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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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

2022 was a year filled with challenges and opportunities, during which the Group was continually affected by various pandemic measures adopted by the Chinese government in particular, affecting the Group's production operations in the first half of 2022 and our Mainland China-based customers and clients in the second half of 2022.

However, while some of the measures adopted materially affected the Group's operations, the same measures also significantly and disproportionately affected the Group's small and mid-sized competitors and as a result, had the overall effect of accelerating the rate of consolidation within our industry. The Group was resilient and persevered through all challenges and we are confident in our ability to capture further growth going forward. Other key tailwinds such as digitalization re-enforces the consolidation trend, as the Group invests further in being the leading digitally-powered dental prosthetics company. The above mentioned trends have allowed the Group to further increase its market share in the industry and our continued digital transformation is expected to improve our customers' and patients' experiences, further allowing the Group to differentiate itself from its competitors and outperform industry peers. The Group continues to grow into more than just a one-stop-shop dental prosthetics provider, but a full dental ecosystem to support our customers; for example, we have further enhanced and broadened our educational and product offerings such as our own clear aligner brand, entered into new joint ventures and distribution arrangements with intra-oral scanner companies, continued our research and development into digital platforms to further provide an exceptional customer experience. With all the above challenges and opportunities, the Group was in a position to report its 2nd highest record net profit of HK\$221 million, revenue of HK\$2,830 million and EBITDA of HK\$463 million in 2022.

RESULTS HIGHLIGHTS

- The Revenue for the year ended 31 December 2022 was approximately HK\$2,830,088,000 (2021: HK\$2,955,172,000), representing a decrease of approximately 4.2%.
- The Gross Profit Margin for the year ended 31 December 2022 was approximately 48.9% (2021: 52.5%). Gross profit for the year ended 31 December 2022 was approximately HK\$1,383,306,000 (2021: HK\$1,550,651,000), representing a decrease of approximately 10.8%.
- The Group's EBITDA for the year ended 31 December 2022 was approximately HK\$463,351,000 (2021: HK\$626,393,000), representing a decrease of approximately 26.0%.
- The Group's Net Profit for the year ended 31 December 2022 were approximately HK\$220,549,000 (2021: HK\$360,375,000), representing a decrease of approximately 38.8%.
- Basic earnings per share for the year ended 31 December 2022 amounted to HK23.1 cents (2021: HK37.7 cents), representing a decrease of approximately 38.7%.
- The Board recommended a final dividend of HK4.4 cents per ordinary share, out of the share premium account, for the year ended 31 December 2022 (2021: HK4.4 cents). Subject to the approval of the Company's shareholders at the forthcoming annual general meeting, the final dividend will be payable on 29 June 2023 to shareholders of the Company whose names appear on the Register of Members of the Company on 7 June 2023.

Further highlights:

- For the year ended 31 December 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 549,736 cases reflecting an increase of 82.5% as compared with the same period in 2021 (approximately 301,212 cases) as a result of our clients' increased adoption of intra-oral scanners.
- The following table sets forth summary of key financial results for the six months ended 31 December 2022 and 30 June 2022:

	Six months ended 31 December 2022 (unaudited) HK\$'000	Six months ended 30 June 2022 (unaudited) HK\$'000	Changes %
Revenue	1,401,596	1,428,492	-1.9%
Gross Profit	687,972	695,334	-1.1%
Gross Profit Margin (%)	49.1%	48.7%	0.8%
EBITDA	247,422	215,929	14.6%
EBITDA Margin (%)	17.7%	15.1%	17.2%
Net Profit	120,106	100,443	19.6%
Net Profit Margin (%)	8.6%	7.0%	22.9%

- The following table sets forth summary of key financial results for the years ended 31 December 2022 and 2021:

	Year ended 31 December		
	2022	2021	Changes
	HK\$'000	HK\$'000	%
Revenue	2,830,088	2,955,172	-4.2%
Gross Profit	1,383,306	1,550,651	-10.8%
Gross Profit Margin (%)	48.9%	52.5%	-6.9%
EBITDA	463,351	626,393	-26.0%
EBITDA Margin (%)	16.4%	21.2%	-22.6%
Net Profit	220,549	360,375	-38.8%
Net Profit Margin (%)	7.8%	12.2%	-36.1%

- The following table sets forth a breakdown of the revenue generated from the aforesaid markets for the years ended 31 December 2022 and 2021:

Sales by region	Year ended 31 December			
	2022	2021	Change in	Organic
	HK\$'000	HK\$'000	currency	growth rate
			(%)	(%)
Europe	1,180,604	1,254,596	-10.3%	4.9%
North America	709,317	718,776	—	-1.3%
Greater China	666,659	699,246	-4.1%	-0.6%
Australia	235,811	250,339	-6.8%	1.1%
Others	37,697	32,215	—	17.0%
	<u>2,830,088</u>	<u>2,955,172</u>		

