

H.BROTHERS | ENTERTAINMENT

華 誼 騰 訊 娛 樂

INTERIM REPORT
2023

華 誼 騰 訊 娛 樂 有 限 公 司
Huayi Tencent Entertainment Company Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00419)

CONTENTS

- 2 Management discussion and analysis
- 14 Other information
- 19 Condensed consolidated interim income statement
- 20 Condensed consolidated interim statement of comprehensive income
- 21 Condensed consolidated interim balance sheet
- 23 Condensed consolidated interim cash flow statement
- 24 Condensed consolidated interim statement of changes in equity
- 25 Notes to the condensed consolidated interim financial information
- 48 Corporate information

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is actively engaged in the development of the areas of internet pharmaceutical and healthcare services in the PRC, and has successfully captured the market development opportunities through its two major businesses, “Echartnow”, provision of digitized operation service in the healthcare industry (formerly known as online prescription, circulation and marketing of pharmaceutical products), and “Meerkat Health”, a smart healthcare services platform.

In recent years, the People’s Republic of China (the “PRC”) has issued policy documents such as the “Healthy China 2030” Blueprint and the Guideline on the Promotion of Internet Plus Healthcare Development, which are sufficient proof that healthcare is a sunrise industry with both economic and social benefits, and that Healthy China has become a national strategy. The 21st Century New Health Research Institute released the China Digital Healthcare Industry Development Trend Report, which mentioned that under the encouragement of the national policy, along with the development of industry technologies, market demand growth and other factors, the PRC’s digital healthcare market is seeing rapid development.

For the first half of 2023, the Group recorded total revenue of HK\$688 million, a slight increase of 2% over the same period last year. Of which, “Echartnow”, provision of digitized operation service in the healthcare industry, recorded revenue of HK\$482 million, representing an increase of 1.1 times over the same period last year, while “Meerkat Health”, the smart healthcare services platform, recorded revenue of HK\$148 million, representing a decrease of 57% compared to the same period last year, which was mainly due to the Group’s efforts to optimise its product portfolio by focusing on the development of high-margin products.

As for “Bayhood No. 9 Club”, provision of the healthcare and wellness services with operations resumed in the spring of this year, revenue increased by 9% to HK\$57 million compared with the same period last year as it was no longer affected by the epidemic and its operation has returned to normal. As for the entertainment and media business, the Group is focusing on the internet healthcare services business, and did not invest in any new film and television projects in the first half of 2023. The Group will concentrate on revitalising its remaining film and television projects and investments.

Overall, the optimisation of the Group’s revenue structure during the period by focusing on higher margin products so as to enhance gross profit performance, coupled with the contraction of the loss-making entertainment and media business, drove the Group’s overall loss down to approximately HK\$57 million, a significant narrowing of 59% from approximately HK\$141 million during the same period last year.

BUSINESS REVIEW AND PROSPECTS

(1) “Echartnow”, provision of digitized operation service in the healthcare industry

The PRC’s digital economy is a huge market. According to the White Paper on the Development of China’s Digital Economy published in 2022, the PRC’s digital economy has grown at an average annual rate of 15.9% since 2012, significantly higher than the average GDP growth rate over the same period. Data from the China Academy of Information and Communications Technology (CAICT) shows that the PRC’s digital economy will reach RMB 45.5 trillion in 2021, a nominal year-on-year growth of 16.2%, and a share of GDP of 39.8%. Digital healthcare is an important part of the digital economy, and modern healthcare encompasses hospital information services, health management, doctor-patient communication and pharmaceutical e-commerce. According to Grand View Research, the global digital healthcare market size was US\$211 billion in 2022 and will increase to US\$809.2 billion from 2023 to 2030 at a compound annual growth rate of 18.6%.

Echartnow is strategically positioned as a frontrunner in digitized operations for the healthcare industry, providing enterprises with full development cycle digitized operation solutions through online and offline integration. Echartnow has successfully built an industry-wide healthcare service ecosystem covering pharmaceutical companies, retail pharmacies, doctors and patients, and has been developing its digitized operation business in view of the opportunity for pharmaceutical companies to transform into online businesses.

In April 2023, the Company, Echartnow, Zhangjiagang Yitang Equity Investment Partnership (Limited Partnership) (“Zhangjiagang Yitang”) and others entered into the Capital Increase Agreements, pursuant to which Zhangjiagang Yitang agreed to make a cash contribution in total of RMB40,000,000 to Echartnow. The injection of capital by a state-

MANAGEMENT DISCUSSION AND ANALYSIS

owned enterprise is undoubtedly an act of market recognition of the development achievements of the Group and Echartnow. With the capital injection, Echartnow will be able to benefit from the additional governmental, business and network resources of Zhangjiagang Yitang, which will enable Echartnow to continue to occupy a leading position in the digitized healthcare operation market in the PRC.

In addition, in May 2023, Echartnow entered into a strategic cooperation agreement (the “**Strategic Cooperation Agreement**”) with Tencent Cloud Computing (Beijing) Company Limited (“**Tencent Cloud**”), a subsidiary of Tencent Holdings Limited (Stock Code: 00700), pursuant to which the two parties agreed to enter into a strategic cooperation partnership to carry out business cooperation in various areas, including the procurement of digital human products, medical science popularisation, medicine knowledge database, AI, audio-visual and other products, the co-development of new products, the integration and sharing of each other's basic resources, and the co-branding events of both parties, in a concerted effort to promote digitalization of the healthcare industry, and provide technical services, product development and tailor-made operation solutions for healthcare companies. As a core healthcare partner of Tencent Cloud, Echartnow will join hands with Tencent Cloud to promote the research and development (R&D) of AI technology, particularly the research in few-shot learning (FSL) and AI-generated content (AIGC), and its application in the healthcare industry. The parties will work together to expand market reach and complete the implementation, deployment, operation and promotion of the AI products.

Business Review

As a scenario-based medical service platform, Echartnow offers different user terminals in the healthcare industry their own “digitized operation solutions” through advanced technologies such as the “private traffic” model, multi-channel cooperative network (MCN) of medical teams, AI intelligent scenario-based data analysis, data standardisation, blockchain and big data, and through different interfaces to connect doctors, patients, physical pharmacies and pharmaceutical companies:

- Retail pharmacies — professional digitized pharmacy solutions, facilitating the pharmacies to get connected with doctors and patients
 - Doctors — closed-loop online consultation scene, including management of patients and electronic prescriptions, etc.
 - Patients — they can now approach a doctor easily for online follow-up appointments and consultations and order prescribed drugs, etc. via the WeChat mini-app “Echartnow Assistant to Medical Advice”
- Currently, Echartnow's development focuses on serving pharmaceutical companies, with the strategy of “pharmaceutical companies driving the whole industry chain”, using the above scenario-based healthcare service platform technology to empower enterprises and build the digitized operation of the whole industry chain of the healthcare industry based on Echartnow's digitized ecosystem.
- As of 30 June 2023, the number of pharmaceutical companies that have signed up with the Echartnow platform has increased to 195, representing an increase of 22% from the end of 2022, including large-scale pharmaceutical companies in the PRC including Qilu Pharmaceutical, Jiangsu Hengrui Pharmaceuticals, CSPC Pharmaceutical Group, Anhui Pharmaceutical etc. On the other hand, the Echartnow platform has now covered 31,935 doctors, representing a significant increase of 24% as compared to the end of 2022, and all doctors have registered with their real names, uploaded qualifications and passed the authentication.
- Pharmaceutical companies — digitized operation solutions for the whole cycle of business development

MANAGEMENT DISCUSSION AND ANALYSIS

Major operational data of the Echartnow platform:

	As of 30 June 2023	As of 31 December 2022
Total number of contracted pharmaceutical companies	195	160
Total number of registered doctors	31,935	25,819
Total number of online pharmacies	3,438	3,402
Number of registered patients (in thousands)	478	473
Number of drug types (in thousands SKU)	197	192

For the period ended 30 June 2023, the revenue of Echartnow was HK\$482,276,000 (same period in 2022: HK\$229,124,000), representing a significant increase of 1.1 times as compared to the same period last year; gross profit was HK\$198,315,000 (same period in 2022: HK\$124,557,000), representing an increase of 59% as compared to the same period last year.

