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(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3600)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2023, DIVIDEND
AND CLOSURE OF REGISTER OF MEMBERS**

During the first half of 2023, we continued to experience a steady and continued increase in demand for our products from our existing, returning and new customers, primarily driven by the global digitalization trend which continues to accelerate the consolidation of the dental prosthetics industry. The digitalization trend has 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 the industry peers. During this period, the Group observed that there were previous customers, that had experienced supply-chain disruptions and quality issues with our competitors, return to us which further added to the demand for our products. The consolidation trend of the dental prosthetics industry is clearly continuing, and with the addition of our Vietnam production facility – the Group has the optionality to further improve its market positioning and protect its margins.

The Group's results represent a solid execution across each of the Group's markets operationally and financially, illustrating the Group's ability to deliver strong financial results in a relatively stable operating environment characterized by consistent order volume growth, competitiveness in the industry, and close relationship with its clients and customers. The Group's underlying fundamentals continue to be solid and we are well-positioned to capture further opportunities going forward.

RESULTS HIGHLIGHTS

- The Revenue for the six months ended 30 June 2023 was approximately HK\$1,601,552,000 (six months ended 30 June 2022: HK\$1,428,492,000), representing an increase of approximately HK\$173,060,000 or 12.1% as compared with that of the six months ended 30 June 2022.
- The Gross Profit Margin for the six months ended 30 June 2023 was approximately 54.2% (six months ended 30 June 2022: 48.7%). Gross profit for the six months ended 30 June 2023 was approximately HK\$867,319,000 (six months ended 30 June 2022: HK\$695,334,000), representing an increase of approximately HK\$171,985,000 or 24.7% as compared with that of the six months ended 30 June 2022.
- The Group's EBITDA for the six months ended 30 June 2023 was approximately HK\$369,754,000 (six months ended 30 June 2022: HK\$215,929,000), representing an increase of approximately HK\$153,825,000 or 71.2% as compared with that of six months ended 30 June 2022.
- The Group's Net Profit for the six months ended 30 June 2023 were approximately HK\$210,276,000 (six months ended 30 June 2022: HK\$100,443,000) representing an increase of approximately HK\$109,833,000 or 109.3% as compared with that of six months ended 30 June 2022.
- Basic earnings per share for the six months ended 30 June 2023 amounted to HK22.13 cents (six months ended 30 June 2022: HK10.44 cents).
- The Board declared an interim dividend of HK6.0 cents (six months ended 30 June 2022: HK3.7 cents) per ordinary share for the six months ended 30 June 2023. The interim dividend will be payable on Tuesday, 10 October 2023 to shareholders of the Company (the “**Shareholders**”) whose names appear on the Register of Members of the Company on Monday, 18 September 2023.

The following table sets forth summary of key financial results for the six months ended 30 June 2023, 31 December 2022 and 30 June 2022:

	Six months ended			Changes	
	30 June 2023 (unaudited) <i>HK\$'000</i>	31 December 2022 (unaudited) <i>HK\$'000</i>	30 June 2022 (unaudited) <i>HK\$'000</i>	30 June 2023 vs 31 December 2022 %	30 June 2023 vs 30 June 2022 %
Revenue	1,601,552	1,401,596	1,428,492	14.3	12.1
Gross Profit	867,319	687,972	695,334	26.1	24.7
Gross Profit Margin (%)	54.2%	49.1%	48.7%	10.4	11.3
EBITDA	369,754	247,422	215,929	49.4	71.2
EBITDA Margin (%)	23.1%	17.7%	15.1%	30.5	53.0
Net Profit	210,276	120,106	100,443	75.1	109.3
Net Profit Margin (%)	13.1%	8.6%	7.0%	52.3	87.1

The following table sets forth a breakdown of the revenue generated from the aforesaid markets for the six months ended 30 June 2023 and 2022:

	Six months ended 30 June						
	2023			2022			
Market	Original currency	Conversion rate [#]	Revenue (<i>HK\$'000</i>)	Conversion rate [#]	Revenue (<i>HK\$'000</i>)	Change in currency (%)	Original currency growth rate (%)
Europe	EUR	8.47	710,045	8.56	616,430	-1.1	16.4
North America	US\$	7.75	393,656	7.75	362,448	—	8.6
Greater China	RMB	1.13	351,203	1.20	319,239	-5.8	16.8
Australia	AUD	5.30	124,257	5.63	112,867	-5.9	16.9
Others			22,391		17,508		
Total			<u>1,601,552</u>		<u>1,428,492</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.