FINANCIAL RESULTS

The board of directors (the “**Board**” or the “**Directors**”) of Modern Dental Group Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2022, together with the comparative figures for the year ended 31 December 2021, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
REVENUE	3	2,830,088	2,955,172
Cost of sales		<u>(1,446,782)</u>	<u>(1,404,521)</u>
Gross profit		1,383,306	1,550,651
Other income and gains	3	17,905	11,807
Selling and distribution expenses		(374,987)	(359,466)
Administrative expenses		(702,228)	(697,311)
Other operating expenses		(7,967)	(19,075)
Finance costs	5	(26,270)	(23,061)
Share of profit of an associate		387	542
PROFIT BEFORE TAX	4	290,146	464,087
Income tax expense	6	(69,597)	(103,712)
PROFIT FOR THE YEAR		<u>220,549</u>	<u>360,375</u>
ATTRIBUTABLE TO:			
Owners of the Company		220,458	360,825
Non-controlling interests		91	(450)
		<u>220,549</u>	<u>360,375</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	8	<u>HK23.1 cents</u>	<u>HK37.7 cents</u>
Diluted	8	<u>HK23.1 cents</u>	<u>HK37.7 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE YEAR	<u>220,549</u>	<u>360,375</u>
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(154,828)	(65,633)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Change in fair value of equity investments designated at fair value through other comprehensive income, net of tax	<u>(13,060)</u>	<u>—</u>
Other comprehensive loss for the year, net of tax	<u>(167,888)</u>	<u>(65,633)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>52,661</u>	<u>294,742</u>
ATTRIBUTABLE TO:		
Owners of the Company	52,570	295,192
Non-controlling interests	<u>91</u>	<u>(450)</u>
	<u>52,661</u>	<u>294,742</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Notes	2022 HK\$'000	2021 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	651,079	586,980
Right-of-use assets		159,129	160,107
Goodwill	10	1,132,420	1,185,682
Intangible assets		228,203	255,178
Investment in an associate		3,330	3,230
Equity investments designated at fair value through other comprehensive income	11	26,399	—
Deferred tax assets		47,078	49,633
Long term prepayments and deposits		25,671	21,170
Total non-current assets		<u>2,273,309</u>	<u>2,261,980</u>
CURRENT ASSETS			
Inventories		157,244	142,488
Trade receivables	12	565,828	528,976
Prepayments, deposits and other receivables		82,242	74,869
Current tax assets		12,715	11,061
Pledged deposits		3,340	4,848
Cash and cash equivalents		444,377	633,157
Total current assets		<u>1,265,746</u>	<u>1,395,399</u>
CURRENT LIABILITIES			
Trade payables	13	75,598	80,082
Other payables and accruals		218,895	233,055
Lease liabilities		46,242	47,211
Interest-bearing bank borrowings	14	84,906	173,402
Tax payable		103,742	134,535
Total current liabilities		<u>529,383</u>	<u>668,285</u>
NET CURRENT ASSETS		<u>736,363</u>	<u>727,114</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,009,672</u>	<u>2,989,094</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*AS AT 31 DECEMBER 2022*

	<i>Note</i>	2022	2021
		<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Lease liabilities		111,768	112,812
Interest-bearing bank borrowings	14	545,274	499,660
Deferred tax liabilities		14,131	11,933
Other non-current liabilities		4,966	6,029
		<hr/>	<hr/>
Total non-current liabilities		676,139	630,434
		<hr/>	<hr/>
NET ASSETS		<u>2,333,533</u>	<u>2,358,660</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		74,012	74,163
Treasury shares		(39)	(39)
Reserves		2,245,979	2,274,325
		<hr/>	<hr/>
		2,319,952	2,348,449
Non-controlling interests		13,581	10,211
		<hr/>	<hr/>
TOTAL EQUITY		<u>2,333,533</u>	<u>2,358,660</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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

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

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

1.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendment to IAS 16	<i>Property, Plant and Equipment: Proceed before Intended Use</i>
Amendment to IAS 37	<i>Onerous Contracts - Cost of Fulfilling a Contract</i>
<i>Annual Improvements to IFRSs 2018 – 2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS16, and IAS 41

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

- (a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the Conceptual Framework for Financial Reporting (the “**Conceptual Framework**”) issued in June 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. The amendments did not have any material impact on the financial position and performance of the Group.

- (b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by IAS 2 Inventories, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

- (c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

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

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

2. OPERATING SEGMENT INFORMATION

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

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

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

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

	2022			2021		
	Revenue	Cost of sales	Gross profit	Revenue	Cost of sales	Gross profit
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed prosthetic devices	1,803,466	880,988	922,478	1,935,951	882,485	1,053,466
Removable prosthetic devices	535,091	266,161	268,930	537,414	243,806	293,608
Others	491,531	299,633	191,898	481,807	278,230	203,577
Total	<u>2,830,088</u>	<u>1,446,782</u>	<u>1,383,306</u>	<u>2,955,172</u>	<u>1,404,521</u>	<u>1,550,651</u>

Geographical information

(a) Revenue from external customers

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Europe	1,180,604	1,254,596
North America	709,317	718,776
Greater China	666,659	699,246
Australia	235,811	250,339
Others	37,697	32,215
	<u>2,830,088</u>	<u>2,955,172</u>

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

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

(b) Non-current assets

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Europe	736,039	702,157
North America	535,805	533,000
Greater China	570,528	466,308
Australia	300,295	434,507
Others	83,564	76,375
	<u>2,226,231</u>	<u>2,212,347</u>

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

3. 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:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
<u>Revenue</u>		
Sale of goods transferred at a point in time	<u>2,830,088</u>	<u>2,955,172</u>
<u>Other income</u>		
Bank interest income	1,122	1,157
Government subsidies*	10,938	4,958
Others	<u>5,845</u>	<u>5,685</u>
	<u>17,905</u>	<u>11,800</u>
<u>Gains</u>		
Gains on lease modification, net	<u>—</u>	<u>7</u>
Other income and gains	<u>17,905</u>	<u>11,807</u>

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

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

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	<u>7,432</u>	<u>8,744</u>

(b) Performance obligations

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

Sale of products

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

4. PROFIT BEFORE TAX

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

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold [#]	1,446,782	1,404,521
Depreciation of right-of-use assets	50,751	47,723
Depreciation of property, plant and equipment	70,902	64,286
Amortisation of intangible assets	26,404	28,393
Lease payments not included in the measurement of lease liabilities	10,256	11,951
Research and development costs ^{##}	40,096	36,506
Auditors' remuneration	11,193	10,779
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries [*]	1,209,798	1,170,452
Pension scheme contributions	149,360	151,659
	<u>1,359,158</u>	<u>1,322,111</u>
Bank interest income ^{**}	(1,122)	(1,157)
Loss on disposal of items of property, plant and equipment, net ^{**}	400	504
Loss/(gains) on lease modification, net ^{**}	1	(7)
Write-off of property, plant and equipment ^{**}	115	608
Allowance for impairment of trade receivables, net	8,315	4,202
Foreign exchange loss, net ^{**}	6,627	17,303
Remeasurement loss on contingent consideration ^{**}	406	—

[#] Cost of inventories sold includes HK\$859,627,000 (2021: HK\$823,487,000) relating to employee benefit expense, lease payments not included in the measurement of lease liabilities and depreciation, which are also included in the respective total amounts disclosed above for each of these types of expenses.