During the period, the main sources of revenue were information service fees, technical service fees, and promotion service fees received for providing scenario-based digitized operation solutions to pharmaceutical companies, which specifically include:

1. Digitized management system

Through the digitized management system of the Echartnow platform, pharmaceutical companies can further establish an integrated operation-wide data management system that covers digitized post-marketing research, digitized business management, digitized operation management, digitized sales management, digitized customer management, digitized supplier management and so on, to help companies realise the ecological tool base of digitized transformation with in-depth penetration and wide coverage, and to realize the precipitation and conversion of data assets, and to empower the data-driven and intelligent digitized operation base.

2. Marketing service

Echartnow helps pharmaceutical companies and large-scale drug distributors to efficiently implement digitized operations online, and at the same time,

nurtures groups of doctors with high potential, quality and level of skill to update and iterate on digitized concepts. The medical meeting system provided by the Echartnow platform covers different types of meetings, such as large-scale academic conferences, online departmental meetings, MDT meetings, expert lectures, AB expert meetings, international academic seminars, new drug launches, and annual academic conferences. A comprehensive range of services is also provided, covering information collection, poster production, live broadcast creation, offline services, push streaming services, video editing, video playback and more.

In addition, the Echartnow platform also provides full-media operation services for pharmaceutical companies, building doctors' IP brands, providing short videos and live broadcasting services for medical science popularisation, as well as the production and distribution of professional articles and videos.

3. Clinical Research Service

The Echartnow platform enables pharmaceutical companies to begin online medical research on the clinical effect of drugs. Not only can such a move assist doctors in making strides in scientific knowledge, but it also fills the gap in research information relating to new functions of the drugs. The Echartnow platform provides pharmaceutical companies full life-cycle support for new products after launch, including real-world studies, patient recruitment for drug clinical trials, and pharmacoeconomic evaluation.

By providing the above digitized operation solutions, the Echartnow platform is committed to assisting pharmaceutical companies in realising the initial stage of digitized transformation through online and offline synergistic development. On the one hand, it helps pharmaceutical companies achieve efficient online marketing transformation and operational growth. On the other hand, it can enhance the accessibility of the pharmaceutical endpoints to improve the timely accessibility to patients and the quality of patients' lives.

Prospects

Looking forward to 2023, Echartnow will continue to focus on the healthcare digitization industry, consolidate the progress made from the initial stage of enterprise digitization to the intermediate stage of enterprise digitization, and continue to promote our clients' competitiveness in the healthcare industry

MANAGEMENT DISCUSSION AND ANALYSIS

after the intermediate stage of digitization. From providing digitized operation solutions to digitized project management solutions, Echartnow will also establish a digitized project operation management system and a private cloud database to realize the functional advantages of data visualization, optimization of operational decisions and optimization of ROI in the management of pharmaceutical companies, and continue to provide digitized operation solutions for pharmaceutical companies throughout the development cycle through online and offline integration.

Starting from the second half of 2022, Echartnow has begun to plan to further provide professional SaaS products to pharmaceutical companies and their agents/service providers on the basis of the existing medical service ecosystem. In June 2023, Echartnow started to launch its self-developed “Cistanche Digitized Operation and Management Platform” (“**Cistanche Platform**”) on a limited basis. Pharmaceutical companies entrusted Echartnow to set up the “Cistanche Platform” for their agents/service providers in their industry chain, which helps pharmaceutical companies to open up the online paths of their agents/service providers and realize the management of data segregation and role privilege, so that the pharmaceutical companies can monitor the execution and settlement of their projects at any time. By standardizing and systematizing the project execution path, the pharma agent/service provider system improves the quality and efficiency of project execution and realizes the change towards project standardization.

The core value of the “Cistanche Platform” lies in the fact that it has created a complete industry standard for digitized operation in the medical industry, including content standards, pricing standards, data standards, process standards, and other complete and standardized systems, which signifies that Echartnow has formally entered into the second stage of its development, and begun to establish Echartnow's moat and product barriers, which is an important achievement of the development of Echartnow's healthcare digitalization and empowers the entire healthcare industry with the capability of digitization, and promotes the entire healthcare industry towards the stage of digitization and facilitates the synergistic and sustainable development of the industry's various participants.

(2) “Meerkat Health”, a Smart Healthcare Services Platform

With the World Health Organisation's announcement that the COVID-19 outbreak no longer constitutes a public health emergency of international concern, the economic recovery is back on track. According to the July 2023 data released by the National Bureau of Statistics of China (NBSC), per capita consumer spending on services by Chinese residents in the first half of the year increased by 12.7% year-on-year, with the economic development of the PRC showing a stabilising and improving trend. At the micro level, there were 274 million domestic trips during the Labour Day holiday in 2023, a year-on-year increase of 70.83%, and a number of new types of consumption patterns emerged. The Group has been keeping pace with the times and is actively developing new business segments to meet market demands. Meerkat Health believes that healthcare is a rigid demand and good living is a high-level demand. In the future, on the basis of the rigid demand for healthcare, the Group will proactively deploy and expand its private e-commerce business in order to satisfy the diversified needs of consumers.

Business Review

As the economy recovers, Meerkat Health has seized the opportunity to optimize its business structure. In the first half of 2023, Meerkat Health carried out reforms to optimize its product structure in order to reduce costs and increase efficiency, focusing on lowering the proportion of low gross profit business, cutting expenses and enhancing corporate efficiency. For the six months ended 30 June 2023, the revenue of Meerkat Health amounted to HK\$148 million, representing a decrease of 57% as compared to the same period last year, which was mainly attributable to the reduction of the proportion of loss-making and lower margin business scale in the business of the healthcare consumption related segment and the focusing of resources on the development of new businesses with high margins and potential. Gross profit margin, therefore, increased significantly from 1.5% in the first half of 2022 to 9.8%, and gross profit also increased by 1.8 times to HK\$14.43 million.

After optimizing its product structure, Meerkat Health will maintain three business lines: healthcare consumption, private e-commerce and medical services. Private e-commerce is a new addition to the business structure, and in June 2023, the private e-commerce platform “HT Selected” was launched

MANAGEMENT DISCUSSION AND ANALYSIS

with the aim of empowering everyone to become healthier and more beautiful. “HT Selected” is positioned as a private pan-health e-commerce platform, and has constructed a supply chain of pan-health quality products, adhering to the business concepts of global sourcing of good quality goods, professional traceability and quality inspection, on-site stringent quality control, and good quality and good price across the whole territory, so as to provide consumers with quality and affordable supply of products, and to assist entrepreneurs in realizing better sales performance. HT Selected has also established a “Renren Ecommerce” system, which not only uses AI tools to assist marketing, but also has a “super shopkeeper” to provide detailed guidance, constructing a comprehensive and professional private business ecosystem.

1. *Healthcare consumption*

The healthcare consumption business is the underlying core business of Meerkat Health. Meerkat Health has built an industry-leading smart supply chain upon which it has developed its pharmaceutical wholesale, retail and private e-commerce platform businesses. Its pharmaceutical wholesale and retail business was established in 2021. After more than two years of development, it has now achieved omnichannel coverage of drugs, medical equipment, dietary supplements, nourishing products and other health-related products, providing offline self-run and franchised pharmacies with a digital intellectualized and one-stop omnichannel solution. Meerkat Health has also entered into partnerships with nearly 1,500 brands, including listed companies like Sinopharm Group, Guilin Sanjin and Mayinglong Pharmaceutical, covering nearly 10,000 product categories such as OTC, prescribed drugs, medical equipment, dietary supplement etc., and serving 91,000 customers cumulatively.