Further highlights:

- For the six months ended 30 June 2023, 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 373,985 cases reflecting an increase of 50.9% as compared with the same period in 2022 (approximately 247,887 cases) as a result of our clients' continued 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 2023, together with the comparative figures for the corresponding period in 2022, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2023

		Six months ended 30 June	
		2023	2022
		(Unaudited)	(Unaudited)
		<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	4	1,601,552	1,428,492
Cost of sales		<u>(734,233)</u>	<u>(733,158)</u>
Gross profit		867,319	695,334
Other income and gains	4	8,441	7,586
Selling and distribution expenses		(201,369)	(189,994)
Administrative expenses		(376,054)	(363,118)
Other operating expenses		(1,388)	(5,762)
Finance costs	6	(20,783)	(8,895)
Share of (loss)/profits of an associate		<u>(1,208)</u>	<u>244</u>
PROFIT BEFORE TAX	5	274,958	135,395
Income tax expense	7	<u>(64,682)</u>	<u>(34,952)</u>
PROFIT FOR THE PERIOD		<u>210,276</u>	<u>100,443</u>
ATTRIBUTABLE TO:			
Owners of the Company		211,201	99,851
Non-controlling interests		<u>(925)</u>	<u>592</u>
		<u>210,276</u>	<u>100,443</u>
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	8	<u>HK22.13 cents</u>	<u>HK10.44 cents</u>
Diluted	8	<u>HK22.13 cents</u>	<u>HK10.44 cents</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 JUNE 2023

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	<u>210,276</u>	<u>100,443</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	(5,755)	(112,326)
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	<u>(6,332)</u>	<u>(4,776)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<u>(12,087)</u>	<u>(117,102)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u>198,189</u>	<u>(16,659)</u>
ATTRIBUTABLE TO:		
Owners of the Company	199,378	(17,251)
Non-controlling interests	<u>(1,189)</u>	<u>592</u>
	<u>198,189</u>	<u>(16,659)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

	<i>Notes</i>	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	656,109	651,079
Right-of-use assets		165,118	159,129
Goodwill	11	1,147,444	1,132,420
Intangible assets		218,293	228,203
Investment in an associate		2,014	3,330
Equity investments designated at fair value through other comprehensive income	12	20,067	26,399
Deferred tax assets		43,122	47,078
Long term prepayments and deposits		37,386	25,671
Total non-current assets		<u>2,289,553</u>	<u>2,273,309</u>
CURRENT ASSETS			
Inventories		161,509	157,244
Trade receivables	13	615,708	565,828
Prepayments, deposits and other receivables		90,442	82,242
Current tax assets		14,831	12,715
Pledged deposits		3,235	3,340
Cash and cash equivalents		522,505	444,377
Total current assets		<u>1,408,230</u>	<u>1,265,746</u>
CURRENT LIABILITIES			
Trade payables	14	69,342	75,598
Other payables and accruals		214,982	218,895
Interest-bearing bank borrowings	15	107,557	84,906
Lease liabilities		47,404	46,242
Tax payable		103,391	103,742
Total current liabilities		<u>542,676</u>	<u>529,383</u>
NET CURRENT ASSETS		<u>865,554</u>	<u>736,363</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,155,107</u>	<u>3,009,672</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2023

	<i>Notes</i>	30 June 2023 (Unaudited) <i>HK\$'000</i>	31 December 2022 (Audited) <i>HK\$'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,155,107</u>	<u>3,009,672</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	15	539,847	545,274
Lease liabilities		118,025	111,768
Deferred tax liabilities		12,836	14,131
Other non-current liabilities		192	4,966
Total non-current liabilities		<u>670,900</u>	<u>676,139</u>
NET ASSETS		<u><u>2,484,207</u></u>	<u><u>2,333,533</u></u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		74,012	74,012
Treasury shares		(5,562)	(39)
Reserves		2,403,365	2,245,979
		2,471,815	2,319,952
Non-controlling interests		12,392	13,581
TOTAL EQUITY		<u><u>2,484,207</u></u>	<u><u>2,333,533</u></u>

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 2023 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 2022 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 2022.

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 2022, except for the adoption of following new and revised standards for the first time for the current period's financial statements.

IFRS 17	<i>Insurance Contracts</i>
Amendments to IFRS 17	<i>Insurance Contracts</i>
Amendments to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information</i>
Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

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

3. OPERATING SEGMENT INFORMATION

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

- (a) The fixed prosthetic devices segment is a supplier of restorative dental procedures, such as crowns, bridges and implants.
- (b) The removable prosthetic devices segment produces full dentures and partial dentures. Dentures can be further classified as dentures with metal frameworks and dentures without metal frameworks.
- (c) The "others" segment comprises, principally, orthodontic devices (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					
	2023 (Unaudited)			2022 (Unaudited)		
	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>
<u>Product category</u>						
Fixed prosthetic						
devices	1,014,260	441,491	572,769	924,056	451,564	472,492
Removable prosthetic						
devices	350,576	157,565	193,011	262,289	133,110	129,179
Others	236,716	135,177	101,539	242,147	148,484	93,663
Total	<u>1,601,552</u>	<u>734,233</u>	<u>867,319</u>	<u>1,428,492</u>	<u>733,158</u>	<u>695,334</u>