- ## Research and development costs includes HK\$32,348,000 (2021: HK\$28,970,000) relating to employee benefit expense, lease payments not included in the measurement of lease liabilities and depreciation, which are also included in the respective total amounts disclosed above for each of these types of expenses.
- * The amount has been net-off with government subsidies of HK\$3,457,000 (2021: Nil) under COVID-19 related employment support schemes. There are no unfulfilled conditions or contingencies relating to these subsidies.
- ** Bank interest income, gains on lease modification, net are included in “other income and gains” in the consolidated statement of profit or loss. Loss on disposal of items of property, plant and equipment, net, loss on lease modification, net, write-off of property, plant and equipment, foreign exchange loss, net, and remeasurement loss on contingent consideration are included in “other operating expenses” in the consolidated statement of profit or loss.

5. FINANCE COSTS

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans, overdrafts and other loans	19,552	14,427
Interest on lease liabilities	4,781	5,670
Finance charges on bank loans	1,937	2,964
	<u>26,270</u>	<u>23,061</u>

6. INCOME TAX EXPENSE

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

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

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

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year except for one subsidiary of the Group which is qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2021: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%).

Pursuant to the PRC Income Tax Law and the respective regulations, companies of the Group which operate in Mainland China are subject to Corporate Income Tax (“CIT”) at the rate of 25% on the taxable income for the years ended 31 December 2022 and 2021.

Certain company of the Group which operates in Mainland China was subject to CIT at the rate of 15% as a qualified high and new technology enterprise and entitled to deduct qualifying research and development expense from taxable profit during the year ended 31 December 2022.

Pursuant to the rules and regulations of the United States, companies of the Group, except limited liability companies (“LLC”), which operate in the United States are subject to a flat rate of 21% (2021: flat rate of 21%) at the federal level, and are also subject to the statutory application state CIT. LLC are generally treated as flow-through entities, where income “flows through” to investors or owners, which are not subject to CIT.

Companies of the Group which operate in Europe are subject to income tax on their respective assessable profit at the prevailing rates in the jurisdictions in which they operate.

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

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

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	64,963	103,866
Deferred	4,634	(154)
Total tax charge for the year	<u>69,597</u>	<u>103,712</u>

7. DIVIDENDS

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim — HK3.7 cents (2021: HK7.5 cents) per ordinary share	<u>35,407</u>	<u>71,968</u>
Special — Nil (2021: HK5.0 cents) per ordinary share	<u>—</u>	<u>47,979</u>
Proposed final — HK4.4 cents (2021: HK4.4 cents) per ordinary share	<u>42,020</u>	<u>42,105</u>

In 2022, the calculations of the interim dividend are based on 956,941,000 ordinary shares in issue. The calculation of proposed final dividend is based on 954,991,000 ordinary shares in issue.

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

On 30 March 2023, the Board recommended a final dividend of HK4.4 cents per ordinary share for the year ended 31 December 2022. The proposed final dividend for the year ended 31 December 2022 is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting.

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 year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 956,038,265 (2021: 957,223,602) in issue during the year, as adjusted to reflect the number of shares of 498,045 (2021: 498,045) held as treasury shares.

The Group had no potential dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

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

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation	<u>220,458</u>	<u>360,825</u>
	Number of shares	
	2022	2021
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the years used in the basic and diluted earnings per share calculation	<u>956,038,265</u>	<u>957,223,602</u>

9. PROPERTY, PLANT AND EQUIPMENT

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at 1 January	586,980	518,915
Additions	182,724	135,159
Disposals	(7,083)	(5,868)
Acquisition of subsidiaries/a business	1,788	713
Write-off	(115)	(608)
Depreciation provided during the year	(70,902)	(64,286)
Exchange realignment	(42,313)	2,955
	<u>651,079</u>	<u>586,980</u>
Carrying amount at 31 December	<u><u>651,079</u></u>	<u><u>586,980</u></u>

10. GOODWILL

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at 1 January	1,185,682	1,240,088
Acquisition of subsidiaries/a business	3,555	5,839
Exchange realignment	(56,817)	(60,245)
	<u>1,132,420</u>	<u>1,185,682</u>
Carrying amount at 31 December	<u><u>1,132,420</u></u>	<u><u>1,185,682</u></u>

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

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed equity investments in Hong Kong, at fair value		
Arrail Group Limited	<u>26,399</u>	<u>—</u>

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.

The market value of the Group's listed equity investments at the date of approval of financial statements was approximately HK\$37,515,000.

12. TRADE RECEIVABLES

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

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	250,072	240,514
1 to 2 months	92,981	80,195
2 to 3 months	48,950	41,002
3 months to 1 year	138,791	141,185
Over 1 year	<u>35,034</u>	<u>26,080</u>
	<u>565,828</u>	<u>528,976</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 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 the end of the reporting period, based on the invoice date, is as follows:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	59,856	58,033
1 to 2 months	8,938	17,616
2 to 3 months	5,170	2,402
Over 3 months	1,634	2,031
	<u>75,598</u>	<u>80,082</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

	Effective/ contractual interest rate (%)	2022		Effective/ contractual interest rate (%)	2021	
		Maturity	HK\$'000		Maturity	HK\$'000
Current						
Bank loans – secured	Base Financing	On				
	Rate+3.50	Demand	133	—	—	—
Current portion of long term bank loans – secured	Hong Kong Interbank Offered Rate ("HIBOR")					
	+1.60	2023	84,773	HIBOR+1.60	2022	173,402
			<u>84,906</u>			<u>173,402</u>
Non-current						
Long term bank loans – secured	HIBOR+1.60	2024-2027	545,274	HIBOR+1.60	2023-2025	499,660
			<u>545,274</u>			<u>499,660</u>
			<u>630,180</u>			<u>673,062</u>

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed into:		
Within one year or on demand	84,906	173,402
In the second year	105,647	389,769
In the third to fifth years, inclusive	439,627	109,891
	<u>630,180</u>	<u>673,062</u>

Notes:

- (a) As at 31 December 2022 and 2021, all bank borrowings are secured by the corporate guarantees of the Company and certain of its subsidiaries.
- (b) As at 31 December 2022, the Group's bank borrowings are denominated in HK\$ and MYR amounted to HK\$630,047,000 and HK\$133,000, respectively.