For the first half of the year to 2023, the healthcare consumption business generated revenue of HK\$136 million, representing a decrease of 60% from HK\$341 million for the same period last year, which was mainly attributable to the reduction of the proportion of loss-making and lower gross profit businesses.

2. *Private e-commerce*

Relying on the above pharmaceutical supply chain system and existing user base, Meerkat Health has been actively expanding its high-margin business, and officially launched its private e-commerce platform business in June 2023 under the name “HT

Selected”. “HT Selected” adopts the “S2B2C” business model, where S (Supplier) refers to the front-end supply chain, including brands, self-supply chain and large-scale agents; B (Business) is the TOC-promoting entrepreneurs, and C (Customer) is the end-users. Through the “S2B2C” model, “HT Selected” shortens the distance between the supply and demand sides, creating a new value model for users and entrepreneurs. “HT Selected” is modelled on the supply chain mechanism of pharmaceutical products to establish a “headquarters selection mechanism”, providing a three-tier traceability mechanism of “source + quality inspection + evaluation” to ensure the quality of the platform’s products. In terms of pricing, by leveraging the industry’s strengths in the pharmaceutical supply chain, “HT Selected” has quickly established an affordable and reliable supply chain system, removing multiple layers of intermediaries to ensure that prices are closer to the source for consumers.

“HT Selected” is positioned as a private pan-health e-commerce platform, with family pan-health consumption as the entry point, currently covering dietary supplements, nourishing and health-preserving, cosmetic and personal care, organic agricultural products, quality home products, and other product categories. In the process of building the shop and selecting the products, “HT Selected” always follows the process of selecting domestic and foreign native brands and high-quality source factories, and focuses on delivering a good user experience with high quality and value for money.

In terms of channel construction, “HT Selected” has created an innovative model with the “Renren Ecommerce” system, which provides entrepreneurs with a regulated and clear business path, and a series of growth and incentive mechanisms such as hands-on coaching by a “golden shopkeeper”. “HT Selected” leverages its Internet technology advantage to provide digital and smart AI tools on the operation and service sides, thus providing entrepreneurs and users with an efficient and scientific matrix of operation tools and a convenient way of purchasing, as well as providing brands with digital user demand, and realizing the mode upgrade of the “pan-health race track”.

Currently, the private e-commerce business “HT Selected” is in the trial operation stage. According to the data from the first month of trial operation, the project’s gross profit margin and conversion rate are significantly higher those that of the pharmaceutical

MANAGEMENT DISCUSSION AND ANALYSIS

wholesale and retail business. The project is expected to bring higher revenue and gross profit to the Group in the second half of 2023.

3. *Medical services*

The PRC's healthcare industry has transformed from "treating the already sick" to "treating the not yet sick". In response to market demand, Meerkat Health has set up a medical service business with two major businesses: online appointments for vaccination and health management.

With family and preventive medicine as the core, the online appointment service for vaccination builds a science knowledge and consultation service platform for vaccination, and provides diversified health screening, preventive vaccination and antibodies testing products. It constructs an online and offline integrated vaccination appointment service platform, providing early screening and prevention health service for its wide range of users. As of the first half of 2023, the vaccination business achieved a GMV of RMB72.72 million, representing a significant increase of 83% over the same period last year.

The path of the healthcare management business is to contract offline medical institutions to transform and upgrade their body check centres into health management centres and provide follow-up health management services to users. As of the first half of 2023, 16 new hospitals have been contracted for the body check business, and 49 hospitals have been covered in total, including famous grade A tertiary hospitals like Zhejiang Hospital and Zhejiang Cancer Hospital.

The above business expansion drove the revenue of the medical services business up to HK\$11.57 million in the first half of the year to 2023, representing a significant increase of 1.1 times over the same period last year.

Prospects

The PRC's economy is recovering rapidly, as the Government's work report for the First Session of the 14th National People's Congress (NPC) put forward that the main expected target for this year's development is for the GDP to grow by around 5%, maintaining a medium-to-high growth rate. As the

economy recovers and people's awareness of healthcare has increased significantly after the epidemic, healthcare services have become an irreplaceable demand, and the general public's demand for a better life continues to rise. Meerkat Health has proactively set up a private e-commerce business to satisfy the diversified needs of consumers.

Meerkat Health has launched "HT Selected" to enter the private e-commerce market. With the increasing social media influence in consumer decision-making, a new model of social media e-commerce has evolved and become an important force in determining the landscape of the e-commerce industry. A report showed that the private sector e-commerce industry, represented by social media e-commerce, will account for 5% of the e-commerce landscape in 2021 and 8% in 2022. The private e-commerce market size has exceeded RMB2.3 trillion and has been growing twice as fast as the public e-commerce market. By integrating its existing healthcare business, "HT Selected" has built a moat in terms of product quality and price barriers.

The "HT Selected" project was launched in June 2023. Based on the first month's trial operation data, the gross profit margin of the project is significantly higher than the original level of the healthcare consumption business. In the future, by further integrating its healthcare and lifestyle businesses, Meerkat Health is expected to construct a dual-drive model that will create more value for the Group while meeting the increasingly diversified needs of the people.

(3) Healthcare and Wellness Services – "Bayhood No. 9 Club"

Business Review

"Bayhood No. 9 Club", a healthcare and wellness service of the Group, is one of the top green health clubs in the PRC with well-equipped facilities such as a standard 18-hole golf course, lakeside golf course private VIP rooms, spa facilities as well as Asia's first PGA-branded golf academy, etc. "Bayhood No. 9 Club" offers professional and excellent healthcare and wellness services to middle- and high-end enterprises and individual clients.

MANAGEMENT DISCUSSION AND ANALYSIS

Following the annual winter closure, “Bayhood No. 9 Club” reopened in March this year. Being no longer affected by the epidemic, its operation has returned to normal, and its revenue therefore increased by 9% compared to the same period last year to HK\$57.42 million.

The Group operates “Bayhood No. 9 Club” on a lease basis. In April 2023, the Group gave the lessor an advance notice to terminate the lease agreement relating to “Bayhood No. 9 Club” early upon the expiry of the second lease term (i.e. 5 October 2023). As a result, upon the early termination of the relevant lease agreement on 5 October 2023, the Group will cease to be engaged in the operation of “Bayhood No. 9 Club” and focus on expanding the business of Echartnow and Meerkat Health.

Prospects

With the stabilization and control of the epidemic, it is expected that the “Bayhood No. 9 Club” can continue to operate as usual. In addition, it is expected that the gradual recovery and increase in public demand for outdoor sports in the future will continue to bring stable income to this business.

As mentioned above, the lease period of this operation is until 5 October 2023, after which the Group will cease to be engaged in the operation of “Bayhood No. 9 Club”.