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Europe	710,045	616,430
North America	393,656	362,448
Greater China	351,203	319,239
Australia	124,257	112,867
Others	22,391	17,508
	<u>1,601,552</u>	<u>1,428,492</u>

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

(b) Non-current assets

	30 June	31 December
	2023	2022
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Europe	768,430	736,039
Greater China	558,579	570,528
North America	524,783	535,805
Australia	290,685	300,295
Others	103,954	83,564
	<u>2,246,431</u>	<u>2,226,231</u>

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	
	2023 (Unaudited) <i>HK\$'000</i>	2022 (Unaudited) <i>HK\$'000</i>
<u>Revenue</u>		
Sale of goods transferred at a point in time	<u>1,601,552</u>	<u>1,428,492</u>
<u>Other income</u>		
Bank interest income	330	893
Foreign exchange gains, net	1,957	—
Government subsidies*	1,249	2,755
Others	<u>4,199</u>	<u>3,322</u>
	<u>7,735</u>	<u>6,970</u>
<u>Gains</u>		
Gains on lease modification, net	706	—
Gains on disposal of items of property, plant and equipment, net	<u>—</u>	<u>616</u>
	<u>706</u>	<u>616</u>
Other income and gains	<u>8,441</u>	<u>7,586</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.

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2023	2022
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Cost of inventories sold [#]	734,233	733,158
Depreciation of right-of-use assets	25,961	25,281
Depreciation of property, plant and equipment	35,834	34,571
Amortisation of intangible assets	12,548	12,680
Lease payments not included in the measurement of lease liabilities	6,834	3,746
Research and development costs ^{##}	24,974	22,779
Auditors' remuneration	5,641	4,956
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries [*]	639,023	619,014
Pension scheme contributions	86,335	84,461
	725,358	703,475
Bank interest income	(330)	(893)
Loss/(gains) on disposal of items of property, plant and equipment, net ^{**}	792	(616)
Write-off of property, plant and equipment ^{**}	43	33
Gains on lease modification, net ^{**}	(706)	—
Allowance for impairment of trade receivables, net	4,636	4,699
Foreign exchange (gains)/loss, net ^{**}	(1,957)	5,151
Remeasurement loss on contingent consideration ^{**}	132	—

- # Cost of inventories sold includes HK\$440,993,000 (unaudited) (six months ended 30 June 2022: HK\$433,600,000 (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\$20,376,000 (unaudited) (six months ended 30 June 2022: HK\$18,777,000 (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 Nil (unaudited) (six months ended 30 June 2022: HK\$1,096,000 (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, gains on lease modification, net and foreign exchange gains, net are included in “other income and gains” in the interim condensed consolidated statements of profit or loss. Loss on disposal of items of property, plant and equipment, 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 interim condensed consolidated statements of profit or loss.

6. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans	16,770	5,445
Interest on lease liabilities	3,721	2,353
Finance charges on bank loans	292	1,097
	20,783	8,895

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	
	2023 (Unaudited) <i>HK\$'000</i>	2022 (Unaudited) <i>HK\$'000</i>
Current – Hong Kong	32,713	13,144
Current – Elsewhere	28,964	23,124
Deferred	3,005	(1,316)
Total tax charge for the period	<u>64,682</u>	<u>34,952</u>

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 2023 and 2022 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 2023 and 2022 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 2023 and 2022. The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	<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	211,201	99,851
	<u> </u>	<u> </u>
	<u>Number of shares</u>	
	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	954,181,933	956,442,955
	<u> </u>	<u> </u>

9. DIVIDENDS

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend	57,299	35,407
	<u> </u>	<u> </u>

The Board declared an interim dividend of HK6.0 cents per share for the six months ended 30 June 2023 (six months ended 30 June 2022: HK3.7 cents). The interim dividend is not recognised as a liability as at 30 June 2023 because they have been declared after the end of the reporting period.

In 2023, the calculation of the interim dividend is based on 954,991,000 (six months ended 30 June 2022: 956,941,000) ordinary shares in issue.

10. PROPERTY, PLANT AND EQUIPMENT

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Carrying amount at 1 January	651,079	586,980
Additions	55,287	182,724
Acquisition of subsidiaries during the year	—	1,788
Disposals	(1,170)	(7,083)
Write-off	(43)	(115)
Depreciation provided during the period/year	(35,834)	(70,902)
Exchange realignment	(13,210)	(42,313)
	<u>656,109</u>	<u>651,079</u>
Carrying amount at 30 June/31 December	<u>656,109</u>	<u>651,079</u>

11. GOODWILL

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Carrying amount at 1 January	1,132,420	1,185,682
Acquisition of subsidiaries during the year	—	3,555
Exchange realignment	15,024	(56,817)
	<u>1,147,444</u>	<u>1,132,420</u>
Carrying amount at 30 June/31 December	<u>1,147,444</u>	<u>1,132,420</u>

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

	30 June	31 December
	2023	2022
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Listed equity investments in Hong Kong, at fair value		
Arrail Group Limited	<u>20,067</u>	<u>26,399</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.

