

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2023**

In 2023, the Group was in a position to announce record sales and profit figures due to a continued and steady increase in demand for its products from its existing, returning and new customers. As the challenging macro-economic environment continues to negatively affect our competitors, the Group's multi-dimensional strategies and comprehensive products portfolio, encompassing higher-priced dental treatments and cost-effective dental treatments, enabled the Group to capitalise on market opportunities by capturing new customers and increase its sales volume, and in each case displaying the Group's ability to outperform its competitors throughout the economic cycle.

The global digitalisation trend continues to accelerate the consolidation of the dental prosthetics industry, allowing 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. The consolidation trend of the dental prosthetics industry is clearly continuing, and with the addition of our Vietnam production facility and Dongguan Phase 2 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 year ended 31 December 2023 was approximately HK\$3,172,048,000 (2022: HK\$2,830,088,000), representing an increase of approximately 12.1%.
- The Gross Profit Margin for the year ended 31 December 2023 was approximately 53.6% (2022: 48.9%). Gross profit for the year ended 31 December 2023 was approximately HK\$1,700,693,000 (2022: HK\$1,383,306,000), representing an increase of approximately 22.9%.
- The Group's EBITDA for the year ended 31 December 2023 was approximately HK\$694,471,000 (2022: HK\$463,351,000), representing an increase of approximately 49.9%.
- The Group's Net Profit for the year ended 31 December 2023 were approximately HK\$402,177,000 (2022: HK\$220,549,000), representing an increase of approximately 82.4%.
- Basic earnings per share for the year ended 31 December 2023 amounted to HK42.4 cents (2022: HK23.1 cents), representing an increase of approximately 83.5%.

- The Board recommended a final dividend of HK9.0 cents per ordinary share, out of the share premium account, for the year ended 31 December 2023 (2022: 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 28 June 2024 to shareholders of the Company whose names appear on the Register of Members of the Company on 11 June 2024.

Further highlights:

- For the year ended 31 December 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 857,064 cases reflecting an increase of 55.9% as compared with the same period in 2022 (approximately 549,736 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 years ended 31 December 2023 and 2022:

	Year ended 31 December		
	2023	2022	Changes
	HK\$'000	HK\$'000	(%)
Revenue	3,172,048	2,830,088	12.1%
Gross Profit	1,700,693	1,383,306	22.9%
Gross Profit Margin (%)	53.6%	48.9%	9.6%
EBITDA	694,471	463,351	49.9%
EBITDA Margin (%)	21.9%	16.4%	33.5%
Net Profit	402,177	220,549	82.4%
Net Profit Margin (%)	12.7%	7.8%	62.8%

- The following table sets forth a breakdown of the revenue generated from the aforesaid markets for the years ended 31 December 2023 and 2022:

Sales by region	Year ended 31 December		Change in currency (%)	Organic growth rate (%)
	2023 HK\$'000	2022 HK\$'000		
Europe	1,399,371	1,180,604	2.8	15.3
North America	753,615	709,317	—	6.2
Greater China	713,592	666,659	-4.3	11.9
Australia	254,341	235,811	-4.4	12.8
Others	51,129	37,697	—	35.6
	<u>3,172,048</u>	<u>2,830,088</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 2023, together with the comparative figures for the year ended 31 December 2022, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 HK\$'000	2022 HK\$'000
REVENUE	3	3,172,048	2,830,088
Cost of sales		<u>(1,471,355)</u>	<u>(1,446,782)</u>
Gross profit		1,700,693	1,383,306
Other income and gains	3	17,115	17,905
Selling and distribution expenses		(414,135)	(374,987)
Administrative expenses		(747,869)	(702,228)
Other operating expenses		(4,709)	(7,967)
Finance costs	5	(41,222)	(26,270)
Share of (losses)/profits of associates		<u>(285)</u>	<u>387</u>
PROFIT BEFORE TAX	4	509,588	290,146
Income tax expense	6	<u>(107,411)</u>	<u>(69,597)</u>
PROFIT FOR THE YEAR		<u>402,177</u>	<u>220,549</u>
ATTRIBUTABLE TO:			
Owners of the Company		404,102	220,458
Non-controlling interests		<u>(1,925)</u>	<u>91</u>
		<u>402,177</u>	<u>220,549</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	8	<u>HK42.4 cents</u>	<u>HK23.1 cents</u>
Diluted	8	<u>HK42.4 cents</u>	<u>HK23.1 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE YEAR	<u>402,177</u>	<u>220,549</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	33,785	(154,828)
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>(7,214)</u>	<u>(13,060)</u>
Other comprehensive income/(loss) for the year, net of tax	<u>26,571</u>	<u>(167,888)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>428,748</u>	<u>52,661</u>
ATTRIBUTABLE TO:		
Owners of the Company	431,507	52,570
Non-controlling interests	<u>(2,759)</u>	<u>91</u>
	<u>428,748</u>	<u>52,661</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

