## **REVIEW OF INTERIM RESULTS**

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

## **PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

The interim results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and on the website of the Company ([www.moderndentalgp.com](http://www.moderndentalgp.com)). The interim report of the Company for the six months ended 30 June 2020 will be despatched to the shareholders of the Company and will be published on the same websites in due course.

By order of the Board  
**Modern Dental Group Limited**  
**Chan Kwun Fung**  
*Chairman and Executive Director*

Hong Kong, 28 August 2020

*As at the date of this announcement, the board of directors of the Company comprises Chan Kwun Fung, Chan Kwun Pan, Ngai Shing Kin, Ngai Chi Ho Alwin, Chan Chi Yuen, Chan Ronald Yik Long and Chan Yik Yu as executive Directors, and Cheung Wai Bun Charles J.P., Chan Yue Kwong Michael, Wong Ho Ching and Cheung Wai Man William as independent non-executive Directors.*