As at 31 December 2021, the Group's bank borrowings were denominated in HK\$.

15. EVENTS AFTER THE REPORTING PERIOD

The Group does not have other significant subsequent events as at the date of this Announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

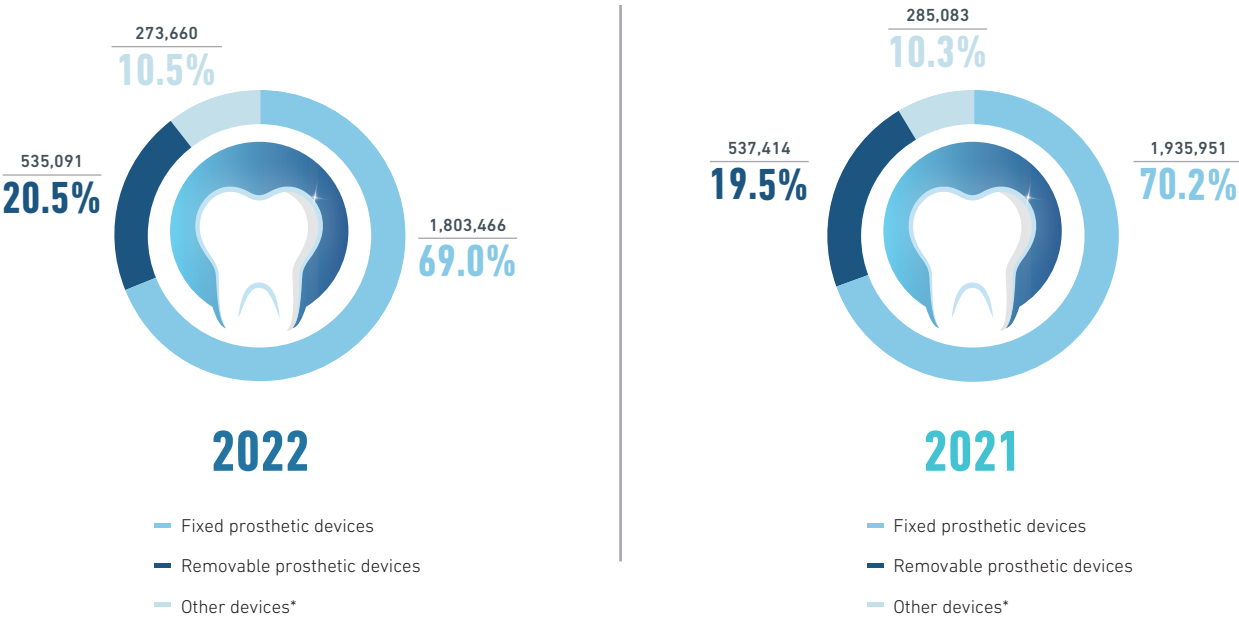
BUSINESS REVIEW

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. Included in “others” segment, the sales of TrioClear (our own clear aligner) is approximately HK\$25,761,000 (2021: HK\$21,007,000).

Product Category

The figures below set forth the breakdown of revenue (in thousand Hong Kong dollars and percentage) by product category for the years ended 31 December 2022 and 2021 respectively:

Breakdown of revenue (HK\$’000 and %)



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

Fixed Prosthetic Devices

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

During the year ended 31 December 2022, fixed prosthetic devices business segment recorded a revenue of approximately HK\$1,803,466,000, representing a decrease of approximately HK\$132,485,000 as compared with the year ended 31 December 2021. This business segment accounted for approximately 69.0% of the Group's total revenue as compared with approximately 70.2% in the year ended 31 December 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 year ended 31 December 2022, removable prosthetic devices business segment recorded a revenue of approximately HK\$535,091,000, representing a decrease of approximately HK\$2,323,000 as compared with the year ended 31 December 2021. This business segment accounted for approximately 20.5% of the Group's total revenue as compared with approximately 19.5% in the year ended 31 December 2021.

Other Devices

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

During the year ended 31 December 2022, other devices business segment recorded a revenue of approximately HK\$273,660,000, representing a decrease of approximately HK\$11,423,000 as compared with the year ended 31 December 2021. This business segment accounted for approximately 10.5% of the Group's total revenue as compared with approximately 10.3% in the year ended 31 December 2021.

Product Category

The following table sets forth the breakdown of sales volume, revenue, and average selling price (“ASP”) by product category for the years ended 31 December 2022 and 2021 respectively:

	Year ended 31 December					
	2022			2021		
	Sales Volume <i>(number of cases)</i>	Revenue <i>(HK\$'000)</i>	ASP <i>(HK\$ per case)</i>	Sales Volume [#] <i>(number of cases)</i>	Revenue <i>(HK\$'000)</i>	ASP <i>(HK\$ per case)</i>
<u>Product category</u>						
Fixed prosthetic devices	1,045,899	1,803,466	1,724	1,067,348	1,935,951	1,814
Removable prosthetic devices	463,641	535,091	1,154	473,097	537,414	1,136
Other devices*	398,382	273,660	687	429,431	285,083	664
Total	<u>1,907,922</u>	<u>2,612,217</u>	1,369	<u>1,969,876</u>	<u>2,758,448</u>	1,400

* Raw materials revenue, dental equipment revenue, clear aligner revenue and the 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 year ended 31 December 2022, the sales volume and ASP of the Group's products across its markets were 1,907,922 cases (2021: 1,969,876 cases) and HK\$1,369 per case (2021: HK\$1,400 per case), representing a decrease of 3.1% and 2.2%, respectively.

The slight decrease in ASP in HK\$ was mainly due to the depreciation of EUR by 10.3%, AUD by 6.8% and RMB by 4.1% against HK\$ in 2022.

The slight decrease in volume was mainly due to the various pandemic measures adopted by the Chinese government, in particular, affecting the Group's production operations in the first half of 2022 and our Mainland China-based customers and clients in the second half of 2022.