13. TRADE RECEIVABLES

An ageing analysis of the trade receivables as at 30 June 2023 and 31 December 2022, based on the invoice date and net of loss allowance, is as follows:

	30 June	31 December
	2023	2022
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within 1 month	320,092	250,072
1 to 2 months	68,431	92,981
2 to 3 months	53,934	48,950
3 months to 1 year	140,988	138,791
Over 1 year	<u>32,263</u>	<u>35,034</u>
	<u>615,708</u>	<u>565,828</u>

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

14. TRADE PAYABLES

An ageing analysis of the trade payables as at 30 June 2023 and 31 December 2022, based on the invoice date, is as follows:

	30 June	31 December
	2023	2022
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within 1 month	43,685	59,856
1 to 2 months	14,534	8,938
2 to 3 months	5,689	5,170
Over 3 months	5,434	1,634
	<u>69,342</u>	<u>75,598</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.

15. INTEREST-BEARING BANK BORROWINGS

	30 June 2023			31 December 2022		
	(Unaudited)			(Audited)		
	Effective/ contractual interest rate (%)	Maturity	HK\$'000	Effective/ contractual interest rate (%)	Maturity	HK\$'000
Current						
	Base Financing			Base Financing		
Bank loan – secured	Rate+3.50	On demand	96	Rate+3.50	On demand	133
Current portion of long term bank loans – secured	Hong Kong Interbank Offered Rate					
	(“HIBOR”)+1.60	2023-2024	107,461	HIBOR+1.60	2023	84,773
			107,557			84,906
Non-current						
Long term bank loans - secured	HIBOR+1.60	2024-2027	539,847	HIBOR+1.60	2024-2027	545,274
			539,847			545,274
			647,404			630,180

	30 June	31 December
	2023	2022
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	107,557	84,906
In the second year	127,193	105,647
In the third to fifth years, inclusive	412,654	439,627
	647,404	630,180

Notes:

- (a) As at 30 June 2023 (unaudited) and 31 December 2022 (audited), all bank borrowings are secured by the corporate guarantees of the Company and certain of its subsidiaries.
- (b) As at 30 June 2023 (unaudited), the Group's bank borrowings are denominated in HK\$ and MYR amounted HK\$647,308,000 and HK\$96,000, respectively.

As at 31 December 2022 (audited), the Group's bank borrowings are denominated in HK\$ and MYR amounted HK\$630,047,000 and HK\$133,000, respectively.

16. EVENT AFTER THE REPORTING PERIOD

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

MANAGEMENT DISCUSSION AND ANALYSIS

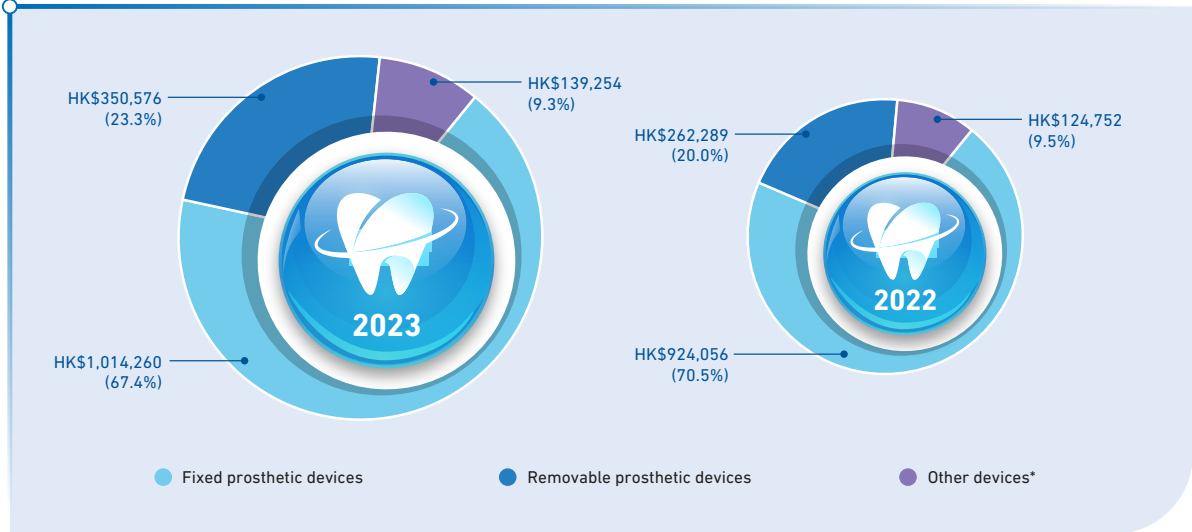
BUSINESS REVIEW

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\$15,357,000 (six months ended 30 June 2022: HK\$12,195,000), represented an increase of 25.9%.

