MODERN DENTAL GROUP LIMITED
現代牙科集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3600)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022, DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

For the first half of 2022, the Group continued to capitalise on the industry-wide recovery and normalisation in demand for dental products and services as a result of significant tailwinds generated by an increase in spending by consumers on specialty dental treatments and tailwinds driven by the digitalisation of, and the adoption of intra-oral scanners in, the dental market. However at the same time, the Group was unfortunately and materially affected by various factors which were outside of its control in particular: (i) the resurgence of the COVID-19 pandemic in Mainland China and the government's related control measures which in turn, resulted in a temporary suspension of the operations of our major production facilities in Shenzhen and Dongguan in the first quarter of 2022. The resumption of operations of our major production facilities in Shenzhen and Dongguan in the second quarter of 2022 mitigated the effects of the first quarter; (ii) the resurgence of COVID-19 pandemic in certain cities of Mainland China affecting the operations of clinics and hospitals, and demand for our products; and (iii) the deprecation of, and the continued weakness of, the Euro and Australian dollar against the Hong Kong dollar since second half of 2021.

Notwithstanding the above, the Group continued to benefit from a significant increase in new clients in certain key markets, as the ongoing supply-chain disruptions, increasingly elevated high energy costs and challenging economy and business environment are expected to, in each case, disproportionately affect our smaller and mid-scaled local competitors leading to, in the Group's view, an increase in market share in the applicable markets. This would reflect the Group's competitiveness in the industry, its ability to thrive under uncertain business conditions and its close relationship with its clients and customers. Despite the macro-economical headwinds, the Group is confident that the underlying fundamentals of its business are solid and that it is well-positioned to capture further opportunities going forward – as the industry continues to consolidate at an accelerated pace.

RESULTS HIGHLIGHTS

- The Revenue for the six months ended 30 June 2022 was approximately HK$1,428,492,000 (six months ended 30 June 2021: HK$1,481,225,000), representing a decrease of approximately HK$52,733,000 or 3.6% as compared with that of the six months ended 30 June 2021.

- The Gross Profit Margin for the six months ended 30 June 2022 was approximately 48.7% (six months ended 30 June 2021: 52.7%). Gross profit for the six months ended 30 June 2022 was approximately HK$695,334,000 (six months ended 30 June 2021: HK$780,240,000), representing a decrease of approximately HK$84,906,000 or 10.9% as compared with that of the six months ended 30 June 2021.

- The Group's EBITDA for the six months ended 30 June 2022 was approximately HK$215,929,000 (six months ended 30 June 2021: HK$375,195,000), representing a decrease of approximately HK$159,266,000 or 42.4% as compared with that of six months ended 30 June 2021.

- The Group's Net Profit for the six months ended 30 June 2022 were approximately HK$100,443,000 (six months ended 30 June 2021: HK$240,005,000) representing a decrease of approximately HK$139,562,000 or 58.1% as compared with that of six months ended 30 June 2021.

- The decrease in the Revenue, EBITDA and Net Profit was due to (i) decrease in sales orders volume due to the resurgence of the COVID-19 pandemic in Mainland China and the government's related control measures which in turn, resulted in a temporary suspension of the operations of our major production facilities in Shenzhen and Dongguan in the first quarter of 2022 (the "**Temporary Suspension of Mainland China Production in Q1 2022**"); (ii) the resurgence of COVID-19 pandemic in certain cities of Mainland China affecting the operations of clinics and hospitals, and demand for our products; (iii) the continued investment in strategic projects, including the establishment of our Vietnam production facilities and our clear aligners business; and (iv) depreciation of foreign currencies against HK$ when compared with same period in 2021 (in particular, EUR and AUD).

- Basic earnings per share for the six months ended 30 June 2022 amounted to HK10.44 cents (six months ended 30 June 2021: HK25.06 cents).

- The Board declared an interim dividend of HK3.7 cents (six months ended 30 June 2021: an interim dividend of HK7.5 cents and a special dividend of HK5.0 cents) per ordinary share for the six months ended 30 June 2022. The interim dividend will be payable on Tuesday, 11 October 2022 to shareholders of the Company (the "**Shareholders**") whose names appear on the Register of Members of the Company on Monday, 19 September 2022.

The following table sets forth summary of key financial results for the six months ended 30 June 2022, 31 December 2021 and 30 June 2021:

	Six months ended				
				Changes 30 June 2022 vs 31 December 2021	Changes 30 June 2022 vs 30 June 2021
	30 June 2022 (unaudited)	31 December 2021 (unaudited)	30 June 2021 (unaudited)		
	HK$'000	*HK$'000*	*HK$'000*	*%*	*%*
Revenue	**1,428,492**	1,473,947	1,481,225	-3.1%	-3.6%
Gross Profit	**695,334**	770,411	780,240	-9.7%	-10.9%
Gross Profit Margin (%)	**48.7%**	52.3%	52.7%	-6.9%	-7.6%
EBITDA	**215,929**	251,198	375,195	-14.0%	-42.4%
EBITDA Margin (%)	**15.1%**	17.0%	25.3%	-11.2%	-40.3%
Net Profit	**100,443**	120,370	240,005	-16.6%	-58.1%
Net Profit Margin (%)	**7.0%**	8.2%	16.2%	-14.6%	-56.8%

The following table sets forth a breakdown of the revenue generated from the aforesaid markets for the six months ended 30 June 2022 and 2021:

	Six months ended 30 June						
		2022		2021		2022 VS 2021	
	Original currency	**Conversion rate**	**Revenue *(HK$'000)***	Conversion rate	Revenue *(HK$'000)*	Change in currency *(%)*	Organic growth rate *(%)*
Market							
Europe	**EUR**	**8.56**	**616,430**	9.35	642,190	-8.4%	4.8%
North America	**US$**	**7.75**	**362,448**	7.75	361,628	—	0.2%
Greater China	**RMB**	**1.20**	**319,239**	1.20	331,877	—	-3.8%
Australia	**AUD**	**5.63**	**112,867**	5.99	127,509	-6.0%	-5.8%
Others			**17,508**		18,021		
Total			**1,428,492**		1,481,225		

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.