For the year ended 31 December 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 549,736 cases, reflecting an increase of 82.5% as compared with the same period in 2021 (approximately 301,212 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 years ended 31 December 2022 and 2021 respectively:

Market	Year ended 31 December						
	2022			2021			Organic growth rate (%)
	Original currency	Conversion rate #	Revenue (HK\$'000)	Conversion rate #	Revenue (HK\$'000)	Change in currency (%)	
		(Original		(Original			
currency per HK\$)		currency per HK\$)					
Europe	EUR	8.25	1,180,604	9.20	1,254,596	-10.3%	4.9%
North America	US\$	7.75	709,317	7.75	718,776	—	-1.3%
Greater China	RMB	1.16	666,659	1.21	699,246	-4.1%	-0.6%
Australia	AUD	5.44	235,811	5.84	250,339	-6.8%	1.1%
Others			37,697		32,215	—	17.0%
Total			<u>2,830,088</u>		<u>2,955,172</u>		

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 year ended 31 December 2022.

Although the operations of our Europe region was affected by the temporary suspension of the production operations in Mainland China in first quarter of 2022 as a result of the various COVID-19 pandemic measures adopted by the Chinese government (the “**Temporary Suspension of Mainland China Production in Q1 2022**”) and the customers’ concern of another potential suspension throughout 2022, the overall sales in the Europe region increased by 4.9% in original currency in 2022. The growth was driven by an increase in spending by consumers on specialty dental treatments and by digitalisation of, and adoption of intra-oral scanners in, the dental market. In particular, sales of intra-oral scanners in the Europe region increased by 13.6% during the year.

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 small and mid-scaled competitors leading to, in the Group’s view, a material increase in market share in this region.

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 will continue to equip ourselves to provide the state-of-the-art digital solutions offering to the dental community in the market. With the re-opening of Mainland China, the Group, as the leading dental prosthetics supplier in Europe, is in an ideal position to take advantage of the aforementioned trends.

During the year ended 31 December 2022, the European market recorded a revenue of approximately HK\$1,180,604,000, representing a decrease of approximately HK\$73,992,000 as compared with the year ended 31 December 2021. This geographic market accounted for 41.7% of the Group's total revenue as compared with approximately 42.5 % for the year ended 31 December 2021. The decrease of revenue from the European market was mainly due to the depreciation of EUR against HK\$ by 10.3% compared with the year ended 31 December 2021. In fact, the Group delivered an increase in original currency revenue of 4.9% compared with the year ended 31 December 2021 attributable to reasons mentioned above.

North America

The revenue generated from sales in the North American market, including the United States and Canada, represented the second largest portion of our revenue for the year ended 31 December 2022.

MicroDental Laboratories, Inc. and its subsidiaries (“**MicroDental Group**”) contributed approximately HK\$566,349,000 (2021: HK\$570,959,000) to the Group's revenue, approximately HK\$50,877,000 (2021: HK\$76,745,000) to the Group's Adjusted EBITDA; and approximately HK\$16,466,000 (2021: HK\$44,009,000) to the Group's profit.

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 digitalisation journey, focusing on leveraging efficiencies and providing an enhanced customer experience throughout the network. The Group has encountered the general softness from the inflationary pressure (in particular, in 2nd half of 2022); the constraints arose from the Temporary Suspension of Mainland China Production in Q1 2022; and COVID-19 pandemic lockdown imposed in Canada in 1st quarter of 2022. The revenue of the North America market decreased by only approximately 1.3% as compared with the year ended 31 December 2021. Looking forward, the Group targets to utilise the newly set up Vietnam production facility to establish a new business unit specialised in serving mid/large scale dental clinic chains customers in the US market.

During the year ended 31 December 2022, the North American market recorded a revenue of approximately HK\$709,317,000, representing a decrease of approximately HK\$9,459,000 as compared with the year ended 31 December 2021. This geographic market accounted for approximately 25.1% of the Group's total revenue as compared with approximately 24.3% in the year ended 31 December 2021.

Greater China

Our Greater China market comprises Mainland China, Hong Kong and Macau. The revenue generated from sales in the Greater China market accounted for the third largest portion of our revenue for the year ended 31 December 2022.

During the year ended 31 December 2022, the Greater China region was continually affected by various pandemic measures adopted by the Chinese government due to the resurgence of COVID-19 pandemic in the region that (i) led to the Temporary Suspension of Mainland China Production in Q1 2022; (ii) affecting the operations of clinics and hospitals and demand for our products; and (iii) the cross border logistics operations between Hong Kong and Mainland China. The resurgence of the COVID-19 pandemic has once again disproportionately affected our small and mid-scaled competitors.

With the re-opening of the Mainland China market in 2023, the Group is positive in its outlook for this market in particular where the latest procurement-related government measures are expected to i) standardise the pricing of dental prosthetics and develop price transparency, which would even out the playing field; ii) allow the Group's leading brand name and reputation to be a key consideration for its client and customer; and iii) have the Group benefit from its large production team and its ability to allocate resources efficiently according to the customer or client. In fact, our substantial market share in the government orders in Hong Kong is a solid proof of the Group's competitive advantages in gaining market share under a centralised procurement system given our competitive strength in products quality, advancement in products offering and financial resources.

Hong Kong is a market that continues to be dominated by us, as we seek to further reinforce our position by starting an in-house laboratory in Hong Kong's only dental post-graduate training facility under The University of Hong Kong. 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.

For the year ended 31 December 2022, the Greater China market recorded a revenue of approximately HK\$666,659,000, representing a decrease of approximately HK\$32,587,000 as compared with the year ended 31 December 2021. This geographic market accounted for approximately 23.6% of the Group's total revenue as compared with approximately 23.7% in the year ended 31 December 2021. In addition to the reasons mentioned above, the decrease of revenue from the Greater China market was partly due to the depreciation of RMB against HK\$ by 4.1% compared with the year ended 31 December 2021.

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 year ended 31 December 2022, 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.