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 2023 and 2022 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\$1,014,260,000, representing an increase of approximately HK\$90,204,000 as compared with the six months ended 30 June 2022. This business segment accounted for approximately 67.4% of the Group's total revenue as compared with approximately 70.5% in the six months ended 30 June 2022. The decrease from 70.5% in the six months ended 30 June 2022 to 67.4% in the six months ended 30 June 2023 was partly due to the change in product mix in the Mainland China market.

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\$350,576,000, representing an increase of approximately HK\$88,287,000 as compared with the six months ended 30 June 2022. This business segment accounted for approximately 23.3% of the Group's total revenue as compared with approximately 20.0% in the six months ended 30 June 2022. The increase from 20.0% in the six months ended 30 June 2022 to 23.3% in the six months ended 30 June 2023 was partly due to the increase in order volume from the launch of our digital denture and our state-of-the-art digital workflows in Europe.

Other Devices

Other devices include orthodontic devices (including clear aligners), anti-snoring devices, and sports guards.

During the period under review, the other devices business segment recorded a revenue of approximately HK\$139,254,000, representing an increase of approximately HK\$14,502,000 as compared with the six months ended 30 June 2022. This business segment accounting for approximately 9.3% of the Group's total revenue as compared with approximately 9.5% in the six months ended 30 June 2022.

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 2023 and 2022 respectively:

	Six months ended 30 June					
	2023			2022		
<u>Product category</u>	Sales			Sales		
	Volume <i>(number of cases)</i>	Revenue <i>(HK\$'000)</i>	ASP <i>(HK\$ per case)</i>	Volume <i>(number of cases)</i>	Revenue <i>(HK\$'000)</i>	ASP <i>(HK\$ per case)</i>
Fixed prosthetic devices	545,364	1,014,260	1,860	496,024	924,056	1,863
Removable prosthetic devices	295,841	350,576	1,185	223,551	262,289	1,173
Other devices*	214,796	139,254	648	186,829	124,752	668
Total	<u>1,056,001</u>	<u>1,504,090</u>	<u>1,424</u>	<u>906,404</u>	<u>1,311,097</u>	<u>1,446</u>

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

Sales volume and average selling price

For the six months ended 30 June 2023, the sales volume and ASP of the Group's products across its markets were 1,056,001 cases (six months ended 30 June 2022: 906,404 cases) and HK\$1,424 per case (six months ended 30 June 2022: HK\$1,446 per case), representing an increase of 16.5% and a decrease of 1.5%, respectively.

The slight decrease in ASP in HK\$ was mainly due to the depreciation of EUR by 1.1%, AUD by 5.9% and RMB by 5.8% against HK\$ during the six months ended 30 June 2023.

The increase in volume was mainly due to increase in market share driven by the digitalisation trend in dental industry and the re-opening of Mainland China.

For the six months ended 30 June 2023, 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 373,985 cases reflecting an increase of 50.9% as compared with the same period in 2022 (approximately 247,887 cases) as a result of our clients' continued 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 2023 and 2022, respectively:

	Six months ended 30 June						
	2023			2022			Original
Market	Original currency	Conversion rate [#]	Revenue (HK\$'000)	Conversion rate [#]	Revenue (HK\$'000)	Change in currency (%)	currency growth rate (%)
Europe	EUR	8.47	710,045	8.56	616,430	-1.1	16.4
North America	US\$	7.75	393,656	7.75	362,448	—	8.6
Greater China	RMB	1.13	351,203	1.20	319,239	-5.8	16.8
Australia	AUD	5.30	124,257	5.63	112,867	-5.9	16.9
Others			<u>22,391</u>		<u>17,508</u>		
Total			<u><u>1,601,552</u></u>		<u><u>1,428,492</u></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 period under review.

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 continues to aggressively gain market share from international and domestic competitors through our established dental ecosystem solutions with a focus on education and digitalization, which is available within close proximity to our clients; effectively meeting our clients' high expectations through our various onshore and offshore resources. 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.

During the period under review, the European market recorded a revenue of approximately HK\$710,045,000, representing an increase of approximately HK\$93,615,000 as compared with six months ended 30 June 2022. This geographic market accounted for 44.3% of the Group's total revenue as compared with approximately 43.2% for the six months ended 30 June 2022. The increase of revenue from the European market was attributable to the increase in sales order volume driven by the launch of new products, such as digital dentures, and our state-of-the-art digital workflows and the effect was slightly offset by the depreciation of EUR against HK\$ by 1.1% compared with the six months ended 30 June 2022.