Further highlights:

- For the six months ended 30 June 2022, 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 247,887 cases reflecting an increase of 110.8% as compared with the same period in 2021 (approximately 117,589 cases) as a result of our clients' increased adoption of intra-oral scanners.

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 2022, together with the comparative figures for the corresponding period in 2021, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Notes	**Six months ended 30 June** **2022** **(Unaudited)** ***HK$'000***	2021 (Unaudited) *HK$'000*
REVENUE	4	**1,428,492**	1,481,225
Cost of sales		**(733,158)**	(700,985)
Gross profit		**695,334**	780,240
Other income and gains	4	**7,586**	6,480
Selling and distribution expenses		**(189,994)**	(160,002)
Administrative expenses		**(363,118)**	(318,024)
Other operating expenses		**(5,762)**	(2,974)
Finance costs	6	**(8,895)**	(11,584)
Share of profits of an associate		**244**	375
PROFIT BEFORE TAX	5	**135,395**	294,511
Income tax expense	7	**(34,952)**	(54,506)
PROFIT FOR THE PERIOD		**100,443**	240,005
ATTRIBUTABLE TO:			
Owners of the Company		**99,851**	240,037
Non-controlling interests		**592**	(32)
		100,443	240,005
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	8	**HK10.44 cents**	HK25.06 cents
Diluted	8	**HK10.44 cents**	HK25.06 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**100,443**	240,005
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(112,326)**	(25,987)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Change in fair value of equity investments at fair value through other comprehensive income	**(4,776)**	—
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(117,102)**	(25,987)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(16,659)**	214,018
ATTRIBUTABLE TO:		
Owners of the Company	**(17,251)**	214,050
Non-controlling interests	**592**	(32)
	(16,659)	214,018

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

	Notes	**30 June 2022 (Unaudited) *HK$'000***	31 December 2021 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	10	**627,003**	586,980
Right-of-use assets		**152,977**	160,107
Goodwill	11	**1,133,793**	1,185,682
Intangible assets		**235,254**	255,178
Investments in an associate		**3,325**	3,230
Equity investments designated at fair value through other comprehensive income	12	**34,683**	—
Deferred tax assets		**48,540**	49,633
Long term prepayments and deposits		**20,586**	21,170
Total non-current assets		**2,256,161**	2,261,980
CURRENT ASSETS			
Inventories		**160,448**	142,488
Trade receivables	13	**576,587**	528,976
Prepayments, deposits and other receivables		**92,722**	74,869
Current tax assets		**13,960**	11,061
Pledged deposits		**3,411**	4,848
Cash and cash equivalents		**384,534**	633,157
Total current assets		**1,231,662**	1,395,399
CURRENT LIABILITIES			
Trade payables	14	**80,310**	80,082
Other payables and accruals		**240,012**	233,055
Interest-bearing bank borrowings	15	**462,524**	173,402
Lease liabilities		**44,051**	47,211
Tax payable		**103,960**	134,535
Total current liabilities		**930,857**	668,285
NET CURRENT ASSETS		**300,805**	727,114
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,556,966**	2,989,094

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2022

	Notes	**30 June 2022 (Unaudited) *HK$'000***	31 December 2021 (Audited) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,556,966**	2,989,094
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	15	**129,792**	499,660
Lease liabilities		**108,813**	112,812
Deferred tax liabilities		**9,932**	11,933
Other non-current liabilities		**6,514**	6,029
Total non-current liabilities		**255,051**	630,434
NET ASSETS		**2,301,915**	2,358,660
EQUITY			
Equity attributable to owners of the Company			
Share capital		**74,163**	74,163
Treasury shares		**(39)**	(39)
Reserves		**2,214,969**	2,274,325
		2,289,093	2,348,449
Non-controlling interests		**12,822**	10,211
TOTAL EQUITY		**2,301,915**	2,358,660

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 and other dental appliances, including clear aligners.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2022 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 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 2021 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 2021.

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 2021, except for the adoption of following revised standards for the first time for the current period's financial statements.

Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment: Proceed before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRSs 2018 – 2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

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 (including clear aligners), sport guards and anti-snoring devices, raw materials, dental equipment, the service of educational events and seminars rendered.