(4) Entertainment and Media

The Group is focusing on the internet pharmaceutical and healthcare services business, and did not invest in any new film and television projects in the first half of 2023. The Group will concentrate on revitalising its remaining film and television projects and investments.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

As discussed in the “Business Review and Prospects” section above, the Group is organized into the following main operating segments:

1. Digitized operation services in healthcare industry (“Echartnow”)
2. Smart healthcare services platform (“Meerkat Health”)
3. Healthcare and wellness services
4. Entertainment and media

The key financial figures of the Group for the six months ended 30 June 2023 are summarized as follows:

	Six months ended 30 June		
	2023 HK\$'000	2022 HK\$'000	Change %
Total revenue:			
– Digitized operation services in healthcare industry	482,276	229,124	+110%
– Smart healthcare services platform	147,591	345,969	–57%
– Healthcare and wellness services	57,420	52,632	+9%
– Entertainment and media	375	44,958	–99%
	687,662	672,683	+2%
Gross profit/(loss):			
– Digitized operation services in healthcare industry	198,315	124,557	+59%
– Smart healthcare services platform	14,429	5,216	+177%
– Healthcare and wellness services	26,756	20,705	+29%
– Entertainment and media	375	(9,950)	N/A
	239,875	140,528	+71%
Segment result:			
– Digitized operation services in healthcare industry	(13,757)	(30,870)	Loss narrowed down by 55%
– Smart healthcare services platform	(32,756)	(34,992)	Loss narrowed down by 6%
– Healthcare and wellness services	9,829	471	+20 times
– Entertainment and media	1,908	(48,063)	N/A
	(34,776)	(113,454)	Loss narrowed down by 69%
Loss for the period	(57,377)	(141,081)	Loss narrowed down by 59%
Loss for the period attributable to equity owners of the Company	(43,842)	(118,413)	Loss narrowed down by 63%
Non-HKFRS Adjustments:			
Adjusted loss for the period	(54,141)	(122,995)	Loss narrowed down by 56%

MANAGEMENT DISCUSSION AND ANALYSIS

— Revenue

Revenue for the six months ended 30 June 2023 amounted to approximately HK\$687,662,000 (2022: HK\$672,683,000), being a 2% increase comparing to the same period in prior year. The slight increase in total revenue and the change of revenue mix during the period was mainly due to the following factors:

- (1) During the period, revenue from “Digitized operation services in healthcare industry” segment (i.e., Echartnow) boosted significantly by 1.1 time to approximately HK\$482,276,000 (2022: HK\$229,124,000), which accounted for approximately 70% (2022: 34%) of the Group’s revenue. The digitized operation services offered to pharmaceutical companies by Echartnow, including digitized management system, online marketing and promotion services, and clinical research services, is now a proven success model with growth sustainability. The number of pharmaceutical companies that have signed contracts with Echartnow has increased to 195, being a 22% growth from 31 December 2022. Also, there was sustainable organic growth in revenue from the existing customer base as the digitized operation services offered by Echartnow is proven to be effective and efficient over time.
- (2) Revenue from the “Smart Healthcare Services Platform” segment (i.e., Meerkat Health) decreased by 57% to approximately HK\$147,591,000 (2022: HK\$345,969,000), which accounted for approximately 21% (2022: 51%) of the Group’s revenue, during the period. In order to raise gross profit margin and reduce operating losses, management of Meerkat Health has intentionally cut down those healthcare consumption revenue streams with low gross profit margin and focused on exploring new products/services with higher gross profit. As a result, Meerkat Health’s revenue from healthcare consumption has been significantly reduced, while Meerkat Health enjoyed a much higher gross profit in terms of both absolute amount and margin percentage.

- (3) Revenue from the “Healthcare and Wellness Services” segment for the six months ended 30 June 2023 amounted to approximately HK\$57,420,000 (2022: HK\$52,632,000), being a 9% increase comparing to the same period in prior year. The society in the PRC has resumed normal from the impact of pandemic when “Bayhood No.9 Club” recommenced operations in the first half of 2023 after the winter closure, leading to a rise in both club activities income and food & beverage income comparing to the prior period.
- (4) Revenue from the “Entertainment and Media” segment decreased significantly by 99% to approximately HK\$375,000 (2022: HK\$44,958,000). As mentioned previously, the Group is now focusing on the development of Echartnow and Meerkat Health businesses, and currently has no plan to invest in new entertainment and media projects or operations. The revenue from the “Entertainment and Media” segment during the period was attributed to certain minimal additional revenues generated from those previously completed projects. On the other hand, revenue for the prior period was mainly attributed to the theatrical release of “Moonfall” in the first half of 2022.

— Cost of Sales and Gross Profit

Cost of sales for the six months ended 30 June 2023 amounted to approximately HK\$447,787,000 (2022: HK\$532,155,000), being a 16% decrease comparing to the same period in prior year. Gross profit for the six months ended 30 June 2023 amounted to approximately HK\$239,875,000 (2022: HK\$140,528,000), being a 71% increase comparing to the same period in prior year, with gross profit margin boosted significantly to 35% (2022: 21%). The net period-to-period change of gross profit and gross profit margin is due to the following:

- (1) As explained above, revenue of Echartnow operation increased by 1.1 time during the period, leading to a corresponding growth in gross profit to approximately HK\$198,315,000 (2022: HK\$124,557,000).
- (2) There was a much-improved gross profit margin of 9.8% (2022: 1.5%) from the Meerkat Health operation as explained above.

MANAGEMENT DISCUSSION AND ANALYSIS

- (3) A gross loss of approximately HK\$9,950,000 was recorded for the "Entertainment and Media" segment during the prior period, mainly due to the losses arising from the movie project released with lower-than-expected box office performance. On the other hand, the segment recorded a small gross profit of approximately HK\$375,000 during the period.

— Other Income and Other Losses, net

Other income and other losses, net, for the six months ended 30 June 2023 amounting to approximately HK\$4,028,000 (2022: HK\$4,491,000) mainly comprised of fair value change on financial assets at fair value through profit or loss and fair value change on interest in an associate measured at fair value through profit or loss, and exchange loss arising from the depreciation of foreign currencies against Hong Kong dollars during the period.

— Marketing and Selling Expenses

Marketing and selling expenses for the six months ended 30 June 2023 increased by 22% to approximately HK\$218,477,000 (2022: HK\$178,375,000), which was mainly attributed to the Echartnow operation. Staff costs and marketing expenses were incurred for the promotion of the Echartnow platform and other relevant expenses were also incurred for enhancing the registration of doctors and pharmacies in the Echartnow platform. Benefited from the growth of revenue and gross profit as previously discussed, Echartnow has further increased the investment in such marketing and selling expenses during the period. This has resulted in the 24% growth in the number of registered doctors on Echartnow platform to 31,935 (31 December 2022: 25,819) as of 30 June 2023.

— Research and Development Expenses

Research and development expenses for the six months ended 30 June 2023 has increased significantly by 70% to approximately HK\$18,363,000 (2022: HK\$10,821,000). The amount mainly comprised staff costs and employee benefit expenses in relation to research and development function. The significant increase in the research and development expenses during the period was in line with the continuing expansion of Echartnow and Meerkat Health operations during the period.

— Administrative Expenses

Administrative expenses for the six months ended 30 June 2023 amounted to approximately HK\$56,508,000 (2022: HK\$80,489,000), being a 30% decrease comparing to the prior period. The decrease in administrative expenses during the period was mainly attributed to the following:

- (1) Share-based compensation expenses incurred for the acquisition of Echartnow operation and establishment of Meerkat Health operation decreased significantly by 88% to approximately HK\$1,878,000 (2022: HK\$15,253,000) during the period; and
- (2) Meerkat Health has implemented cost-saving initiatives during the period, aiming at tightening general operating expenses and thus reducing overall operating losses.

— Finance Costs, net

Finance costs, net for the period amounted to approximately HK\$1,196,000 (2022: HK\$743,000). The net finance costs during the period mainly comprised interest on lease liabilities in relation to the Group's right-of-use assets and interest expense on bank and other borrowings. The increase in net finance costs during the period was mainly attributable to the increase in interest expense on bank and other borrowings during the period.