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\$313,092,000 (six months ended 30 June 2022: HK\$291,478,000) to the Group's revenue, approximately HK\$36,899,000 (six months ended 30 June 2022: HK\$31,502,000) to the Group's Adjusted EBITDA; and approximately HK\$16,785,000 (six months ended 30 June 2022: HK\$15,834,000) to the Group's profit for the six months ended 30 June 2023.

Our clients' interest surrounding digital dentistry continued to increase during the period. With our centralised digital workflows and network oversight over our wide coverage of production units within the region, we are well positioned to support the customers needs through their digitalisation journey, focusing on leveraging efficiencies and providing an enhanced customer experience throughout the network. The revenue of the North America market increased by approximately 8.6% as compared with the six months ended 30 June 2022. 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 North American market.

During the period under review, the North American market recorded a revenue of approximately HK\$393,656,000, representing an increase of approximately HK\$31,208,000 as compared with the six months ended 30 June 2022. This geographic market accounted for approximately 24.6% of the Group's total revenue as compared with approximately 25.4% in the six months ended 30 June 2022.

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.

The Group is optimistic in its mid/long-term 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 level 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. Our substantial market share of government-related orders in Hong Kong gives us confidence and highlights the Group's competitive advantages in gaining market share under a centralised procurement system due to our competitive strength in products quality, product 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 operating an in-house laboratory in Hong Kong's only dental postgraduate 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.

During the period under review, the Greater China market recorded a revenue of approximately HK\$351,203,000, representing an increase of approximately HK\$31,964,000 as compared with six months ended 30 June 2022. This geographic market accounted for approximately 21.9% of the Group's total revenue as compared with approximately 22.3% in the six months ended 30 June 2022. The increase of revenue from the Greater China market was largely attributable to the increase in sales orders volumes due to the increase in volume driven by the digitalization trend and the re-opening of Mainland China since late 2022; and partially offset by (i) the development of the volume-based procurement for dental implant treatment in the Mainland China; and (ii) the depreciation of RMB against HK\$ by 5.8% compared with the six months ended 30 June 2022.

Australia

The Australian market includes both Australia and New Zealand. 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. 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 Australian market recorded a revenue of approximately HK\$124,257,000 representing an increase of approximately HK\$11,390,000 as compared with the six months ended 30 June 2022. This geographic market accounted for approximately 7.8% of the Group's total revenue as compared with approximately 7.9% in the six months ended 30 June 2022. The increase of revenue from the Australian market was largely attributable to increase in the sales order volume driven by the digitalization trend and the re-opening of Mainland China and the effect was partially offset by the depreciation of AUD against HK\$ by 5.9% compared with the six months ended 30 June 2022.

Others

Other markets primarily include Indian Ocean countries, Malaysia, Taiwan and Singapore. For the six months ended 30 June 2023, these markets recorded a revenue of approximately HK\$22,391,000, representing an increase of approximately HK\$4,883,000 as compared with the six months ended 30 June 2022. This geographic market accounted for approximately 1.4% of the Group's total revenue as compared with approximately 1.2% for the corresponding period in 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 continues to grow into more than just a one-stop shop dental prosthetic provider, but a full dental ecosystem to support our customers. 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

During the period under review, the revenue of the Group amounted to approximately HK\$1,601,552,000 representing an increase of approximately 12.1% as compared with approximately HK\$1,428,492,000 in the six months ended 30 June 2022. The increase was largely attributable to increase in sales volume as a result of the increase in market share driven by the digitalisation trend in dental industry and the re-opening of Mainland China offset by the depreciation of foreign currencies against HK\$ and the development of the volume-based procurement for dental implant treatment in the Mainland China.

Gross Profit and Gross Profit Margin

The gross profit for the six months ended 30 June 2023 was approximately HK\$867,319,000, which was approximately 24.7% higher than that of the six months ended 30 June 2022. The increase in the gross profit margin of approximately 5.5 percentage points compared with the corresponding period in 2022 was mainly attributable to (i) productivity utilization with the consistent sales order volume growth during the period; (ii) increase in the proportion of digital solution cases driven by the digitalisation trend in dental industry; and (iii) depreciation of RMB by 5.8% against HK\$.

The gross profit margins of Fixed Prosthetic Devices business segment, Removable Prosthetic Devices business segment and Others business segment were approximately 56.5%, 55.1% and 42.9% respectively. The following table sets forth the breakdown of our gross profit and gross profit margin by product category.