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

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

	Six months ended 30 June					
	2022 (Unaudited)			2021 (Unaudited)		
	Revenue	**Cost of sales**	**Gross profit**	Revenue	Cost of sales	Gross profit
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Product category						
Fixed prosthetic devices	**924,056**	**451,564**	**472,492**	982,020	451,965	530,055
Removable prosthetic devices	**262,289**	**133,110**	**129,179**	259,626	121,869	137,757
Others	**242,147**	**148,484**	**93,663**	239,579	127,151	112,428
Total	**1,428,492**	**733,158**	**695,334**	1,481,225	700,985	780,240

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Europe	**616,430**	642,190
North America	**362,448**	361,628
Greater China	**319,239**	331,877
Australia	**112,867**	127,509
Others	**17,508**	18,021
	1,428,492	1,481,225

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

(b) Non-current assets

	30 June 2022 (Unaudited) ***HK$'000***	31 December 2021 (Audited) *HK$'000*
Europe	**649,994**	702,157
Greater China	**546,162**	466,308
North America	**530,649**	533,000
Australia	**408,368**	434,507
Others	**72,448**	76,375
	2,207,621	2,212,347

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:

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Sale of goods transferred at a point in time	**1,428,492**	1,481,225
Other income		
Bank interest income	**893**	266
Government subsidies*	**2,755**	2,261
Others	**3,322**	3,855
	6,970	6,382
Gains		
Gains on disposal of items of property, plant and equipment, net	**616**	98
	616	98
Other income and gains	**7,586**	6,480

* 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. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold#	**733,158**	700,985
Depreciation of right-of-use assets	**25,281**	23,098
Depreciation of property, plant and equipment	**34,571**	31,403
Amortisation of intangible assets	**12,680**	14,865
Lease payments not included in the measurement of lease liabilities	**3,746**	5,687
Research and development costs##	**22,779**	3,537
Auditors' remuneration	**4,956**	5,439
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries*	**619,014**	570,017
Pension scheme contributions	**84,461**	74,417
	703,475	644,434
Bank interest income	**(893)**	(266)
Gains on disposal of items of property, plant and equipment, net**	**(616)**	(98)
Write-off of property, plant and equipment**	**33**	19
Allowance for impairment of trade receivables, net	**4,699**	—
Reversal of allowance for impairment of trade receivables, net	**—**	(958)
Foreign exchange loss, net**	**5,151**	2,924

\# Cost of inventories sold includes HK$433,600,000 (unaudited) (six months ended 30 June 2021: HK$415,582,000 (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$18,777,000 (unaudited) (six months ended 30 June 2021: HK$2,731,000 (unaudited)) relating to employee benefit expense, lease payments not included in the measurement of lease liabilities and depreciation, which are also included in the respective total amounts disclosed above for each of these types of expenses.

* The amount has been net-off with government subsidies of HK$1,096,000 (unaudited) (six months ended 30 June 2021: Nil (unaudited)) 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 are included in "other income and gains" in the interim condensed consolidated statements of profit or loss. Write-off of property, plant and equipment and foreign exchange loss, net are included in "other operating expenses" in the interim condensed consolidated statements of profit or loss.

6. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other loans	**5,445**	7,190
Finance charges on bank loans	**1,097**	1,589
Interest on lease liabilities	**2,353**	2,805
	8,895	11,584

7. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong	**13,144**	34,646
Current – Elsewhere	**23,124**	24,881
Deferred	**(1,316)**	(5,021)
Total tax charge for the period	**34,952**	54,506

8. 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 six months ended 30 June 2022 and 2021 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 earnings per share amount is based on the profit for the six months ended 30 June 2022 and 2021 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 earnings per share calculation.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2022 and 2021. The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	**99,851**	240,037

	Number of shares	
	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	**956,442,955**	958,017,187

9. DIVIDENDS

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interim dividend	**35,407**	71,968
Special dividend	**—**	47,979

The Board declared an interim dividend of HK3.7 cents per share for the six months ended 30 June 2022 (six months ended 30 June 2021: an interim dividend of HK7.5 cents and a special dividend of HK5.0 cents per share). The interim dividend is not recognised as a liability as at 30 June 2022 because they have been declared after the end of the reporting period.

In 2022, the calculation of the interim dividend are based on 956,941,000 ordinary shares in issue. In 2021, the calculation of the interim dividend and special dividend were based on 959,577,000 ordinary shares in issue.

10. PROPERTY, PLANT AND EQUIPMENT

	30 June 2022 (Unaudited) ***HK$'000***	31 December 2021 (Audited) *HK$'000*
Carrying amount at 1 January	**586,980**	518,915
Additions	**101,112**	135,159
Acquisition of a subsidiary/ business during the period/year	**485**	713
Disposals	**(3,202)**	(5,868)
Write-off	**(33)**	(608)
Depreciation provided during the period/year	**(34,571)**	(64,286)
Exchange realignment	**(23,768)**	2,955
Carrying amount at 30 June/31 December	**627,003**	586,980

11. GOODWILL

	30 June 2022 (Unaudited) ***HK$'000***	31 December 2021 (Audited) *HK$'000*
Carrying amount at 1 January	**1,185,682**	1,240,088
Acquisition of a subsidiary/ business during the period/year	**1,202**	5,839
Exchange realignment	**(53,091)**	(60,245)
Carrying amount at 30 June/31 December	**1,133,793**	1,185,682

12. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2022 (Unaudited) ***HK$'000***	31 December 2021 (Audited) *HK$'000*
Listed equity investments in Hong Kong, at fair value		
Arrail Group Limited	**34,683**	—

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

13. TRADE RECEIVABLES

An ageing analysis of the trade receivables as at 30 June 2022 and 31 December 2021, based on the invoice date and net of loss allowance, is as follows:

	30 June 2022 (Unaudited) ***HK$'000***	31 December 2021 (Audited) *HK$'000*
Within 1 month	**254,422**	240,514
1 to 2 months	**87,312**	80,195
2 to 3 months	**67,616**	41,002
3 months to 1 year	**147,140**	141,185
Over 1 year	**20,097**	26,080
	576,587	528,976

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.