— Share of Results of an Associate

Share of results of an associate, representing the share of results of HB Entertainment (the Group's 31%-owned associated company which is principally engaged in production of and investment in movies and TV drama series, provision of artist management and agency services in South Korea), amounted to a profit of approximately HK\$1,516,000 (2022: a loss of approximately HK\$3,247,000). Financial performance of HB Entertainment has been improved in the first half of 2023 as there was one new TV drama, "Battle of Happiness", produced and broadcasted during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

– Non-Hong Kong Financial Reporting Standard indicator in relation to loss for the period

The Group's loss for the six months ended 30 June 2023 amounted to HK\$57,377,000 comparing to that of HK\$141,081,000 for the preceding financial period. The Group's adjusted loss for the six months ended 30 June 2023 amounted to HK\$54,141,000 representing a decrease of HK\$68,854,000 or 56% as compared with that of HK\$122,995,000 for the preceding financial period. Adjusted loss is based on the loss for the corresponding period after excluding non-operating profit or loss items such as share-based compensation expenses and change in fair value of financial assets at fair value through profit or loss and of interest in an associate measured at fair value through profit or loss. As explained above, the decrease in adjusted loss was mainly attributable to 1) Increase in revenue and gross profit, especially from the Echartnow operation; 2) Reduction of administrative expenses (excluding share-based compensation expenses) resulting from the cost-saving initiative of Meerkat Health operation; and 3) There was a segment gain of approximately HK\$1,908,000 from the "Entertainment and Media" operation during the six months ended 30 June 2023 while there was a segment loss of approximately HK\$48,063,000 during the prior period, as the Group has not engaged in any new entertainment and media project/operation during the period.

To supplement the Group's consolidated financial statements presented in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the Group has also reported its adjusted net loss attributable to equity holders of the Company, which is not required under, or presented in accordance with, HKFRSs, as an additional financial indicator. We are of the view that presenting the non-HKFRS indicator together with the relevant HKFRS indicator will help investors to better compare our operational performance across various periods, without the potential impact of projects which our management considers as not indicative to our operational performance. We believe that the non-HKFRS indicator provides investors and other individuals with helpful information to understand and assess our consolidated operational results in the same way that our management does. However, the adjusted net loss attributable to equity holders of the Company we presented may not be comparable with similar indicators presented by other companies. Such non-HKFRS indicator has its limitations as an analytical tool, and it should not be regarded as being independent from the operational results or financial position presented according to HKFRSs, or as an alternative to analyze the relevant operational results or financial position. In addition, the definition of such non-HKFRS indicator may vary from those applied in other companies.

The adjusted loss for the six months ended 30 June 2023 and 2022 set out in the table below represents adjustments to the most direct and comparable financial indicator calculated and presented in accordance with HKFRSs (i.e. loss for the period):

	Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Loss for the period	(57,377)	(141,081)
Add:		
– Shared-based compensation expenses	1,878	15,253
– Fair value change on financial assets at fair value through profit or loss, net of tax	558	(1,439)
– Fair value change on interest in an associate measured at fair value through profit or loss, net of tax	800	4,272
Adjusted loss for the period	(54,141)	(122,995)

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Treasury Management

We have adopted prudent treasury management measures aimed at principal protection and maintaining sufficient liquidity to meet our various funding requirements in accordance with the strategic plans and policies. As at 30 June 2023, the Group held cash and cash equivalents of approximately HK\$27,891,000 (31 December 2022: HK\$38,300,000), being a 27% decrease comparing to the balance as at 31 December 2022.

The Group is at net current asset position of HK\$16,182,000 as at 30 June 2023 (31 December 2022: HK\$16,637,000). The current ratio, representing the total current assets to the total current liabilities, remained at same level at 1.07 (31 December 2022: 1.07) as at 30 June 2023, still representing a stable liquidity position.

The gearing ratio, representing the net debt (total borrowings and lease liabilities less cash and cash equivalents) to total equity, is 19.84% as at 30 June 2023 (31 December 2022: 5.45%). The Group's total bank and other borrowings as at 30 June 2023 amounted to approximately HK\$69,958,000 (31 December 2022: HK\$32,740,000) and was denominated in Chinese Renminbi.

Foreign Currency Exchange Exposure

The Group has operations and investments in the PRC, Korea and Hong Kong, and is mainly exposed to foreign exchange risk arising from Chinese Renminbi and Korean Won currency exposures, primarily with respect to the Hong Kong dollars. During the period, fluctuation in Chinese Renminbi and Korean Won against Hong Kong dollars resulted in the net exchange loss of approximately HK\$3,150,000 (2022: HK\$3,476,000). The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure from Chinese Renminbi and Korean Won but manages through constant monitoring to limit as much as possible its net exposures.

Capital Structure

The Group has mainly relied on its equity, bank and other borrowings and internally generated cash flow to finance its operations.

During the six months ended 30 June 2023, the Company has no issued new ordinary shares. During the six months ended 30 June 2022, the Company issued 62,500,000 new ordinary shares of HK\$0.02 each for vesting of share awards.

Total bank and other borrowings as at 30 June 2023 amounted to approximately HK\$69,958,000 (31 December 2022: HK\$32,740,000). Further details of the bank and other borrowings are set out in Note 22 to the condensed consolidated interim financial information.

CHARGE OF ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2023 and 31 December 2022, none of the Group's assets was charged and the Group did not have any material contingent liabilities or guarantees.

HUMAN RESOURCES

As at 30 June 2023 the Group employed a total of 272 (31 December 2022: 306) full-time employees in Hong Kong and the PRC, and continued to manage "Bayhood No. 9 Club" operations with 285 (31 December 2022: 263) full-time employees in the PRC. In addition, the Group has entered into several joint operation arrangements to produce or distribute films. The crew members employed under such joint operation arrangements have not been included in the above statistics.

The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel are remunerated by monthly salary which is reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share awards, share options and bonuses are also available at the discretion of the Group depending on the performance of the Group.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

SHARE SCHEMES

Following the amended Chapter 17 became effective on 1 January 2023 with transitional arrangements in place, the Company could continue to grant share awards and/or options over new shares of the Company to eligible participants (as defined in the amended Chapter 17) using existing scheme mandate of the Share Option Scheme or using general mandate for the Share Award Scheme up to the earlier of (i) the date of the second annual general meeting after 1 January 2023, or (ii) the refreshment of the scheme mandate limit.

The following is a summary of the Share Option Scheme and Share Award Scheme of the Company (collectively the "Share Schemes"):

	Share Option Scheme	Share Award Scheme
Adoption date	Share Option Scheme of the Company adopted on 21 June 2022.	Share Award Scheme of the Company adopted on 20 August 2021.
Purpose	It is designed to attract and retain the best available personnel, to provide additional incentives to eligible participants and to promote the success of the business of the Group.	It is designed to recognize the contributions by certain eligible participants and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.
Participants	<p>The Company could continue to grant share awards and/or options over new shares to eligible participants (as defined in the amended Chapter 17) including a person or an entity belonging to any of the following classes pursuant to the transitional arrangements for the Share Schemes adopted before the effective date of the amended Chapter 17:</p> <p>(a) any eligible director or employee of the Group;</p> <p>(b) any eligible director or employee of the related entities of the Company; and</p> <p>(c) any service providers who provide services to the Group on a continuing and recurring basis in their ordinary and usual course of business which are in the interests of the long-term growth of the Group.</p>	
Total number of shares available for issue under the Share Schemes and percentage of issued shares as at the date of the interim report	The total number of shares available for issue under the Share Option Scheme was 1,356,060,657 Shares, representing approximately 9.98% of the Company's issued shares as at the date of this Interim Report.	The total number of shares available for issue under the Share Award Scheme was 1,272,310,657 Shares, representing approximately 9.37% of the Company's issued shares as at the date of this Interim Report.
Maximum entitlement of each participant	The grant of share awards and/or options to an individual participant in any 12-month period shall not exceed 1% of the relevant class of shares of the Company in issue.	
The period within which the option may be exercised by the grantee	The options are not exercisable more later than 10 years from the offer date.	N/A
The vesting period of options or awards granted	Upon the fulfillment of all vesting conditions to the grant of the share options.	Upon the fulfillment of all vesting conditions to the vesting of the awarded shares.
The amount, if any, payable on application or acceptance of the options or awards and the period within which payments or calls must or may be made or loans for such purposes must be repaid	A participant shall pay the Company HK\$1.00 for the acceptance of an option offer within 21 days after the offer date.	The share awards shall be granted for nil consideration.
The basis of determining the exercise price of options granted or the purchase price of shares awarded, if any	The minimum exercise price shall not be less than the highest of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (c) the nominal value of the Shares.	N/A
Remaining life	The Share Schemes shall be valid and effective for a period of 10 years from the date of adoption.	