For the year ended 31 December 2022, the Australian market recorded a revenue of approximately HK\$235,811,000, representing a decrease of approximately HK\$14,528,000 as compared with the year ended 31 December 2021. This geographic market accounted for approximately 8.3% of the Group's total revenue as compared with approximately 8.5% in the year ended 31 December 2021. The decrease of revenue from the Australian market was largely attributable to (i) the decrease in sales order volume; and (ii) the depreciation of AUD against HK\$ by 6.8% compared with the year ended 31 December 2021.

Others

Other markets primarily include Indian Ocean countries, Japan, Malaysia, Taiwan and Singapore. For the year ended 31 December 2022, these markets recorded a revenue of approximately HK\$37,697,000, representing an increase of approximately HK\$5,482,000 as compared with the year ended 31 December 2021. This geographic market accounted for approximately 1.3% of the Group's total revenue as compared with approximately 1.0% last year. The increase of revenue from the other markets was largely attributable to acquisition of Apex Digital Dental SDN BHD, a leading digital dental laboratory in Malaysia in January 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. Following our vital and landmark acquisitions in previous years, the Group's distribution and sales network is truly global. Going forward, the Group aims to reinforce its worldwide leading position through opportunistic transactions including strategic co-operations, acquisitions, joint ventures and/or partnerships, to further expand and complement our product-offering (in particular, our clear aligner products), distribution and sales networks which will in turn, drive our business expansion. The Group's investment in Dongguan phase 2 and Vietnam production facilities are expected to provide the Group with greater production solutions and optionality which will in turn, increase the Group's level of research and development in further enhancing our production and products.

Looking forward to the rest of 2023, with the Board's extensive experience and determination to meet any short-term challenges, the Group is in an ideal position to take full advantage of, and will remain opportunistic in, any business opportunities in 2023 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 maintain daily operations.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2022, the revenue of the Group amounted to approximately HK\$2,830,088,000, representing a decrease of approximately 4.2% as compared with approximately HK\$2,955,172,000 for the year ended 31 December 2021. The decrease was largely attributable to depreciation of foreign currencies against HK\$ when compared with the year ended 31 December 2021 (in particular, EUR by 10.3%, RMB by 4.1%, and AUD by 6.8%) and (ii) slight decrease in sales orders volume due to the COVID-19 lockdowns in Mainland China and the government's related control and measures which in turn, resulted in the Temporary Suspension of Mainland China Production in Q1 2022, and the customers' concern of another potential suspension throughout 2022; and the resurgence of COVID-19 pandemic in certain cities of Mainland China throughout 2022 which affected demand from our Mainland China-based clients; and offset by the increment in product price in original currency and the increase in sales of high value digital solutions products.

Gross Profit and Gross Profit Margin

The gross profit for the year ended 31 December 2022 was approximately HK\$1,383,306,000, which was approximately 10.8% lower than that of last year. The decrease in the gross profit margin of approximately 3.6 percentage points compared with last year was mainly attributable to (i) the inefficient utilisation of the production capacity due to the distortions caused by the Temporary Suspension of Mainland China Production in Q1 2022 and the resurgence of COVID-19 pandemic in certain cities of Mainland China throughout 2022; (ii) depreciation of foreign currencies (in particular, EUR by 10.3% and AUD by 6.8%) against HK\$; and (iii) the increase in sales of intraoral scanners with lower gross margin.

The gross profit margins of Fixed Prosthetic Devices business segment, Removable Prosthetic Devices business segment and Others business segment were approximately 51.2%, 50.3% and 39.0% respectively. The following table sets forth the breakdown of our gross profit and gross margin by product category.

	Year ended 31 December			
	2022		2021	
	Gross profit <i>HK\$'000</i>	Gross margin <i>(%)</i>	Gross profit <i>HK\$'000</i>	Gross margin <i>(%)</i>
<u>Product category</u>				
Fixed prosthetic devices	922,478	51.2	1,053,466	54.4
Removable prosthetic devices	268,930	50.3	293,608	54.6
Others	191,898	39.0	203,577	42.3
Total	<u>1,383,306</u>		<u>1,550,651</u>	

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 4.3% from approximately HK\$359,466,000 for the year ended 31 December 2021 to approximately HK\$374,987,000 for the year ended 31 December 2022, accounting for approximately 13.3% of the Group's revenue, as compared with approximately 12.2% for last year. The increase in the selling and distribution expenses was due to the increase in promotions and marketing activities and sales headcount.

Administrative Expenses

The administrative expenses increased by approximately 0.7% to approximately HK\$702,228,000 for the year ended 31 December 2022 from approximately HK\$697,311,000 for the year ended 31 December 2021, accounting for approximately 24.8% of the Group's revenue, as compared with approximately 23.6% for last year. The increase in the administrative expenses was primarily attributable to (i) the increase in research and development expenses for products development (including TrioClear) by approximately HK\$3,590,000; (ii) the increase in labour costs due to increase in number of headcount; and (iii) the increase in costs incurred for the strategic investment in setting up a Vietnam production facility.

Other Operating Expenses

During the year ended 31 December 2022, the other operating expenses decreased by approximately 58.2% from approximately HK\$19,075,000 for the year ended 31 December 2021 to approximately HK\$7,967,000 for the year ended 31 December 2022, accounting for 0.3% of the Group's revenue, as compared with 0.6% for the year ended 31 December 2021. The decrease in other operating expenses mainly represented the decrease in exchange losses, net, incurred (2022: HK\$6,627,000; 2021: HK\$17,303,000).

Finance Costs

During the year ended 31 December 2022, the finance costs increased by approximately 13.9% from approximately HK\$23,061,000 for the year ended 31 December 2021 to approximately HK\$26,270,000 for the year ended 31 December 2022, accounting for approximately 0.9% of the Group's revenue, as compared with approximately 0.8% for the corresponding period in 2021. The increase in finance costs were mainly due to the increase in the interest rate (i.e. HIBOR) when compared with the year ended 31 December 2021.

Income Tax Expense

Income tax expense decreased by approximately 32.9% from approximately HK\$103,712,000 for the year ended 31 December 2021 to approximately HK\$69,597,000 for the year ended 31 December 2022.

Profit for the Year and Profit Attributable to Owners of the Company

Profit for the year decreased by approximately 38.8% from approximately HK\$360,375,000 for the year ended 31 December 2021 to approximately HK\$220,549,000 for the year ended 31 December 2022.