	Notes	2023 HK\$'000	2022 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	727,424	651,079
Right-of-use assets		177,829	159,129
Goodwill	10	1,159,640	1,132,420
Intangible assets		214,582	228,203
Investments in associates		3,977	3,330
Equity investments designated at fair value through other comprehensive income	11	19,185	26,399
Deferred tax assets		44,199	47,078
Long term prepayments and deposits		34,687	25,671
Total non-current assets		<u>2,381,523</u>	<u>2,273,309</u>
CURRENT ASSETS			
Inventories		166,180	157,244
Trade receivables	12	590,220	565,828
Prepayments, deposits and other receivables		83,512	82,242
Due from an associate		77	—
Current tax assets		33,440	12,715
Pledged deposits		201	3,340
Cash and cash equivalents		697,694	444,377
Total current assets		<u>1,571,324</u>	<u>1,265,746</u>
CURRENT LIABILITIES			
Trade payables	13	80,094	75,598
Other payables and accruals		272,350	218,895
Lease liabilities		46,464	46,242
Interest-bearing bank borrowings	14	63,699	84,906
Tax payable		92,367	103,742
Total current liabilities		<u>554,974</u>	<u>529,383</u>
NET CURRENT ASSETS		<u>1,016,350</u>	<u>736,363</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,397,873</u>	<u>3,009,672</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*AS AT 31 DECEMBER 2023*

	<i>Note</i>	2023	2022
		<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Lease liabilities		129,545	111,768
Interest-bearing bank borrowings	14	612,492	545,274
Deferred tax liabilities		12,683	14,131
Other non-current liabilities		52	4,966
		<hr/>	<hr/>
Total non-current liabilities		754,772	676,139
		<hr/>	<hr/>
NET ASSETS		<u>2,643,101</u>	<u>2,333,533</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		73,501	74,012
Treasury shares		(419)	(39)
Reserves		2,559,197	2,245,979
		<hr/>	<hr/>
		2,632,279	2,319,952
Non-controlling interests		10,822	13,581
		<hr/>	<hr/>
TOTAL EQUITY		<u>2,643,101</u>	<u>2,333,533</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 2023. 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, 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 the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and 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 new and revised IFRSs for the first time for the current year's financial statements.

IFRS 17	<i>Insurance Contracts</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendment 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 nature and the impact of the new and revised IFRSs that are applicable to the Group are described below:

- (a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

- (b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.
- (c) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets and lease liabilities separately. However, they did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualified for offsetting under IAS 12.

- (d) Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to 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, 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.

	2023			2022		
	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	1,985,044	892,052	1,092,992	1,803,466	880,988	922,478
Removable prosthetic devices	712,962	325,867	387,095	535,091	266,161	268,930
Others	474,042	253,436	220,606	491,531	299,633	191,898
Total	3,172,048	1,471,355	1,700,693	2,830,088	1,446,782	1,383,306

Geographical information

(a) Revenue from external customers

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Europe	1,399,371	1,180,604
North America	753,615	709,317
Greater China	713,592	666,659
Australia	254,341	235,811
Others	51,129	37,697
	<u>3,172,048</u>	<u>2,830,088</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

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Europe	786,737	736,039
North America	521,444	535,805
Greater China	600,830	570,528
Australia	296,966	300,295
Others	131,347	83,564
	<u>2,337,324</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.

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:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
<u>Revenue</u>		
Sale of goods transferred at a point in time	<u>3,172,048</u>	<u>2,830,088</u>
<u>Other income</u>		
Bank interest income	1,888	1,122
Government subsidies*	5,377	10,938
Others	<u>9,090</u>	<u>5,845</u>
	<u>16,355</u>	<u>17,905</u>
<u>Gains</u>		
Gains on early termination of leases, net	188	—
Remeasurement gains on contingent consideration	<u>572</u>	<u>—</u>
	<u>760</u>	<u>—</u>
Other income and gains	<u>17,115</u>	<u>17,905</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:

	2023	2022
	<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>6,314</u>	<u>7,432</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):