OTHER INFORMATION

During the six months ended 30 June 2023, no share options were granted, exercised, cancelled or lapsed, and there were no outstanding options under the Share Option Scheme as at 1 January 2023 and 30 June 2023. Details of the movements of the share awards involving new shares of the Company during the period ended 30 June 2023 were as follows:

Name or category of participants	Date of grant	Number of share awards					As at 30 June 2023	Price of share		
		As at 1 January 2023	Granted during the period	Vested during the period	Cancelled during the period	Lapsed during the period		Vesting period	closing price prior to the grant date of share options and/or awards	weighted average closing price prior to the vesting date of share awards
		'000	'000	'000	'000	'000		HK\$	HK\$	
Other employee participants										
Share awards	31 March 2023	-	15,000	-	-	-	15,000	Note 2	0.14	N/A
			Note 1							

Note 1: Details of the fair value of share awards at the date of grant and accounting standard and policy adopted are set out in Note 25 to the condensed consolidated interim financial information.

Note 2: The initial 50% of the aggregate awards will become vested on the first trading day immediately following 31 March 2024. Subsequently, each 25% of the total awards will vest on the first trading day after 31 March 2025 and 2026, respectively. The awards can be fulfilled through (i) allotting and issuing shares and/or (ii) utilizing returned shares that can be awarded to the grantee.

During the period ended 30 June 2023, the ratio of the number of shares that may be issued in respect of awards granted under all share schemes adopted by the Company (i.e. 15,000,000) to the weighted average number of issued shares for the period (i.e. 13,585,338,609) was approximately 0.11%.

Save as disclosed above, as at 30 June 2023, (i) no options or awards has already been granted or to be granted to any of the Company's directors, chief executive, or substantial shareholders, or to any of their associates; (ii) no participant has received options or awards exceeding the 1% individual limit (as defined under Chapter 17 of the Listing Rules), whether granted already or to be granted in the future; (iii) no related entity participant or service provider has been granted options and awards exceeding 0.1% of the issued shares of the Company in issue in any 12-month period, whether already granted or to be granted; and (iv) no other employee participants, related entity participants or service providers have been granted or are scheduled to be granted any option and awards.

Number of the Share options and/or awards available for grant as at 1 January 2023 and 30 June 2023 are as follows:

	Under the mandate limit	
	As at 1 January 2023	As at 30 June 2023
Share options	1,356,060,657	1,356,060,657
Share awards	1,287,310,657	1,272,310,657

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2023, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Long positions in ordinary shares of the Company:

Name of Directors	Capacity	Number of shares held			% of total issued share capital of the Company (Note 1)
		Personal interest	Corporate interest	Total interest	
YUEN Hoi Po	Beneficial owner and interest of a controlled corporation	459,310,000	1,938,030,107 (Note 2)	2,397,340,107	17.65
CHU Yuguo	Beneficial owner	2,000,000	-	2,000,000	0.01

Notes:

1. The percentage of shareholding is calculated with reference to the Company's number of shares in issue as at 30 June 2023.
2. Mr. YUEN Hoi Po was deemed to be interested in 1,938,030,107 shares of the Company held by his wholly-owned corporation namely, Smart Concept Enterprise Limited.

Save as disclosed above, as at 30 June 2023, none of the Directors, Chief Executives nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2023, the interests and short positions of the following persons (other than Directors or Chief Executives of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange were as follows:

Long positions in ordinary shares of the Company:

Name of Shareholders	Capacity	Nature of Interests	Number of shares held	% of total issued share capital of the Company (Note 1)
YUEN Hoi Po	Beneficial owner and interest of a controlled corporation (Note 2)	Beneficial and corporation interest	2,397,340,107	17.65
Tencent Holdings Limited	Interest of a controlled corporation (Note 3)	Corporation interest	2,116,251,467	15.58
KO Chun Shun, Johnson	Interest of a controlled corporation (Note 4)	Corporation interest	1,262,000,000	9.29

Notes:

1. The percentage of shareholding is calculated with reference to the Company's number of shares in issue as at 30 June 2023.
2. Smart Concept Enterprise Limited is wholly-owned by Mr. YUEN Hoi Po and was beneficially interested in 1,938,030,107 Shares which representing approximately 14.27% of the total number of issued shares of the Company. Pursuant to the SFO, Mr. YUEN was deemed to be interested in these Shares.
3. Mount Qinling Investment Limited is a wholly-owned subsidiary of Tencent Holdings Limited and is beneficially interested in 2,116,251,467 shares of the Company. Pursuant to the SFO, Tencent Holdings Limited was deemed to be interested in these Shares.
4. Greater Harmony Limited is wholly-owned by Mr. KO Chun Shun, Johnson and was beneficially interested in 1,262,000,000 shares of the Company. Pursuant to the SFO, Mr. KO was deemed to be interested in these Shares.

Save as disclosed above, as at 30 June 2023, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

CORPORATE GOVERNANCE CODE

The board of directors of the Company (the "Board") is committed to achieving high standards of corporate governance and adhering to the governance principles and practices. The Board or its committees has regularly reviewed and monitored its implementation and effectiveness. Throughout the six months ended 30 June 2023, the Company has applied the principles and complied with the code provisions in Part 2 of the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Listing Rules except for one deviation as follows:

Code provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Following the resignation of the Chairman, no replacement has been appointed. The functions of the Chairman have been temporarily taken up by the chief executive officer of the Company (the "CEO").

OTHER INFORMATION

The Board considers that it is appropriate and in the interests of the Company and its shareholders as a whole for the same individual to serve as the CEO and to temporarily take up the day-to-day management responsibilities as the Chairman during the transitional period, and it has not impaired the balance of power and authority between the Board and the management of the Company.

The Company is searching for a suitably qualified candidate to fill the vacancy of the Chairman as soon as practicable.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Code of Conduct") on terms no less exacting than the required standard 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. Having made specific enquiry, all Directors have fully complied with the required standard set out in the Model Code throughout the six months ended 30 June 2023.

The Code of Conduct applies to all the relevant employees as defined in the CG Code, including any employee of the Company, or director or employee of a subsidiary or holding company of the Company who, because of their office or employment, is likely to possess inside information in relation to the Company or its securities.

REVIEW OF INTERIM FINANCIAL INFORMATION

The Audit Committee, comprises of three Independent Non-executive Directors, namely Mr. YUEN Kin (Audit Committee Chairman), Mr. CHU Yuguo and Ms. PAN Min, has reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2023 together with the management of the Company. The Audit Committee is satisfied with the review.

OTHER CHANGES IN DIRECTORS' INFORMATION

Except for the following, no changes in Directors' information are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of 2022 Annual Report.

1. Dr. WONG Yau Kar, David has resigned as the Independent Non-executive Director of the Company, and ceased to be the chairman of the Remuneration Committee, a member of each of the Audit Committee and Nomination Committee on 20 June 2023;
2. Mr. YUEN Kin has been re-designated from a member of the Remuneration Committee to the chairman of the Remuneration Committee on 20 June 2023;
3. Ms. WANG Song Song has been appointed as an Independent Non-executive Director of the Company, a member of each of the Remuneration Committee and Nomination Committee on 20 June 2023; and
4. Ms. PAN Min has been appointed as an Independent Non-executive Director of the Company, a member of each of the Audit Committee and Nomination Committee on 20 June 2023.