	Six months ended 30 June			
	2023		2022	
<u>Product category</u>	Gross profit margin (HK\$'000)	Gross profit margin (%)	Gross profit margin (HK\$'000)	Gross profit margin (%)
Fixed prosthetic devices	572,769	56.5	472,492	51.1
Removable prosthetic devices	193,011	55.1	129,179	49.3
Others	101,539	42.9	93,663	38.7
Total	<u>867,319</u>	<u>54.2</u>	<u>695,334</u>	<u>48.7</u>

Selling and Distribution Expenses

During the period under review, the selling and distribution expenses increased by approximately 6.0% from approximately HK\$189,994,000 for the six months ended 30 June 2022 to approximately HK\$201,369,000 for the six months ended 30 June 2023, accounting for approximately 12.6% of the Group's revenue, as compared with approximately 13.3% for corresponding period in 2022. The increase in the selling and distribution expenses was in line with the increase in sales while partially offset by depreciation of foreign currencies against HK\$.

Administrative Expenses

During the period under review, the administrative expenses increased by approximately 3.6% to approximately HK\$376,054,000 for the six months ended 30 June 2023 from approximately HK\$363,118,000 for the six months ended 30 June 2022, accounting for approximately 23.5% of the Group's revenue, as compared with approximately 25.4% for corresponding period in 2022. 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\$2,195,000 and (ii) the increase in labour costs due to increase in number of headcount.

Other Operating Expenses

During the period under review, the other operating expenses decreased by approximately 75.9% from approximately HK\$5,762,000 for the six months ended 30 June 2022 to approximately HK\$1,388,000 for the six months ended 30 June 2023, accounting for approximately 0.1% of the Group's revenue, as compared with approximately 0.4% for the corresponding period in 2022. Other operating expenses mainly represented (i) loss on disposal of items of property, plant and equipment, net, of approximately HK\$792,000 (six months ended 30 June 2022: nil); and (ii) exchange losses, net, incurred of nil (six months ended 30 June 2022: HK\$5,151,000).

Finance Costs

During the period under review, the finance costs increased by approximately 133.6% from approximately HK\$8,895,000 for the six months ended 30 June 2022 to approximately HK\$20,783,000 for the six months ended 30 June 2023, accounting for approximately 1.3% of the Group's revenue, as compared with approximately 0.6% for the corresponding period in 2022. The increase in finance costs were mainly due to the increase in the interest rate (i.e. HIBOR) when compared with six months ended 30 June 2022.

Income Tax Expense

During the period under review, the income tax expense increased by approximately 85.1% from approximately HK\$34,952,000 for the six months ended 30 June 2022 to approximately HK\$64,682,000 for the six months ended 30 June 2023.

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

Profit for the period increased by approximately 109.3% from approximately HK\$100,443,000 for the six months ended 30 June 2022 to approximately HK\$210,276,000 for the six months ended 30 June 2023.

Profit attributable to owners of the Company amounted to approximately HK\$211,201,000, representing an increase of approximately HK\$111,350,000, or approximately 111.5%, as compared with corresponding period in 2022.

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

- (i) increase in market share driven by the digitalization trend in dental industry and the re-opening of Mainland China; and
- (ii) the improvement in operational efficiency because of the increase in the proportion of digital solution cases driven by the digitalization trend in dental industry and the improvement in productivity utilization under a consistent sales order volume growth environment.

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 and remeasurement loss on contingent consideration.

The table below indicates the profit for the six months ended 30 June 2023 and 2022, 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	
	2023	2022
	HK\$'000	HK\$'000
EBITDA and Adjusted EBITDA		
Net profit	210,276	100,443
Add:		
Tax	64,682	34,952
Finance costs	20,783	8,895
Depreciation of right-of-use assets	25,961	25,281
Depreciation of property, plant and equipment	35,834	34,571
Amortisation of intangible assets	12,548	12,680
Less:		
Bank interest income	(330)	(893)
EBITDA	369,754	215,929
Add:		
One-off cost in connection with acquisitions and disposals	—	435
Remeasurement loss on contingent consideration	132	—
Adjusted EBITDA	369,886	216,364
Adjusted EBITDA Margin	23.1%	15.1%

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the six months ended 30 June 2023 and 2022:

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash flows from operating activities	214,283	56,923
Net cash flows used in investing activities	(56,569)	(136,232)
Net cash flows used in financing activities	(74,618)	(155,803)

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\$522,505,000 as of 30 June 2023 (31 December 2022: HK\$444,377,000), which was mainly denominated in HK\$, RMB, US\$, EUR and AUD.

Operating Activities

Net cash flows from operating activities was approximately HK\$214,283,000 for the six months ended 30 June 2023 (six months ended 30 June 2022: HK\$56,923,000). The increase in net cash flows from operating activities was primarily driven by the increase in operating profit generated by the Group during the period under review.

Investing Activities

The Group recorded a net cash outflow used in investing activities of approximately HK\$56,569,000 for the six months ended 30 June 2023 (six months ended 30 June 2022: HK\$136,232,000). The outflow was mainly attributable to approximately HK\$57,052,000 used primarily for expansion of our production facilities, such as construction costs of a factory building in Dongguan, Mainland China, and upgrade of our computer-aided/manufacturing equipment.