	2023	2022
	HK\$'000	HK\$'000
Cost of inventories sold [#]	1,471,355	1,446,782
Depreciation of right-of-use assets	52,987	50,751
Depreciation of property, plant and equipment	72,011	70,902
Amortisation of intangible assets	20,551	26,404
Lease payments not included in the measurement of lease liabilities	11,435	10,256
Research and development costs ^{##}	43,239	40,096
Auditors' remuneration	11,011	11,193
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries [*]	1,271,004	1,209,798
Pension scheme contributions	168,041	149,360
	1,439,045	1,359,158
Bank interest income ^{**}	(1,888)	(1,122)
Loss on disposal of items of property, plant and equipment, net ^{**}	551	400
(Gains)/losses on early termination of leases, net ^{**}	(188)	1
Write-off of property, plant and equipment ^{**}	695	115
Allowance for impairment of trade receivables, net	9,495	8,315
Foreign exchange losses, net ^{**}	2,872	6,627
Remeasurement (gains)/losses on contingent consideration ^{**}	(572)	406

[#] Cost of inventories sold includes HK\$892,654,000 (2022: HK\$859,627,000) 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\$35,935,000 (2022: HK\$32,348,000) 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.
- * Prior year's amount was net-off with government subsidies of HK\$3,457,000 under COVID-19 related employment support schemes. There were no unfulfilled conditions or contingencies relating to these subsidies.
- ** Bank interest income, gains on early termination of leases, net and remeasurement gains on contingent consideration 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, losses on early termination of leases, net, write-off of property, plant and equipment, foreign exchange losses, net, and remeasurement losses on contingent consideration are included in "other operating expenses" in the consolidated statement of profit or loss.

5. FINANCE COSTS

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans, overdrafts and other loans	38,806	19,552
Less: amount capitalised on qualifying assets	(5,603)	—
	33,203	19,552
Interest on lease liabilities	7,539	4,781
Finance charges on bank loans	480	1,937
	41,222	26,270

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% (2022: 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 (2022: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 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 2023 and 2022.

Certain companies 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 2023 (2022: 15%).

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% (2022: 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% (2022: 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.

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	105,573	64,963
Deferred	1,838	4,634
Total tax charge for the year	<u>107,411</u>	<u>69,597</u>

7. DIVIDENDS

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim — HK6.0 cents (2022: HK3.7 cents) per ordinary share	<u>57,299</u>	<u>35,407</u>
Proposed final — HK9.0 cents (2022: HK4.4 cents) per ordinary share	<u>85,356</u>	<u>42,020</u>

In 2023, the calculations of the interim dividend are based on 954,991,000 ordinary shares in issue. The calculation of proposed final dividend is based on 948,398,000 ordinary shares in issue.

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.

On 26 March 2024, the Board recommended a final dividend of HK9.0 cents per ordinary share for the year ended 31 December 2023. The proposed final dividend for the year ended 31 December 2023 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 951,970,289 (2022: 956,038,265) in issue during the year, as adjusted to reflect the number of shares of 598,045 (2022: 498,045) held as treasury shares.

The Group had no potential dilutive ordinary shares in issue during the years ended 31 December 2023 and 2022.

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

	2023	2022
	<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	404,102	220,458
	Number of shares	
	2023	2022
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the years used in the basic and diluted earnings per share calculation	951,970,289	956,038,265

9. PROPERTY, PLANT AND EQUIPMENT

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at 1 January	651,079	586,980
Additions	161,325	182,724
Disposals	(7,267)	(7,083)
Acquisition of subsidiaries	—	1,788
Write-off	(695)	(115)
Depreciation provided during the year	(72,011)	(70,902)
Exchange realignment	(5,007)	(42,313)
	<u>727,424</u>	<u>651,079</u>
Carrying amount at 31 December	<u><u>727,424</u></u>	<u><u>651,079</u></u>

10. GOODWILL

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at 1 January	1,132,420	1,185,682
Acquisition of subsidiaries	—	3,555
Exchange realignment	27,220	(56,817)
	<u>1,159,640</u>	<u>1,132,420</u>
Carrying amount at 31 December	<u><u>1,159,640</u></u>	<u><u>1,132,420</u></u>

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

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed equity investments in Hong Kong, at fair value		
Arrail Group Limited	<u>19,185</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.

The market value of the Group's listed equity investments at the date of approval of financial statements was approximately HK\$15,925,000.