14. TRADE PAYABLES

An ageing analysis of the trade payables as at 30 June 2022 and 31 December 2021, based on the invoice date, is as follows:

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
	HK$'000	*HK$'000*
Within 1 month	**68,417**	58,033
1 to 2 months	**8,121**	17,616
2 to 3 months	**89**	2,402
Over 3 months	**3,683**	2,031
	80,310	80,082

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.

15. INTEREST-BEARING BANK BORROWINGS

	30 June 2022 (Unaudited)			31 December 2021 (Audited)		
	Effective/ contractual interest rate (%)	**Maturity**	***HK$'000***	Effective/ contractual interest rate (%)	Maturity	*HK$'000*
Current						
Bank loan – secured	**Base Financing Rate+3.50**	**On demand**	**186**	—	—	—
Bank loan – secured	**Hong Kong Interbank Offered Rate ("HIBOR") +1.10**	**On demand**	**73,000**	—	—	—
Current portion of long term bank loans – secured	**HIBOR+1.60**	**2022-2023**	**389,338**	HIBOR+1.60	2022	173,402
			462,524			173,402
Non-current						
Long term bank loans - secured	**HIBOR+1.60**	**2023-2025**	**129,792**	HIBOR+1.60	2023-2025	499,660
			129,792			499,660
			592,316			673,062

	30 June 2022 (Unaudited)	31 December 2021 (Audited)
	HK$'000	*HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**462,524**	173,402
In the second year	**54,826**	389,769
In the third to fifth years, inclusive	**74,966**	109,891
	592,316	673,062

Notes:

(a) As at 30 June 2022 (unaudited) and 31 December 2021 (audited), all bank borrowings are secured by the corporate guarantees of the Company and certain of its subsidiaries.

(b) As at 30 June 2022 (unaudited), the Group's bank borrowings denominated in HK$ and MYR amounted to HK$592,130,000 and HK$186,000, respectively.

As at 31 December 2021 (audited), the Group's bank borrowings are denominated in HK$.

16. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group refinanced the bank borrowings amounted to approximately HK$592,130,000 in which the maturity of the bank borrowings has been further extended up to 5 years.

Saved as disclosed above, the Group has no important events after the period under review up to the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

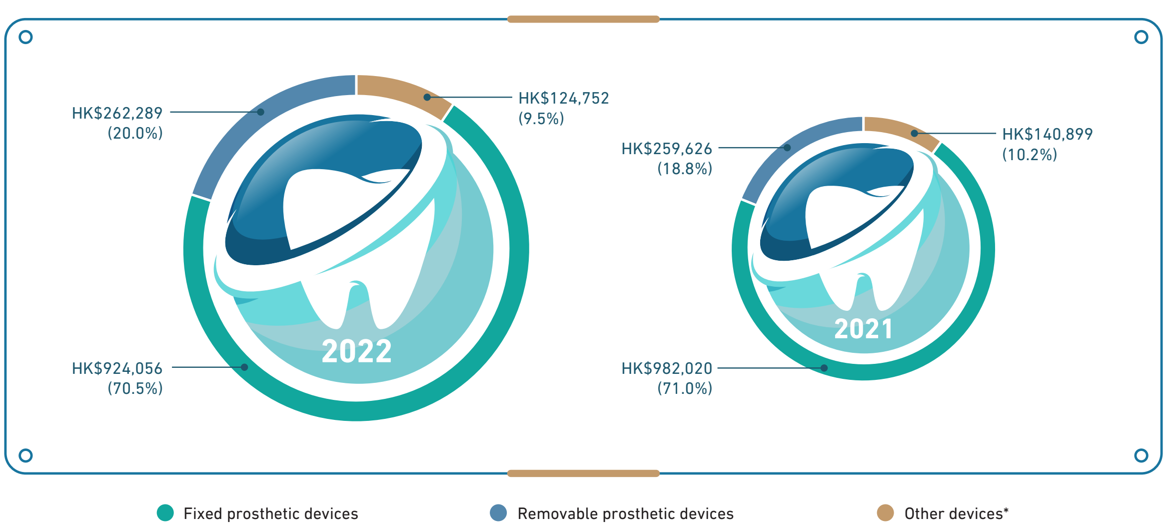
BUSINESS REVIEW

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$12,195,000 (six months ended 30 June 2021: HK$10,561,000).

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 2022 and 2021 respectively:

Breakdown of revenue (HK$'000 and %)



* Raw materials revenue, dental equipment revenue, clear aligner 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$924,056,000, representing a decrease of approximately HK$57,964,000 as compared with the six months ended 30 June 2021. This business segment accounted for approximately 70.5% of the Group's total revenue as compared with approximately 71.0% in the six months ended 30 June 2021.

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$262,289,000, representing an increase of approximately HK$2,663,000 as compared with the six months ended 30 June 2021. This business segment accounted for approximately 20.0% of the Group's total revenue as compared with approximately 18.8% in the six months ended 30 June 2021.

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$124,752,000, representing a decrease of approximately HK$16,147,000 as compared with the six months ended 30 June 2021. This business segment accounting for approximately 9.5% of the Group's total revenue as compared with approximately 10.2% in the six months ended 30 June 2021.