Profit attributable to owners of the Company for the year ended 31 December 2022 amounted to approximately HK\$220,458,000, representing a decrease of approximately HK\$140,367,000, or approximately 38.9%, as compared with approximately HK\$360,825,000 for the year ended 31 December 2021.

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

- (i) the inefficient utilisation of the production capacity due to the distortions caused by the Temporary Suspension of Mainland China Production in Q1 2022 and the resurgence of COVID-19 pandemic in certain cities of Mainland China throughout 2022; and
- (ii) depreciation of foreign currencies (in particular, EUR by 10.3% and AUD by 6.8%) against HK\$.

Non-IFRS Measures

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

EBITDA, Adjusted EBITDA and Profit from core operations

During the year ended 31 December 2022, 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 and fair value loss on contingent consideration.

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

	For the year ended 31	
	December	
	2022	2021
	HK\$'000	HK\$'000
EBITDA and Adjusted EBITDA		
Net profit	220,549	360,375
Tax	69,597	103,712
Finance costs	26,270	23,061
Depreciation of right-of-use assets	50,751	47,723
Depreciation of property, plant and equipment	70,902	64,286
Amortisation of intangible assets	26,404	28,393
Less:		
Bank interest income	(1,122)	(1,157)
EBITDA	463,351	626,393
Add:		
One-off cost in connection with acquisitions and disposals	1,038	2,293
Remeasurement loss on contingent consideration	406	—
Adjusted EBITDA	464,795	628,686
Adjusted EBITDA Margin	16.4%	21.3%

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the years ended 31 December 2022 and 31 December 2021 respectively:

	For the year ended 31	
	December	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash flows from operating activities	258,276	525,144
Net cash flows used in investing activities	(227,892)	(142,653)
Net cash flows used in financing activities	(201,788)	(452,117)

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

The Group's balance of cash and cash equivalents was approximately HK\$444,377,000 as of 31 December 2022 (2021: HK\$633,157,000), which was mainly denominated in HK\$, RMB, US\$, EUR and AUD.

Operating Activities

Cash inflow from operating activities was mainly generated from cash receipt from revenue generated from sales of our products. Cash outflow from operating activities was mainly due to purchase of raw materials, wages of technicians and employees and tax paid. For the year ended 31 December 2022, the net cash flows from operating activities has decreased to approximately HK\$258,276,000 (2021: HK\$525,144,000). The decrease in net cash flows from operating activities was primarily attributable to (i) decrease in net profit when compared with the year ended 31 December 2021 and ii) the increase in income tax paid by approximately HK\$54,261,000 when compared with the year ended 31 December 2021.

Investing Activities

The net cash flows used in investing activities for the year ended 31 December 2022 of approximately HK\$227,892,000, of which (i) approximately HK\$185,367,000 was used primarily for expansion of our production facilities, such as construction costs of a factory building in Dongguan, Mainland China of approximately HK\$94,038,000, and upgrade of our computer-aided/manufacturing equipment; (ii) approximately HK\$10,545,000 was used for acquisition of new businesses; and (iii) approximately HK\$39,459,000 was used for strategic equity investment in a top premium dental clinic chains group.

Financing Activities

The Group recorded a net cash outflow used in financing activities of approximately HK\$201,788,000 for the year ended 31 December 2022. The outflow was mainly attributable to (i) repayment of bank borrowings, net of approximately HK\$45,067,000 (2021: HK\$191,026,000); (ii) payment for dividend of approximately HK\$77,472,000 (2021: HK\$186,508,000); (iii) repurchase of the Company's ordinary shares of approximately HK\$3,595,000 (2021: HK\$7,896,000); (iv) payment for lease liabilities of approximately HK\$57,952,000 (2021: HK\$54,065,000); and (v) payment for interest expenses of approximately HK\$19,552,000 (2021: HK\$14,427,000).

Capital Expenditure and Research and Development expenses

During the year ended 31 December 2022, the Group's capital expenditure amounted to approximately HK\$185,367,000 which was mainly used for improvement on our production equipment and renovation of factory premises. All of the capital expenditure was financed by internal resources and bank borrowings. The management is committed to invest in research and development activities and keep abreast of the latest development of the technologies in the dental prosthetic market. In 2022, the Group has invested in acquisition of the latest state-of-the-art machineries of approximately HK\$47,259,000 (2021: HK\$46,061,000) and incurred research and development costs of approximately HK\$40,096,000 (2021: HK\$36,506,000). The aggregate amounts collectively represented approximately 3.1% of the revenue of the Group (2021: 2.8%).

CAPITAL STRUCTURE

Bank borrowings

Bank borrowings of the Group as of 31 December 2022 amounted to approximately HK\$630,180,000 as compared to approximately HK\$673,062,000 as of 31 December 2021. As of 31 December 2022, the bank borrowings were denominated in HK\$ and MYR amounted approximately HK\$630,047,000 and HK\$133,000, respectively. As of 31 December 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, other non-current liabilities, less cash and cash equivalents and pledged deposits. As of 31 December 2022, the gearing ratio of the Group was approximately 22% (2021: 18%), reflecting that the Group’s financial position was at a sound level.

Debt securities

As of 31 December 2022, the Group did not have any debt securities.

Contingent liabilities

As of 31 December 2022, the Group did not have any contingent liabilities.

CHARGE OF GROUP ASSETS

During the year ended 31 December 2022, Modern Dental Laboratory Company Limited and Modern Dental Holding Limited, subsidiaries of the Company, entered into certain bank loans facility agreements (the “**Facility Agreements**”) for certain term loans and a revolving credit, secured by corporate guarantees of the Company and certain of its subsidiaries. Pursuant to the Facility Agreements, if the aggregate shareholding of Mr. Chan Kwun Fung, Mr. Chan Kwun Pan, Dr. Chan Ronald Yik Long, Ms. Chan Yik Yu, Mr. Ngai Chi Ho Alwin and Mr. Ngai Shing Kin, directly or indirectly, in the Company’s share capital ceases to be at least 50%, the commitment under the Facility Agreements will be cancelled and all the outstanding amounts under the Facility Agreements will become immediately due and payable.