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:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	267,741	250,072
1 to 2 months	108,142	92,981
2 to 3 months	49,947	48,950
3 months to 1 year	134,871	138,791
Over 1 year	<u>29,519</u>	<u>35,034</u>
	<u>590,220</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 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:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	49,985	59,856
1 to 2 months	23,936	8,938
2 to 3 months	2,817	5,170
Over 3 months	3,356	1,634
	80,094	75,598

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

		2023		2022		
	Effective/ contractual interest rate (%)	Maturity	HK\$'000	Effective/ contractual interest rate (%)	Maturity	HK\$'000
Current						
Bank loans – secured				Base Financing Rate+3.50	On Demand	133
Current portion of long term bank loans – secured	Hong Kong Interbank Offered Rate ("HIBOR") +1.15 to HIBOR+1.60	2024	63,699	HIBOR+1.60	2023	84,773
			<u>63,699</u>			<u>84,906</u>
Non-current						
Long term bank loans – secured	HIBOR +1.15 to HIBOR+1.60	2025-2028	612,492	HIBOR+1.60	2024-2027	545,274
			<u>612,492</u>			<u>545,274</u>
			<u>676,191</u>			<u>630,180</u>

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed into:		
Within one year or on demand	63,699	84,906
In the second year	182,167	105,647
In the third to fifth years, inclusive	430,325	439,627
	<u>676,191</u>	<u>630,180</u>

Notes:

- (a) As at 31 December 2023 and 2022, all bank borrowings are secured by the corporate guarantees of the Company and certain of its subsidiaries.
- (b) As at 31 December 2023, all the Group's bank borrowings are denominated in HK\$.

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.

15. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Company repurchased 1,000,000 of its ordinary shares on the Stock Exchange at an aggregate consideration of approximately HK\$3,788,000 (before expenses).

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

MANAGEMENT DISCUSSION AND ANALYSIS

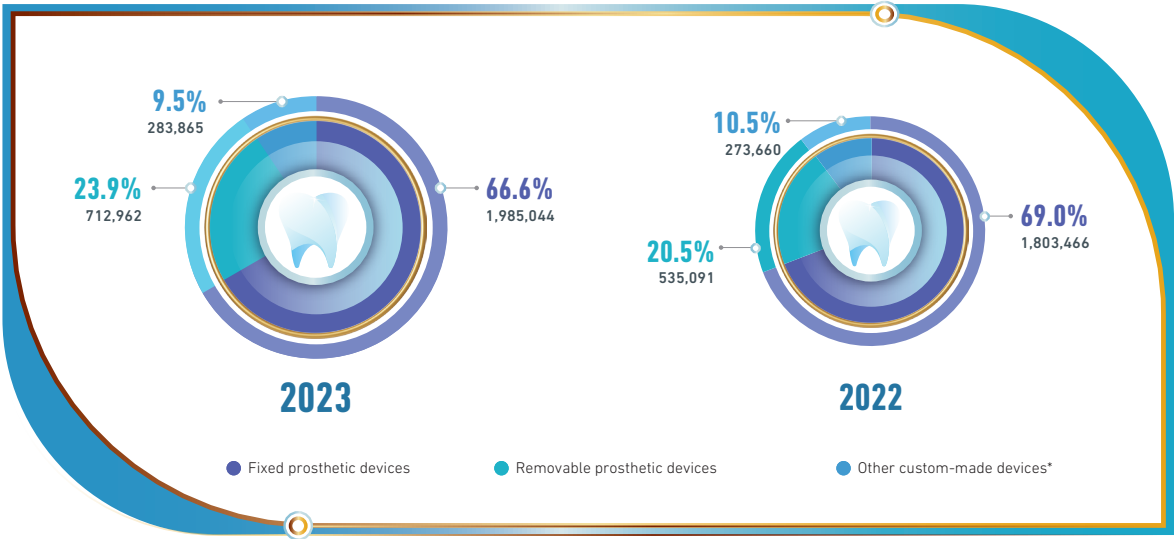
BUSINESS REVIEW

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\$33,686,000 (2022: HK\$25,761,000).

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 2023 and 2022 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 2023, fixed prosthetic devices business segment recorded a revenue of approximately HK\$1,985,044,000, representing an increase of approximately HK\$181,578,000 as compared with the year ended 31 December 2022. This business segment accounted for approximately 66.6% of the Group's total revenue as compared with approximately 69.0% in the year ended 31 December 2022.

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 2023, removable prosthetic devices business segment recorded a revenue of approximately HK\$712,962,000, representing an increase of approximately HK\$177,871,000 as compared with the year ended 31 December 2022. This business segment accounted for approximately 23.9% of the Group's total revenue as compared with approximately 20.5% in the year ended 31 December 2022.

Other custom-made Devices

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

During the year ended 31 December 2023, other custom-made devices business segment recorded a revenue of approximately HK\$283,865,000, representing an increase of approximately HK\$10,205,000 as compared with the year ended 31 December 2022. This business segment accounted for approximately 9.5% of the Group's total revenue as compared with approximately 10.5% in the year ended 31 December 2022.