Financing Activities

The Group recorded a net cash outflow used in financing activities of approximately HK\$74,618,000 for the six months ended 30 June 2023 (six months ended 30 June 2022: HK\$155,803,000). The outflow was mainly attributable to (i) payment for dividend of approximately HK\$41,992,000; (ii) repurchase of the Company's ordinary shares of approximately HK\$5,523,000; (iii) payment for lease liabilities of approximately HK\$27,959,000; and (iv) payment for interest expenses of approximately HK\$16,770,000, offset by net cash inflow from bank borrowings of approximately HK\$17,626,000.

Capital Expenditure and Research and Development Expenses

During the period under review, the Group's capital expenditure amounted to approximately HK\$57,052,000 was primarily 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 2023, the Group has invested in acquisition of the latest state-of-the-art machineries of approximately HK\$12,963,000 (six months ended 30 June 2022: HK\$23,270,000) and incurred research and development cost of approximately HK\$24,974,000 (six months ended 30 June 2022: HK\$22,779,000). The aggregate amounts collectively represented approximately 2.4% of the revenue of the Group (six months ended 30 June 2022: 3.2%).

Save as disclosed in this Announcement, there were no significant investments held by the Company for the period ended 30 June 2023, nor was there any plan authorized by the Board for other material investments or additions of capital assets as at the date of this Announcement.

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 2023 amounted to approximately HK\$647,404,000 as compared to approximately HK\$630,180,000 as of 31 December 2022. As of 30 June 2023, the bank borrowings were denominated in HK\$ and MYR amounted approximately HK\$647,308,000 and HK\$96,000, respectively. As of 30 June 2023, 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 2023, the gearing ratio of the Group was approximately 19% (31 December 2022: 22%), reflecting that the Group's financial position was at a sound level.

Debt securities

As of 30 June 2023 and 31 December 2022, the Group did not have any debt securities.

Contingent liabilities

As of 30 June 2023 and 31 December 2022, the Group did not have any material contingent liabilities or guarantees.

Charge of group assets

During the period under review, 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 30 June 2023 amounted to approximately HK\$3,235,000 as compared to approximately HK\$3,340,000 as of 31 December 2022.

Commitments

The Group had no significant capital commitments as of 30 June 2023 and 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 during the six months ended 30 June 2023 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 2023, the Group did not enter into any material off-balance sheet transactions.

IMPORTANT EVENTS AFTER THE PERIOD UNDER REVIEW

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

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Global Economy and Cross Countries Operations

As a global business, the Group is exposed to the developments in 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.

In general, credit and financial markets have experienced significant fluctuations both in the United States and worldwide, adding to the prevailing uncertainty. Furthermore, geopolitical risks and political turbulence have added to the complexity of the global economic outlook. Trade competition between nations has escalated, resulting in trade disputes and protectionist measures that disrupt international commerce and supply chains.

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 2022, such as the pre-tax discount rates (ranged between 16% and 30%); the budgeted sales growth rates (ranged between 0% and 13%); and budgeted EBITDA margins (ranged between 10% and 30%), are determined with reference to historical performance of the Group, market research of the prosthetic devices industry and the specific business plans of the Group.

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 2023, the interest rate on floating-rate bank loans was 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.

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 6,860 (31 December 2022: 6,830) employees at our production facilities, service centers, points of sales and other sites as of 30 June 2023, mainly including 4,709 (31 December 2022: 4,681) production staff members, 699 (31 December 2022: 728) general management staff members and 481 (31 December 2022: 438) 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 2023 was approximately HK\$725,358,000 (six months ended 30 June 2022: approximately HK\$703,475,000). 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 2023, 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 2023, no outstanding restricted share units were granted or vested pursuant to the Pre-IPO RSU Scheme.

DIVIDENDS

The Board declared an interim dividend of HK6.0 cents (six months ended 30 June 2022: HK3.7 cents) per ordinary share for the six months ended 30 June 2023. The interim dividend will be payable on Tuesday, 10 October 2023 to Shareholders whose names appear on the Register of Members of the Company on Monday, 18 September 2023.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 14 September 2023 to Monday, 18 September 2023, 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 2023, 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, 13 September 2023, 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 2023, the Company repurchased 2,048,000 of its ordinary shares (the “Shares”) on the Stock Exchange at an aggregate consideration of approximately HK\$5,523,000 (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\$	
May 2023	800,000	2.52	2.32	1,928
June 2023	1,248,000	3.00	2.64	3,595
	<u>2,048,000</u>			<u>5,523</u>

All of 2,048,000 repurchased Shares of approximately HK\$5,523,000 (before expenses) were recognised as treasury shares as at 30 June 2023.

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 and 30 May 2023, 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 six months ended 30 June 2023, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the six months ended 30 June 2023, 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 2023.

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 2023, 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 2023 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, 29 August 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.