Pledged bank deposits of the Group as of 31 December 2022 amounted to approximately HK\$3,340,000 as compared to approximately HK\$4,848,000 as of 31 December 2021.

Commitments

The Group had no other significant capital commitments as of 31 December 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 for the year ended 31 December 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 31 December 2022, the Group did not enter into any material off-balance sheet transactions.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

The Group has no important events after the year ended 31 December 2022 and 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. Despite the rollout of vaccines and the gradual lifting of restrictions in many countries, COVID-19 remains an operational risk factor. The ongoing pandemic has led to disruptions in supply chains, reduced productivity, and increased costs in past years. Moreover, the emergence of new variants of the virus has raised concerns about the potential for future outbreaks and the need for continued vigilance, this continue to pose risks and uncertainties ahead. The Group may implement cost cutting measures (including salaries reduction, deferring marketing expenses, etc) to reduce the risk 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 for material acquisitions. The Group has also annually engaged external valuer, Brilliant Appraisal Limited, to assess the impairment of material goodwill and intangible assets and no material changes in key assumptions have been made in the current year. The key assumptions, such as the pre-tax discount rates (2022: ranged between 16% and 30%; 2021: ranged between 12% and 20%); the budgeted sales growth rates (2022: ranged between 0% and 13%; 2021: ranged between 0% and 9%); and budgeted EBITDA margins (2022: ranged between 10% and 30%; 2021: 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 year ended 31 December 2022, the interest rate on floating-rate bank loans were approximately HIBOR+1.60% per annum for term loans. The Group had not entered into any type of interest rate agreements or derivative transactions to hedge against the fluctuations in interest rates.

Foreign Currency Risk

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

Credit Risk

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

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

Liquidity Risk

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

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 6,830 (2021: 6,596) dedicated full-time employees at our production facilities, service centers, points of sales and other sites as of 31 December 2022, mainly including 4,681 (2021: 4,777) production staff members, 728 (2021: 669) general management staff members and 438 (2021: 408) customer service staff members.

Total staff costs of the Group (excluding the Directors’ and chief executive’s remuneration) for the year ended 31 December 2022 was approximately HK\$1,359,158,000 (2021: HK\$1,322,111,000). The Group’s remuneration policies were in line with relevant legislation, market conditions and the performance of our employees.

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

SHARE OPTION SCHEME

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

The 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 of 31 December 2022, no options had been granted or agreed to be granted pursuant to the Share Option Scheme.

Pursuant to Rule 17.03A of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), the participants of a scheme shall only comprise directors and employees of the issuer or any of its subsidiaries and the persons who provide services to the issuer group on a continuing or recurring basis in its ordinary and usual course of business which are in the interests of the long term growth of the issuer group.

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 of 31 December 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: 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 Board recommended a final dividend of HK4.4 cents (2021: HK4.4 cents) per ordinary share, out of the share premium account, for the year ended 31 December 2022 (the “**Proposed Final Dividend**”). Subject to the approval by the Shareholders in the forthcoming annual general meeting of the Company (the “**AGM**”) to be held on 30 May 2023, the Proposed Final Dividend will be paid on 29 June 2023 to Shareholders whose names appear on the Register of Members of the Company as at the close of business on 7 June 2023.

CLOSURE OF REGISTER OF MEMBERS

To determine the entitlement to attend and vote at the AGM to be held on 30 May 2023, the Register of Members of the Company will be closed from Wednesday, 24 May 2023 to Tuesday, 30 May 2023, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify to attend and vote at the AGM, unregistered holders of shares of the Company shall ensure that, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 23 May 2023, for the purpose of effecting the share transfers.

To determine the entitlement to the Proposed Final Dividend (subject to approval by the Shareholders at the AGM), the Register of Members of the Company will be closed from Monday, 5 June 2023 to Wednesday, 7 June 2023, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the Proposed Final Dividend, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Friday, 2 June 2023.

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

During the year ended 31 December 2022, the Company repurchased 1,950,000 of its ordinary shares (the “Shares”) on the Stock Exchange at an aggregate consideration of approximately HK\$3,595,000 (before expenses), details of the repurchase are summarised as follows:

Month	Number of Shares repurchased	Price per Share		Aggregate consideration paid (before expenses) HK\$'000
		Highest HK\$	Lowest HK\$	
September 2022	450,000	2.08	1.73	865
October 2022	1,000,000	1.90	1.69	1,813
November 2022	500,000	1.92	1.67	917
	<u>1,950,000</u>			<u>3,595</u>

All of 1,950,000 repurchased Shares of approximately HK\$3,595,000 (before expenses) were cancelled during the year ended 31 December 2022.

The repurchase of the Shares were effected by the directors, pursuant to the mandate from Shareholders received at the annual general meetings on 24 May 2022, with a view to benefiting Shareholders as a whole by enhancing the net assets value per share and earnings per share of the Group.

Save as disclosed above, during the year ended 31 December 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the year ended 31 December 2022, the Company has complied with the applicable code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

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

The Company has adopted the Securities Dealing Code containing the provisions set out in the Model Code 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 throughout the year.

AUDIT COMMITTEE

The audit committee consists of three independent non-executive Directors, namely Dr. Cheung Wai Bun Charles J.P., Dr. Chan Yue Kwong Michael and Dr. Yau Ka Po. Dr. Cheung Wai Bun Charles J.P. is the Chairman of the Audit Committee. The Group’s final results for the year ended 31 December 2022, including the accounting principles and practices adopted by the Group have been reviewed by all the members of the audit committee.

SCOPE OF WORK OF THE COMPANY'S AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Company's auditor to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Company's auditor in this respect did not constitute an assurance engagement and consequently no opinion or assurance has been expressed by the Company's auditor on the preliminary announcement.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The final results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited (<https://www.hkexnews.hk>) and on the website of the Company (<https://www.moderndentalgp.com>). The annual report of the Company for the year ended 31 December 2022 will be despatched to 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 Ronald Yik Long
Chairman and Executive Director

Hong Kong, 30 March 2023

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.