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 2023 and 2022 respectively:

	Year ended 31 December					
	2023			2022		
	Sales		ASP	Sales		ASP
	Volume	Revenue	ASP	Volume [#]	Revenue	ASP
	<i>(number of cases)</i>	<i>(HK\$'000)</i>	<i>(HK\$ per case)</i>	<i>(number of cases)</i>	<i>(HK\$'000)</i>	<i>(HK\$ per case)</i>
<u>Product category</u>						
Fixed prosthetic devices	1,079,750	1,985,044	1,838	988,939	1,803,466	1,824
Removable prosthetic devices	563,666	712,962	1,265	452,878	535,091	1,182
Other custom-made devices*	429,852	283,865	660	<u>388,575</u>	<u>273,660</u>	704
Total	<u>2,073,268</u>	<u>2,981,871</u>	1,438	<u>1,830,392</u>	<u>2,612,217</u>	1,427

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

Volume in 2022 is adjusted to align with the methodologies in 2023.

Sales volume and average selling price

For the year ended 31 December 2023, the sales volume and ASP of the Group's products across its markets were 2,073,268 cases (2022: 1,830,392 cases) and HK\$1,438 per case (2022: HK\$1,427 per case), representing an increase of 13.3% and 0.8%, respectively.

The slight increase in ASP in HK\$ was mainly due to the annual raise in product price in overseas countries and the change in product mix offset by the decrease in price for certain products related to the dental implant treatment in Mainland China market as a result of the implementation of the centralised procurement policy for dental implant treatment.

The increase in volume was mainly due to increase in sales volume and market share, as accelerated by the digitalisation trend in dental industry.

For the year ended 31 December 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 857,064 cases, reflecting an increase of 55.9% as compared with the same period in 2022 (approximately 549,736 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 2023 and 2022 respectively:

Market	Year ended 31 December						
	2023			2022			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	8.48	1,399,371	8.25	1,180,604	2.8	15.3
North America	US\$	7.75	753,615	7.75	709,317	—	6.2
Greater China	RMB	1.11	713,592	1.16	666,659	-4.3	11.9
Australia	AUD	5.20	254,341	5.44	235,811	-4.4	12.8
Others			51,129		37,697	—	35.6
Total			<u>3,172,048</u>		<u>2,830,088</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 2023.

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 digitalisation, 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 year ended 31 December 2023, the European market recorded a revenue of approximately HK\$1,399,371,000, representing an increase of approximately HK\$218,767,000 as compared with the year ended 31 December 2022. This geographic market accounted for 44.1% of the Group's total revenue as compared with approximately 41.7% for the year ended 31 December 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.

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 2023.

MicroDental Laboratories, Inc. and its subsidiaries (“**MicroDental Group**”) contributed approximately HK\$594,994,000 (2022: HK\$566,349,000) to the Group’s revenue, approximately HK\$53,782,000 (2022: HK\$50,877,000) to the Group’s Adjusted EBITDA; and approximately HK\$16,672,000 (2022: HK\$16,466,000) to the Group’s profit.

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 6.2% as compared with the year ended 31 December 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 year ended 31 December 2023, the North American market recorded a revenue of approximately HK\$753,615,000, representing an increase of approximately HK\$44,298,000 as compared with the year ended 31 December 2022. This geographic market accounted for approximately 23.8% of the Group’s total revenue as compared with approximately 25.1% in the year ended 31 December 2022.

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 2023.

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, advance in 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.

For the year ended 31 December 2023, the Greater China market recorded a revenue of approximately HK\$713,592,000, representing an increase of approximately HK\$46,933,000 as compared with the year ended 31 December 2022. This geographic market accounted for approximately 22.5% of the Group's total revenue as compared with approximately 23.6% in the year ended 31 December 2022. The increase of revenue from the Greater China market was largely attributable to the increase in sales orders volumes driven by the digitalisation 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 4.3% compared with the year ended 31 December 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.

For the year ended 31 December 2023, the Australian market recorded a revenue of approximately HK\$254,341,000, representing an increase of approximately HK\$18,530,000 as compared with the year ended 31 December 2022. This geographic market accounted for approximately 8.0% of the Group's total revenue as compared with approximately 8.3% in the year ended 31 December 2022. The increase of revenue from the Australian market was largely attributable to the increase in sales order volume but partially offset by the depreciation of AUD against HK\$ by 4.4% compared with the year ended 31 December 2022.