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 2022 and 2021 respectively:

	Six months ended 30 June					
	2022			2021#		
	Sales Volume (number of cases)	**Revenue (HK$'000)**	**ASP (HK$ per case)**	Sales Volume (number of cases)	Revenue (HK$'000)	ASP (HK$ per case)
Product category						
Fixed prosthetic devices	**496,024**	**924,056**	**1,863**	537,528	982,020	1,827
Removable prosthetic devices	**223,551**	**262,289**	**1,173**	228,725	259,626	1,135
Other devices*	**186,829**	**124,752**	**668**	207,804	140,899	678
Total	**906,404**	**1,311,097**	**1,446**	974,057	1,382,545	1,419

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

\# Volume in 2021 is adjusted to align with the methodologies applied in 2022.

Sales volume and average selling price

For the six months ended 30 June 2022, the sales volume and ASP of the Group's products across its markets were 906,404 cases (six months ended 30 June 2021: 974,057 cases) and HK$1,446 per case (six months ended 30 June 2021: HK$1,419 per case), representing a decrease of 6.9% and an increase of 1.9%, respectively.

For the six months ended 30 June 2022, 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 247,887 cases reflecting an increase of 110.8% as compared with the same period in 2021 (approximately 117,589 cases) as a result of our clients' increased adoption of intra-oral scanners.

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 2022 and 2021, respectively:

	Six months ended 30 June						
		2022		2021		**2022 VS 2021**	
	Original currency	**Conversion rate#**	**Revenue** *(HK$'000)*	Conversion rate#	Revenue *(HK$'000)*	Change in currency *(%)*	Organic growth rate *(%)*
Market							
Europe	**EUR**	**8.56**	**616,430**	9.35	642,190	-8.4%	4.8%
North America	**US$**	**7.75**	**362,448**	7.75	361,628	—	0.2%
Greater China	**RMB**	**1.20**	**319,239**	1.20	331,877	—	-3.8%
Australia	**AUD**	**5.63**	**112,867**	5.99	127,509	-6.0%	-5.8%
Others			**17,508**		18,021		
Total			**1,428,492**		1,481,225		

\# 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.

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 period under review.

Although the operations of our Europe region was affected by the Temporary Suspension of Mainland China Production in Q1 2022, the overall sales in the Europe region increased by 4.8% in original currency in this period. The growth was driven 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 32.1% during the period under review.

Since 2020, the European region has 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 period under review, the European market recorded a revenue of approximately HK$616,430,000, representing a decrease of approximately HK$25,760,000 as compared with six months ended 30 June 2021. This geographic market accounted for 43.2% of the Group's total revenue as compared with approximately 43.4% for the six months ended 30 June 2021. The decrease of revenue from the European market was attributable to (i) the depreciation of EUR against HK$ by 8.4% compared with the six months ended 30 June 2021; and (ii) the decrease in sales order volume as a result of the Temporary Suspension of Mainland China Production in Q1 2022 and the effect was partially offset by (i) the success in offering comprehensive latest state-of-the-art digital solutions to our clients that brought new clients on board; and (ii) the increase in sales of new equipment (primarily intra-oral scanners).

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$291,478,000 (six months ended 30 June 2021: HK$286,072,000) to the Group's revenue, approximately HK$31,502,000 (six months ended 30 June 2021: HK$40,768,000) to the Group's Adjusted EBITDA; and approximately HK$15,834,000 (six months ended 30 June 2021: HK$25,667,000) to the Group's profit for the six months ended 30 June 2022.

Since 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. Although the Group has encountered the general softness from the inflationary pressure and the constraints arose from the Temporary Suspension of Mainland China Production in Q1 2022 and COVID-19 lockdown imposed in Canada in Q1 2022, the revenue of the North America market increased by approximately 0.2% for the period ended 30 June 2022 compared with the same period in 2021.

During the period under review, the North American market recorded a revenue of approximately HK$362,448,000, representing an increase of approximately HK$820,000 as compared with the six months ended 30 June 2021. This geographic market accounted for approximately 25.4% of the Group's total revenue as compared with approximately 24.4% in the six months ended 30 June 2021.

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.

During the period under review, the resurgence of the COVID-19 pandemic in certain cities in the Greater China region has (i) affected the operations of clinics and hospitals, and demand for our products; (ii) resulted in the Temporary Suspension of Mainland China Production in Q1 2022; and (iii) affected the cross border logistics operations between Hong Kong and Mainland China. The Group has managed to gradually resume the ordinary operations of the Group in the second quarter of 2022 that mitigated the effects of the first quarter. The resurgence of the COVID-19 pandemic has once again disproportionally affected our smaller and mid-scaled competitors. In addition, a few cities and provinces have announced pilot programs and details to initiate the inclusion of dental implant treatment in social insurance benefits and expanding the tendering process for certain dental components, which the Group sees as an opportunistic development for itself as the measures are expected to level the playing field and encourage fairer competition.

Despite the difficult operating environment during the period under review, the management is cautiously optimistic on the long-term prospect of the Greater China region as (i) the Group has a proven track record in capturing more market share throughout the COVID-19 pandemic from our competitors following the disproportional impact of the COVID-19 pandemic on our smaller and mid-scale competitors and (ii) the management is confident in winning more market share in the market with enhanced transparency of selection criteria given our competitive strength in products quality, advancement in products offering and financial resources. During the period under review, the Group is committed to support the development of the dental community in the region for long-term by (i) increasing 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 and clear aligners products in the Mainland China; and (iii) increasing the level of support and cooperation with the dental school of the University of Hong Kong.