By Order of the Board

YUEN Hoi Po

Executive Director and Chief Executive Officer

Hong Kong, 28 August 2023

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2023

		Six months ended 30 June	
		2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
	Notes		
Revenue	4	687,662	672,683
Cost of sales		(447,787)	(532,155)
Gross profit		239,875	140,528
Other income and other losses, net	4	(4,028)	(4,491)
Marketing and selling expenses		(218,477)	(178,375)
Research and development expenses		(18,363)	(10,821)
Administrative expenses		(56,508)	(80,489)
Net reversal of/(provision for) impairment of financial assets	7	22	(3,746)
		(57,479)	(137,394)
Finance costs, net	6	(1,196)	(743)
Share of result of an associate		1,516	(3,247)
Loss before taxation	7	(57,159)	(141,384)
Taxation	8	(218)	303
Loss for the period		(57,377)	(141,081)
Loss attributable to:			
Equity holders of the Company		(43,842)	(118,413)
Non-controlling interests		(13,535)	(22,668)
		(57,377)	(141,081)
Loss per share attributable to equity holders of the Company for the period			
Basic and diluted loss per share	9	(0.32)	(0.88)

The above condensed consolidated interim income statement should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Loss for the period	(57,377)	(141,081)
Other comprehensive loss:		
<i>Item that may be subsequently reclassified to profit or loss:</i>		
– Currency translation differences	(6,771)	(18,191)
<i>Item that may not be reclassified to profit or loss:</i>		
– Currency translation differences	(301)	651
Other comprehensive loss for the period, net of tax	(7,072)	(17,540)
Total comprehensive loss for the period	(64,449)	(158,621)
Total comprehensive loss attributable to:		
Equity holders of the Company	(50,613)	(136,604)
Non-controlling interests	(13,836)	(22,017)
	(64,449)	(158,621)

The above condensed consolidated interim statement of comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2023

	Notes	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	11,149	13,943
Right-of-use assets	11	19,877	41,732
Intangible assets	13	4,577	4,527
Goodwill	14	26,997	27,853
Interests in associates	15	229,481	238,575
Financial assets at fair value through profit or loss	16	16,552	17,110
Prepayments, deposits and other receivables	18	1,476	3,846
		310,109	347,586
Current assets			
Inventories	19	5,771	4,832
Trade and bills receivables	17	93,583	95,787
Prepayments, deposits and other receivables	18	131,122	99,585
Restricted cash	20	–	3,096
Cash and cash equivalents	21	27,891	38,300
		258,367	241,600
Total assets		568,476	589,186

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2023

	Notes	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
EQUITY AND LIABILITIES			
Equity			
Equity attributable to the equity holders of the Company			
Share capital	25	271,707	271,707
Reserves		67,383	116,493
		339,090	388,200
Non-controlling interests		(51,736)	(38,275)
Total equity		287,354	349,925
Liabilities			
Non-current liabilities			
Lease liabilities	11	9,209	13,773
Long-term financial liabilities	26	26,031	–
Long-term bank borrowing	22	2,982	–
Deferred income tax liabilities		715	525
		38,937	14,298
Current liabilities			
Trade payables	23	103,965	94,182
Other payables and accrued liabilities	24	63,143	78,265
Contract liabilities	24	2,371	8,922
Bank and other borrowings	22	66,976	32,740
Lease liabilities	11	5,730	10,854
		242,185	224,963
Total liabilities		281,122	239,261
Total equity and liabilities		568,476	589,186

The above condensed consolidated interim balance sheet should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Net cash used in operating activities	(69,468)	(88,270)
Cash flows from investing activities		
Interest received	115	1,025
Purchase of property, plant and equipment	(2,245)	(9,720)
Purchase of intangible assets	–	(350)
Proceeds from sales of property, plant and equipment	206	531
Net cash used in investing activities	(1,924)	(8,514)
Cash flows from financing activities		
Repayment of bank and other borrowings	(9,696)	–
Proceeds from bank and other borrowings	49,029	10,364
Capital contribution from new investor of a subsidiary	26,031	–
Principal elements of lease payments	(6,018)	(5,910)
Net cash generated from financing activities	59,346	4,454
Net decrease in cash and cash equivalents	(12,046)	(92,330)
Cash and cash equivalents at 1 January	38,300	148,552
Currency translation differences	1,637	(3,429)
Cash and cash equivalents at 30 June	27,891	52,793

The above condensed consolidated interim cash flow statement should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	(Unaudited)										
	Attributable to equity holders of the Company										
	Share capital	Share premium	Merger reserve	Capital redemption reserve	Currency translation reserve	Shares held for share award scheme	Other reserves	Accumulated losses	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2023	271,707	1,226,728	860,640	1,206	(46,063)	(1,250)	12,135	(1,934,903)	388,200	(36,275)	349,925
Comprehensive loss:											
- Loss for the period	-	-	-	-	-	-	-	(43,842)	(43,842)	(13,535)	(57,377)
Other comprehensive (loss)/income:											
Currency translation differences											
- Group	-	-	-	-	3,039	-	-	-	3,039	-	3,039
- Associate	-	-	-	-	(9,810)	-	-	-	(9,810)	-	(9,810)
- Non-controlling interests	-	-	-	-	-	-	-	-	-	(301)	(301)
Total comprehensive loss	-	-	-	-	(6,771)	-	-	(43,842)	(50,613)	(13,836)	(64,449)
Contribution by and distribution to owners of the Company recognized directly in equity:											
- Share awards	-	1,907	-	-	-	312	(2,219)	-	-	-	-
- Share-based compensation	-	-	-	-	-	-	1,503	-	1,503	375	1,878
Balance at 30 June 2023	271,707	1,228,635	860,640	1,206	(54,834)	(938)	11,419	(1,978,745)	339,090	(51,736)	287,354

	(Unaudited)										
	Attributable to equity holders of the Company										
	Share capital	Share premium	Merger reserve	Capital redemption reserve	Currency translation reserve	Shares held for share award scheme	Other reserves	Accumulated losses	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2022	269,962	1,213,484	860,640	1,206	(36,270)	-	11,254	(1,664,923)	655,353	3,547	658,900
Comprehensive loss:											
- Loss for the period	-	-	-	-	-	-	-	(118,413)	(118,413)	(22,668)	(141,081)
Other comprehensive (loss)/income:											
Currency translation differences											
- Group	-	-	-	-	263	-	-	-	263	-	263
- Associate	-	-	-	-	(18,454)	-	-	-	(18,454)	-	(18,454)
- Non-controlling interests	-	-	-	-	-	-	-	-	-	651	651
Total comprehensive loss	-	-	-	-	(18,191)	-	-	(118,413)	(136,604)	(22,017)	(158,621)
Contribution by and distribution to owners of the Company recognized directly in equity:											
- Share awards	1,250	-	-	-	-	(1,250)	-	-	-	-	-
- Share-based compensation	-	-	-	-	-	-	10,115	-	10,115	5,138	15,253
Balance at 30 June 2022	271,212	1,213,484	860,640	1,206	(54,461)	(1,250)	21,369	(1,783,336)	528,864	(13,332)	515,532

The above condensed consolidated interim statement of changes in equity should be read in conjunction with the accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

Huayi Tencent Entertainment Company Limited (the “Company”) and its subsidiaries (together, the “Group”) is principally engaged in (i) digitized operation services in healthcare industry (formerly know as online prescription, circulation and marketing of pharmaceutical products) (“Echartnow”); (ii) smart healthcare services platform (“Meerkat Health”); (iii) provision of healthcare and wellness services; and (iv) entertainment and media business.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27 May 2002 under the Company Law (2002 Revision) (Cap. 22) of the Cayman Islands. The address of the Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is listed on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in thousand Hong Kong dollars (HK\$’000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 28 August 2023.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2023 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

For the six months ended 30 June 2023, the Group had a loss of HK\$57,377,000 (2022: HK\$141,081,000) and operating cash outflow of HK\$69,468,000 (2022: HK\$88,270,000), while the cash and cash equivalents was HK\$27,891,000 as at 30 June 2023 (31 December 2022: HK\$38,300,000). The directors of the Company have reviewed the Group’s cash flow projections covering a period of not less than 12 months from 30 June 2023, and are of the opinion that, considering the anticipated cash flows generated from the Group’s operations taking into account of reasonably possible changes in operating performance, and all financing that could reasonably be expected, the Group will have sufficient working capital to fulfil its financial obligations in the next twelve months from 30 June 2023. Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the condensed consolidated interim financial information on a going concern basis.