Others

Other markets primarily include Indian Ocean countries, Malaysia, Taiwan, Singapore and Thailand. For the year ended 31 December 2023, these markets recorded a revenue of approximately HK\$51,129,000, representing an increase of approximately HK\$13,432,000 as compared with the year ended 31 December 2022. This geographic market accounted for approximately 1.6% of the Group's total revenue as compared with approximately 1.3% last year. The increase of revenue from the other markets was largely attributable to an increase in sales order volume and a rise in the selling price in 2023. The increase can be attributed to the ongoing economic recovery after post COVID-19 period.

FUTURE PROSPECTS AND STRATEGIES

It is expected that the Group continues to consolidate the dental prosthetic market, and the Board is of the view that the consolidation trend is irreversible and clearly continuing. Therefore, notwithstanding any short or medium term challenges the global economy may face, the Board is confident that the Group is expected to outperform its competitors. In a year where some of the Group's competitors had faced materially adverse issues, the Group continued to thrive and it is the Group's ability to thrive during such uncertain economic conditions that give the Board comfort in its optimistic view of the Group.

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 2024, 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 whilst remaining cautious and prudent in safeguarding shareholders' interests.

The Board is highly appreciative of the enormous efforts of our people, customers and suppliers despite the continuing challenges caused by the macroeconomic environment, as they work relentlessly to deliver our commitment to the benefit of patients.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2023, the revenue of the Group amounted to approximately HK\$3,172,048,000, representing an increase of approximately 12.1% as compared with approximately HK\$2,830,088,000 for the year ended 31 December 2022. The increase was largely attributable to an increase in sales volume and market share, as accelerated by the digitalisation trend in dental industry offset by 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 year ended 31 December 2023 was approximately HK\$1,700,693,000, which was approximately 22.9% higher than that of last year. The increase in the gross profit margin of approximately 4.7 percentage points compared with the year ended 31 December 2022 was mainly attributable to (i) better productivity utilisation with the consistent sales order volume growth during the year; (ii) increase in the proportion of digital solution cases driven by the digitalisation trend in dental industry; and (iii) depreciation of RMB by 4.3% against HK\$.

The gross profit margins of Fixed Prosthetic Devices business segment, Removable Prosthetic Devices business segment and Others business segment were approximately 55.1%, 54.3% and 46.5% respectively. The following table sets forth the breakdown of our gross profit and gross margin by product category.

Year ended 31 December

	2023		2022	
	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	1,092,992	55.1	922,478	51.2
Removable prosthetic devices	387,095	54.3	268,930	50.3
Others	220,606	46.5	191,898	39.0
Total	<u>1,700,693</u>		<u>1,383,306</u>	

Selling and Distribution Expenses

The selling and distribution expenses increased by approximately 10.4% from approximately HK\$374,987,000 for the year ended 31 December 2022 to approximately HK\$414,135,000 for the year ended 31 December 2023, accounting for approximately 13.1% of the Group's revenue, as compared with approximately 13.3% for last year. The increase in the selling and distribution expenses was in line with the increase in sales.

Administrative Expenses

The administrative expenses increased by approximately 6.5% to approximately HK\$747,869,000 for the year ended 31 December 2023 from approximately HK\$702,228,000 for the year ended 31 December 2022, accounting for approximately 23.6% of the Group's revenue, as compared with approximately 24.8% 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\$3,143,000; and (ii) the increase in labour costs due to increase in number of headcount.

Other Operating Expenses

During the year ended 31 December 2023, the other operating expenses decreased by approximately 40.9% from approximately HK\$7,967,000 for the year ended 31 December 2022 to approximately HK\$4,709,000 for the year ended 31 December 2023, accounting for 0.1% of the Group's revenue, as compared with 0.3% for the year ended 31 December 2022. Other operating expenses mainly represented (i) loss on disposal of items of property, plant and equipment, net, of approximately HK\$551,000 (2022: HK\$400,000); (ii) write-off of property, plant and equipment of approximately HK\$695,000 (2022: HK\$115,000); and (iii) exchange losses, net, incurred of approximately HK\$2,872,000 (2022: HK\$6,627,000).

Finance Costs

During the year ended 31 December 2023, the finance costs increased by approximately 56.9% from approximately HK\$26,270,000 for the year ended 31 December 2022 to approximately HK\$41,222,000 for the year ended 31 December 2023, accounting for approximately 1.3% of the Group's revenue, as compared with approximately 0.9% 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 the year ended 31 December 2022.

Income Tax Expense

Income tax expense increased by approximately 54.3% from approximately HK\$69,597,000 for the year ended 31 December 2022 to approximately HK\$107,411,000 for the year ended 31 December 2023.

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

Profit for the year increased by approximately 82.4% from approximately HK\$220,549,000 for the year ended 31 December 2022 to approximately HK\$402,177,000 for the year ended 31 December 2023.