During the period under review, the Greater China market recorded a revenue of approximately HK$319,239,000, representing a decrease of approximately HK$12,638,000 as compared with six months ended 30 June 2021. This geographic market accounted for approximately 22.3% of the Group's total revenue as compared with approximately 22.4% in the six months ended 30 June 2021. The decrease of revenue from the Greater China market was largely attributable to the decline in sales orders volumes due to the resurgence of the COVID-19 pandemic in certain cities of Mainland China and Hong Kong affecting the operations of clinics and hospitals, and demand for our products and the Temporary Suspension of Mainland China Production in Q1 2022.

Australia

The Australian market includes both Australia and New Zealand. In Australia and New Zealand, individuals are primarily responsible for financing their own dental treatments. Through our various brands, which offer onshore-and offshore-made products, at multiple price points ranging from economy and standard to premium/boutique, the Group is able to effectively penetrate the entire Australian market. Similar to our strategy in Europe, where the Group is focusing on providing better local service, we have invested in local production capacity to provide faster service to our customers, and to provide choices around where the products are made. The Group is one of the largest players in the Australian market and is a preferred supplier to the major corporate dental groups in the market.

During the period under review, the operations of the Group in the region was affected by the Temporary Suspension of Mainland China Production in Q1 2022 and the business has gradually recovered since the second quarter of 2022.

During the period under review, the Australian market recorded a revenue of approximately HK$112,867,000 representing a decrease of approximately HK$14,642,000 as compared with the six months ended 30 June 2021. This geographic market accounted for approximately 7.9% of the Group's total revenue as compared with approximately 8.6% in the six months ended 30 June 2021. The decrease of revenue from the Australian market was largely attributable to (i) depreciation of AUD against HK$ by 6.0% for the six months ended 30 June 2022 compared with six months ended 30 June 2021; and (ii) decline in the sales order volume due to the Temporary Suspension of Mainland China Production in Q1 2022.

Others

Other markets primarily include Indian Ocean countries, Japan, Taiwan, Singapore and Malaysia. During the period under review, these markets recorded a revenue of approximately HK$17,508,000, representing a decrease of approximately HK$513,000 as compared with the six months ended 30 June 2021. This geographic market accounted for approximately 1.2% of the Group's total revenue as compared with approximately 1.2% in the six months ended 30 June 2021. The decrease of revenue from the other markets was largely attributable to the decrease in sales order volume due to the Temporary Suspension of Mainland China Production in Q1 2022.

FUTURE PROSPECTS AND STRATEGIES

Notwithstanding any short or medium term challenges the global economy may face, 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 supply-chain issues in particular government-imposed restrictions on our production facilities in Mainland China, it is evident that the difficult and challenging business environment is expected to disproportionately affect our smaller or mid-scaled competitors. The acceleration in the adoption of intra-oral scanners by our customers in certain markets is expected to further speed-up 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.

FINANCIAL REVIEW

Revenue

During the period under review, the revenue of the Group amounted to approximately HK$1,428,492,000 representing a decrease of approximately 3.6% as compared with approximately HK$1,481,225,000 in the six months ended 30 June 2021. The decrease was largely attributable to (i) decrease in sales orders volume due to resurgence of the COVID-19 pandemic in Mainland China and the government's related control measures which in turn, resulted in Temporary Suspension of Mainland China Production in Q1 2022; (ii) depreciation of foreign currencies against HK$ when compared with same period in 2021 (in particular, EUR and AUD); and (iii) offset by increase in sales of intra-oral scanners.

Gross Profit and Gross Profit Margin

The gross profit for the six months ended 30 June 2022 was approximately HK$695,334,000, which was approximately 10.9% lower than that of the six months ended 30 June 2021. The decrease of the gross profit margin of approximately 4.0 percentage points compared with the corresponding period in 2021 was mainly attributable to (i) the inefficient utilisation of the production capacity during the Temporary Suspension of Mainland China Production in Q1 2022; (ii) depreciation of foreign currencies against HK$ when compared with same period in 2021 (in particular, EUR and AUD); and (iii) the increase in sales of 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 51.1%, 49.3% and 38.7% respectively. The following table sets forth the breakdown of our gross profit and gross profit margin by product category.

	Six months ended 30 June			
	2022		2021	
	Gross profit *(HK$'000)*	**Gross profit margin *(%)***	Gross profit *(HK$'000)*	Gross profit margin *(%)*
Product category				
Fixed prosthetic devices	**472,492**	**51.1**	530,055	54.0
Removable prosthetic devices	**129,179**	**49.3**	137,757	53.1
Others	**93,663**	**38.7**	112,428	46.9
Total	**695,334**	**48.7**	780,240	52.7

Selling and Distribution Expenses

During the period under review, the selling and distribution expenses increased by approximately 18.7% from approximately HK$160,002,000 for the six months ended 30 June 2021 to approximately HK$189,994,000 for the six months ended 30 June 2022, accounting for approximately 13.3% of the Group's revenue, as compared with approximately 10.8% for the corresponding period in 2021. The increase in the selling and distribution expenses was due to the increase in promotions and marketing activities and sales headcount of our clear aligner business, including TrioClear and QJ Smile and increase in logistics cost from exporting goods from Mainland China to other countries due to tighten COVID-19 related precautionary measures.