Profit attributable to owners of the Company for the year ended 31 December 2023 amounted to approximately HK\$404,102,000, representing an increase of approximately HK\$183,644,000, or approximately 83.3%, as compared with approximately HK\$220,458,000 for the year ended 31 December 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 digitalisation trend in dental industry;
- (ii) the improvement in operational efficiency because of the increase in the proportion of digital solution cases driven by the digitalisation trend in dental industry and the improvement in productivity utilisation under a consistent sales order volume growth environment; and
- (iii) outperforming the competitors throughout the economic cycle, as the challenging macro-economic environment continues to negatively affect our competitors, the Group's multi-dimensional strategies and comprehensive products portfolio, encompassing higher-priced dental treatments and cost-effective dental treatments, enabled the Group to capitalize on market opportunities by capturing new customers and increase its sales volume.

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 years ended 31 December 2023 and 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 remeasurement gains/losses 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	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
EBITDA and Adjusted EBITDA		
Net profit	402,177	220,549
Tax	107,411	69,597
Finance costs	41,222	26,270
Depreciation of right-of-use assets	52,987	50,751
Depreciation of property, plant and equipment	72,011	70,902
Amortisation of intangible assets	20,551	26,404
Less:		
Bank interest income	(1,888)	(1,122)
EBITDA	694,471	463,351
One-off cost in connection with acquisitions and disposals	—	1,038
Remeasurement (gains)/losses on contingent considerations	(572)	406
Adjusted EBITDA	<u>693,899</u>	<u>464,795</u>
Adjusted EBITDA Margin	<u>21.9%</u>	<u>16.4%</u>

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the years ended 31 December 2023 and 31 December 2022 respectively:

	For the year ended 31	
	December	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash flows from operating activities	575,760	258,276
Net cash flows used in investing activities	(154,957)	(227,892)
Net cash flows used in financing activities	(173,640)	(201,788)

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\$697,694,000 as of 31 December 2023 (2022: HK\$444,377,000), 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 2023, the net cash flows from operating activities has increased to approximately HK\$575,760,000 (2022: HK\$258,276,000). The increase in net cash flows from operating activities was primarily attributable to increase in net profit when compared with the year ended 31 December 2022.

Investing Activities

The net cash flows used in investing activities for the year ended 31 December 2023 of approximately HK\$154,957,000, of which approximately HK\$159,716,000 was used primarily for expansion of our production facilities, such as construction costs of a factory building in Dongguan, Mainland China and Vietnam and upgrade of our computer-aided/ manufacturing equipment.

Financing Activities

The Group recorded a net cash outflow used in financing activities of approximately HK\$173,640,000 for the year ended 31 December 2023. The outflow was mainly attributable to (i) advancement of bank borrowings, net of approximately HK\$45,524,000 (2022: repayment of bank borrowings, net of HK\$45,067,000); (ii) payment for dividend of approximately HK\$99,030,000 (2022: HK\$77,472,000); (iii) repurchase of the Company's ordinary shares of approximately HK\$20,150,000 (2022: HK\$3,595,000); (iv) payment for lease liabilities of approximately HK\$61,178,000 (2022: HK\$57,952,000); and (v) payment for interest expenses of approximately HK\$38,806,000 (2022: HK\$19,552,000).

Capital Expenditure and Research and Development expenses

During the year ended 31 December 2023, the Group's capital expenditure amounted to approximately HK\$159,716,000 which was mainly used for construction and renovation of factory premises and improvement on our production equipment. All of the capital expenditure was financed by internal resources and bank borrowings. The management is committed to invest in research and development activities and keep abreast of the latest development of the technologies in the dental prosthetic market. In 2023, the Group has invested in acquisition of the latest state-of-the-art machineries of approximately HK\$32,862,000 (2022: HK\$47,259,000) and incurred research and development costs of approximately HK\$43,239,000 (2022: HK\$40,096,000). The aggregate amounts collectively represented approximately 2.4% of the revenue of the Group (2022: 3.1%).

CAPITAL STRUCTURE

Bank borrowings

Bank borrowings of the Group as of 31 December 2023 amounted to approximately HK\$676,191,000 as compared to approximately HK\$630,180,000 as of 31 December 2022. As of 31 December 2023, all bank borrowings were denominated in HK\$. As of 31 December 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, other non-current liabilities, less cash and cash equivalents and pledged deposits. As of 31 December 2023, the gearing ratio of the Group was approximately 16% (2022: 22%), reflecting that the Group's financial position was at a sound level.

Debt securities

As of 31 December 2023, the Group did not have any debt securities.

Contingent liabilities

As of 31 December 2023, the Group did not have any contingent liabilities.

CHARGE OF GROUP ASSETS

During the year ended 31 December 2023, 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 2023 amounted to approximately HK\$201,000 as compared to approximately HK\$3,340,000 as of 31 December 2022.

Commitments

As of 31 December 2023, the Group has capital commitment in respect of land and buildings of approximately HK\$34,573,000 (2022: HK\$53,461,000) which are contracted, but not provided for in the consolidated financial statements.

Save as disclosed above, the Group had no other significant capital commitments as of 31 December 2023.

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 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 31 December 2023, the Group did not enter into any material off-balance sheet transactions.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the year ended 31 December 2023, the Company repurchased 1,000,000 of its Shares (as defined below) on the Stock Exchange at an aggregate consideration of approximately HK\$3,788,000 (before expenses).

Save as disclosed above, the Group has no important events after the year ended 31 December 2023 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.

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. Changes in government policies, regulations, or political environments in different countries can impact our operations, supply chains, or market access. 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 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 (2023: ranged between 16% and 26%; 2022: ranged between 16% and 30%); the budgeted sales growth rates (2023: ranged between 0% and 10%; 2022: ranged between 0% and 13%); and budgeted EBITDA margins (2023: ranged between 10% and 33%; 2022: 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 started 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 2023, the interest rate on floating-rate bank loans were ranged approximately from HIBOR+1.15% to HIBOR+1.60% per annum (2022: HIBOR+1.60%) 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 other financial assets, which comprise trade receivables, financial assets included in prepayments, deposits and other receivables, amount due from related parties, amount due from an associate, pledged deposits and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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

Liquidity Risk

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

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 7,035 (2022: 6,830) dedicated full-time employees at our production facilities, service centers, points of sales and other sites as of 31 December 2023, mainly including 4,831 (2022: 4,681) production staff members, 709 (2022: 728) general management staff members and 519 (2022: 438) customer service staff members.

Total staff costs of the Group (excluding the Directors’ and chief executive’s remuneration) for the year ended 31 December 2023 was approximately HK\$1,439,045,000 (2022: HK\$1,359,158,000). 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 2023, 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 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 Board recommended a final dividend of HK9.0 cents (2022: HK4.4 cents) per ordinary share, out of the share premium account, for the year ended 31 December 2023 (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 2024, the Proposed Final Dividend will be paid on 28 June 2024 to Shareholders whose names appear on the Register of Members of the Company as at the close of business on 11 June 2024.

CLOSURE OF REGISTER OF MEMBERS

To determine the entitlement to attend and vote at the AGM to be held on 30 May 2024, the Register of Members of the Company will be closed from Monday, 27 May 2024 to Thursday, 30 May 2024, 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 Friday, 24 May 2024, 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 Thursday, 6 June 2024 to Tuesday, 11 June 2024, 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 Wednesday, 5 June 2024.

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

During the year ended 31 December 2023, the Company repurchased 6,693,000 of its ordinary shares (the “Shares”) on the Stock Exchange at an aggregate consideration of approximately HK\$20,150,000 (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
July 2023	552,000	3.00	2.97	1,653
August 2023 ^{Note}	193,000	3.00	3.00	579
September 2023	2,100,000	3.25	2.97	6,566
October 2023	1,700,000	3.29	3.08	5,449
December 2023	100,000	3.80	3.80	380
	<u>6,693,000</u>			<u>20,150</u>

Out of 6,693,000 repurchased Shares, 6,593,000 Shares of approximately HK\$19,770,000 (before expenses) were cancelled during the year ended 31 December 2023, while the remaining 100,000 Shares of HK\$380,000 (before expenses) were recognised as treasury shares as at 31 December 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.

Note: During the period from 3 August 2023 to 7 August 2023, the Company unintentionally repurchased an aggregate of 193,000 Shares (representing 0.02% of the issue share capital of the Company) on the Stock Exchange during a restricted period under Rule 10.06(2)(e) of the Listing Rules. The incident was inadvertent and was not intentional. The trades had no material impact on the share price or trading volume. To prevent future occurrence of the similar incidents, the Company has since reinforced its internal policies and procedures for such transactions, including engaging legal advisers for guidance on compliance, designating senior management to oversee compliance, strengthening internal compliance guidelines and procedures and providing additional compliance training to its management and relevant teams.

Save as disclosed above, during the year ended 31 December 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 year ended 31 December 2023, the Company has complied with the applicable code provisions of the Corporate Governance Code contained in Appendix C1 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 C3 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 2023, 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 2023 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 2023 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, 26 March 2024

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.