Administrative Expenses

During the period under review, the administrative expenses increased by approximately 14.2% from approximately HK$318,024,000 for the six months ended 30 June 2021 to approximately HK$363,118,000 for the six months ended 30 June 2022, accounting for approximately 25.4% of the Group's revenue, as compared with approximately 21.5% for the corresponding period in 2021. 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$19,242,000; (ii) the increase in labour costs due to increase in number of headcount; and (iii) costs incurred for setting up a Vietnam production facilities.

Other Operating Expenses

During the period under review, the other operating expenses increased by approximately 93.7% from approximately HK$2,974,000 for the six months ended 30 June 2021 to approximately HK$5,762,000 for the six months ended 30 June 2022, accounting for approximately 0.4% of the Group's revenue, as compared with approximately 0.2% for the corresponding period in 2021. Other operating expenses mainly represented exchange losses, net, incurred of approximately HK$5,151,000 (six months ended 30 June 2021: HK$2,924,000).

Finance Costs

During the period under review, the finance costs decreased by approximately 23.2% from approximately HK$11,584,000 for the six months ended 30 June 2021 to approximately HK$8,895,000 for the six months ended 30 June 2022, accounting for approximately 0.6% of the Group's revenue, as compared with approximately 0.8% for the corresponding period in 2021. The decrease was mainly due to the decrease in the interest-bearing bank borrowings when compared with six months ended 30 June 2021.

Income Tax Expense

During the period under review, the income tax expense decreased by approximately 35.9% from approximately HK$54,506,000 for the six months ended 30 June 2021 to approximately HK$34,952,000 for the six months ended 30 June 2022.

Profit for the Period

Profit for the period decreased by approximately 58.1% from approximately HK$240,005,000 for the six months ended 30 June 2021 to approximately HK$100,443,000 for the six months ended 30 June 2022.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company amounted to approximately HK$99,851,000, representing a decrease of approximately HK$140,186,000, or approximately 58.4%, as compared with corresponding period in 2021.

The decrease in profit and profit attributable to owners of the Company was predominately due to:

(i) the resurgence of the COVID-19 pandemic in Mainland China and the government's related control measures which in turn, resulted in Temporary Suspension of Mainland China Production in Q1 2022. The resumption of operations of the Company's major production facilities in Shenzhen and Dongguan in the second quarter of 2022 mitigated the effects of the first quarter;

(ii) the resurgence of COVID-19 pandemic in certain cities of Mainland China affecting the operations of clinics and hospitals, and demand for the Group's products;

(iii) the continued investment in strategic projects, including the establishment of the Group's Vietnam production facilities and our clear aligners business; and

(iv) depreciation of EUR and AUD against HK$ since second half of 2021.

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 transaction cost in connection with acquisitions and disposals.

The table below indicates the profit for the six months ended 30 June 2022 and 2021, reconciling the Adjusted EBITDA for the periods presented to the most comparable financial measures calculated in accordance with the IFRS:

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
EBITDA and Adjusted EBITDA		
Net profit	**100,443**	240,005
Add:		
Tax	**34,952**	54,506
Finance costs	**8,895**	11,584
Depreciation of right-of-use assets	**25,281**	23,098
Depreciation of property, plant and equipment	**34,571**	31,403
Amortisation of intangible assets	**12,680**	14,865
Less:		
Bank interest income	**(893)**	(266)
EBITDA	**215,929**	375,195
Add:		
One-off cost in connection with acquisitions and disposals	**435**	—
Adjusted EBITDA	**216,364**	375,195
Adjusted EBITDA Margin	**15.1%**	25.3%

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the six months ended 30 June 2022 and 2021:

	Six months ended 30 June	
	2022	2021
	HK$'000	*HK$'000*
Net cash flows from operating activities	**56,923**	246,840
Net cash flows used in investing activities	**(136,232)**	(44,561)
Net cash flows used in financing activities	**(155,803)**	(253,258)

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$384,534,000 as of 30 June 2022 (31 December 2021: HK$633,157,000), which was mainly denominated in HK$, RMB, US$, EUR and AUD.

Operating Activities

Net cash flows from operating activities was approximately HK$56,923,000 for the six months ended 30 June 2022 (six months ended 30 June 2021: HK$246,840,000). The decrease in net cash flows from operating activities was primarily driven by the decrease in operating profit generated by the Group and the increase in working capitals incurred to cope with the recovery of sales activities towards the end of the period under review.

Investing Activities

The Group recorded a net cash outflow used in investing activities of approximately HK$136,232,000 for the six months ended 30 June 2022. The outflow was mainly attributable to (i) approximately HK$101,211,000 used primarily for expansion of our production facilities, such as construction costs of a factory building in Dongguan, Mainland China of approximately HK$58,000,000, and upgrade of our computer-aided/manufacturing equipment; and (ii) strategic equity investment in a top premium dental clinic chains group of approximately HK$39,459,000.

Financing Activities

The Group recorded a net cash outflow used in financing activities of approximately HK$155,803,000 for the six months ended 30 June 2022. The outflow was mainly attributable to (i) repayment of bank borrowings, net of approximately HK$82,052,000; (ii) payment for dividend of approximately HK$42,105,000; (iii) payment for lease liabilities of approximately HK$28,051,000; and (iv) payment for interest expenses of approximately HK$5,445,000.

Capital Expenditure and Research and Development Expenses

During the period under review, the Group's capital expenditure amounted to approximately HK$101,211,000 was used for expansion of our production facilities, such as construction costs of a factory building in Dongguan, Mainland China of approximately HK$58,000,000, and upgrade of our computer-aided/manufacturing equipment. 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 2022, the Group has invested in acquisition of the latest state-of-the-art machineries of approximately HK$23,270,000 (six months ended 30 June 2021: HK$27,719,000) and incurred research and development cost of approximately HK$22,779,000 (six months ended 30 June 2021: HK$3,537,000). The aggregate amounts collectively represented approximately 3.2% of the revenue of the Group (six months ended 30 June 2021: 2.1%).

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 realise the Group's business strategies with an aim to obtain a higher return for the Shareholders at an appropriate risk exposure.

Bank borrowings

Bank borrowings of the Group as of 30 June 2022 amounted to approximately HK$592,316,000 as compared to approximately HK$673,062,000 as of 31 December 2021. As of 30 June 2022, the bank borrowings were denominated in HK$ and MYR amounted approximately HK$592,130,000 and HK$186,000, respectively. As of 30 June 2022, 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 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, lease liabilities, less cash and cash equivalents and pledged deposits. As of 30 June 2022, the gearing ratio of the Group was approximately 23% (31 December 2021: 18%), reflecting that the Group's financial position was at a sound level.

Debt securities

As of 30 June 2022 and 31 December 2021, the Group did not have any debt securities.

Contingent liabilities

As of 30 June 2022 and 31 December 2021, 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**") 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 30 June 2022 amounted to approximately HK$3,411,000 as compared to approximately HK$4,848,000 as of 31 December 2021.

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$287,655,000) for the acquisition of land, and construction and renovation of a factory in the Dongguan Songshan Lake High-tech Industrial Development Zone.

As of 30 June 2022, the Group has paid approximately RMB217,830,000 (equivalent to approximately HK$254,716,000) for the construction and renovation of a factory and approximately RMB18,839,000 (equivalent to approximately HK$22,029,000) for the acquisition of land, and the remaining commitment was approximately RMB9,331,000 (equivalent to approximately HK$10,910,000).

Save as disclosed above, the Group had no significant capital commitments as of 30 June 2022.

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

The Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2022 and there is no plan for material investments or capital assets as at the date of this Announcement.

OFF-BALANCE SHEET TRANSACTIONS

As of 30 June 2022, the Group did not enter into any material off-balance sheet transactions.

IMPORTANT EVENTS AFTER THE PERIOD UNDER REVIEW

Subsequent to the end of the reporting period, the Group refinanced the bank borrowings amounted to approximately HK$592,130,000 in which the maturity of the bank borrowings has been further extended up to 5 years.

Saved as disclosed above, 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. 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 engaged external valuer, Brilliant Appraisal Limited, to assess the impairment of material goodwill and intangible assets annually or indication of impairment noted and no material changes in key assumptions have been made in general on an annual basis. The key assumptions for 31 December 2021, such as the pre-tax discount rates (ranged between 12% and 20%); the budgeted sales growth rates (ranged between 0% and 9%); and budgeted EBITDA margins (ranged between 12% and 32%), are determined with reference to historical performance of the Group, market research of the prosthetic devices industry and the specific business plans of the Group.

Centralisation of Production Facilities

The production of the Group relied heavily on its existing production facilities in Shenzhen, Mainland China and in Dongguan, Mainland China. If there are disruptions to the production sites in Shenzhen and Dongguan, the Group may suffer from interruptions to its business. 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 2022, the interest rate on floating-rate bank loans were approximately HIBOR+1.60% per annum for term loans and HIBOR+1.10% per annum for a revolving credit. The Group had not entered into any type of interest rate agreements or derivative transactions to hedge against the fluctuations in interest rates.

Foreign Currency Risk

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

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 6,835 (31 December 2021: 6,596) full-time employees at our production facilities, service centers, points of sales and other sites as of 30 June 2022, mainly including 4,890 (31 December 2021: 4,777) production staff members, 635 (31 December 2021: 669) general management staff members and 452 (31 December 2021: 408) customer service staff members.

Total staff costs of the Group (including the Directors' and chief executive's remuneration) for the six months ended 30 June 2022 was approximately HK$703,475,000 (six months ended 30 June 2021: approximately HK$644,434,000). 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 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 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, 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.

As at 30 June 2022, 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 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 2022, no outstanding restricted share units were granted or vested pursuant to the Pre-IPO RSU Scheme.

DIVIDENDS

The Board declared an interim dividend of HK3.7 cents (six months ended 30 June 2021: a special dividend of HK5.0 cents and an interim dividend of HK7.5 cents) per ordinary share for the six months ended 30 June 2022. The interim dividend will be payable on Tuesday, 11 October 2022 to Shareholders whose names appear on the Register of Members of the Company on Monday, 19 September 2022.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 15 September 2022 to Monday, 19 September 2022, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the interim dividend for the six months ended 30 June 2022, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 14 September 2022, for the purpose of effecting the share transfers.

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

During the six months ended 30 June 2022, 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 2022, the Company has complied with the applicable code provisions of Part 2 of the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (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 2022.

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. Yau Ka Po, who are independent non-executive Directors. The Group's interim results for the six months ended 30 June 2022, 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) and on the website of the Company (www.moderndentalgp.com). The interim report of the Company for the six months ended 30 June 2022 will be despatched to the Shareholders and will be published on the same websites in due course.

By order of the Board
Modern Dental Group Limited
Chan Ronald Yik Long
Chairman and Executive Director

Hong Kong, 30 August 2022

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