This condensed consolidated interim financial information does not include all the notes of the type normally included in annual consolidated financial statements. According, this condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3. ACCOUNTING POLICIES, ESTIMATES AND FINANCIAL RISK MANAGEMENT

(i) Accounting Policies

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2022, as described in those annual consolidated financial statements, except for the estimation of income tax and the adoption of new and amended standard as set out below. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(a) *New and amended standard adopted by the Group*

The Group has applied the following amended standards for the first time for their annual reporting period commencing 1 January 2023:

HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies (amendments)
HKAS 8	Definition of Accounting Estimates (amendments)
HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction (amendments)
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules (amendments)
HKFRS 17	Insurance Contracts (new standard)
HKFRS 17	Amendments to HKFRS 17
HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information

These standards did not have any material impact on the Group's accounting policies and did not require retrospective adjustment.

(b) *Impact of standards issued but not yet applied by the Group*

A number of new standards, interpretations and amendments to existing standards that have been issued but are not yet effective and have not been early adopted by the Group in preparing these consolidated financial statements.

		Effective for annual periods beginning on
HKAS 1	Classification of Liabilities as Current or Non-current (amendments)	1 January 2024
HKAS 1	Non-current Liabilities with Covenants (amendments)	1 January 2024
HKFRS 16	Lease Liability in a Sale and Leaseback (amendments)	1 January 2024
HK Int 5 (Revised)	Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements – <i>Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i> (HK Int 5 (Revised))	1 January 2024
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements (amendments)	1 January 2024
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments)	To be determined

The Group is in the process of assessing the impact of the new and amended standards on its results of operations and financial position. The Group expects to adopt the relevant new and amended standards when they become effective.

(ii) *Estimates*

The preparation of this condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements in the annual report for the year ended 31 December 2022.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(iii) Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: cash flow and fair value interest rate risk, credit risk, foreign exchange risk and liquidity risk.

This condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2022.

There have been no significant changes in the risk management policies since the year end.

(b) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value as at 30 June 2023:

	Unaudited			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
At 30 June 2023				
Interest in an associate (Note 15)				
– Deep Sea Health Limited	–	–	18,793	18,793
Financial asset at fair value through profit or loss (Note 16)				
– Deep Sea Health Limited, put option	–	–	2,452	2,452
– Beijing Yi Yao Liang Xin	–	–	14,100	14,100
	–	–	35,345	35,345

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The following table presents the group's assets that are measured at fair value as at 31 December 2022:

	Audited			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
At 31 December 2022				
Interest in an associate (Note 15)				
– Deep Sea Health Limited	–	–	19,593	19,593
Financial asset at fair value through profit or loss (Note 16)				
– Deep Sea Health Limited, put option	–	–	2,557	2,557
– Beijing Yi Yao Liang Xin	–	–	14,553	14,553
	–	–	36,703	36,703

The Group's finance department includes a team that performs the valuations of financial assets required for financial reporting purposes, including level 3 fair values. As part of the valuation process, this team reports directly to the chief financial officer.

There were no transfers between levels 1, 2 and 3, and no change in valuation techniques during the period (2022: same).

Quantitative information about fair value measurements using significant unobservable inputs (Level 3):

i. Interest in an associate – Deep Sea Health Limited

Except for the fair value loss arising from exchange differences, the Group has determined that the fair value of the unlisted investment as at 30 June 2023 approximates its fair value as at 31 December 2022 given the short time period in between. The Group has engaged an independent valuer to determine the fair value of the unlisted investment as at 31 December 2022, which was estimated by using the market approach.

ii. Financial asset at fair value through profit or loss – Deep Sea Health Limited, put option

Except for the fair value loss arising from exchange differences, the Group has determined that the fair value of the put option as at 30 June 2023 approximates its fair value as at 31 December 2022 given the short time period in between. The Group has engaged an independent valuer to determine the fair value of the put option as at 31 December 2022, which was estimated by Binomial Option Pricing Model with a combination of observable and unobservable inputs.

iii. Financial asset at fair value through profit or loss – Beijing Yi Yao Liang Xin

Except for the fair value loss arising from exchange differences, the Group has determined that the fair value of the unlisted investment as at 30 June 2023 approximates its fair value as at 31 December 2022 (which was equivalent to the cost of acquisition) given the short time period in between.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. REVENUE AND OTHER INCOME AND OTHER LOSSES, NET

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Revenue		
Digitized operation services in healthcare industry	482,276	229,124
Smart healthcare services platform		
– Healthcare consumption	136,017	340,579
– Medical services	11,574	5,390
Healthcare and wellness services		
– Club activities income	36,196	34,205
– Membership fees	12,273	15,200
– Food and beverage	8,951	3,227
Entertainment and media		
– Film exhibition and license fee	375	44,958
	687,662	672,683
Other income and other losses, net		
Interest income	115	1,025
Fair value change on financial asset at fair value through profit or loss (Note 16)	(558)	1,439
Fair value change on interest in an associate measured at fair value through profit or loss (Note 15)	(800)	(4,272)
Loss on disposal of property, plant and equipment	(264)	(5)
Waive of liabilities	334	–
Exchange losses, net	(3,150)	(3,476)
Others	295	798
	(4,028)	(4,491)

5. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the management committee which comprises the chief executive officer and the chief financial officer of the Group. The management committee reviews the Group's internal reporting in order to assess performance and allocate resources. The management committee has determined the operating segments based on these reports.

The management committee has determined that the Group is organized into four main operating segments: (i) Digitized operation services in healthcare industry (Echartnow); (ii) Smart healthcare services platform (Meerkat Health); (iii) Healthcare and wellness services; and (iv) Entertainment and media businesses. The management committee measures the performance of the segments based on their respective segment results. The segment results derived from loss before taxation, excluding exchange gain/(losses), net, finance income/(costs), net and unallocated expenses, net. Unallocated expenses, net mainly comprise of corporate income net off with corporate expenses including salary, depreciation of right-of-use assets in relation to office and apartment and other administrative expenses which are not attributable to particular reportable segment.

Segment assets exclude cash and cash equivalents and other unallocated head office and corporate assets which are managed on a group basis. Segment liabilities exclude income tax liabilities and other unallocated head office and corporate liabilities which are managed on a group basis.

There were no sales between the operating segments during the six months ended 30 June 2023 (2022: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(a) Business segment

The segment results for the six months ended 30 June 2023 are as follows:

	Digitized operation services in healthcare industry (Unaudited) HK\$'000	Smart healthcare services platform (Unaudited) HK\$'000	Healthcare and wellness service (Unaudited) HK\$'000	Entertainment and media (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Revenue	482,276	147,591	57,420	375	687,662
Share of result of an associate	-	-	-	1,516	1,516
Segment results	(13,757)	(32,756)	9,829	1,908	(34,776)
Exchange losses, net					(3,150)
Fair value change on financial asset at fair value through profit or loss — unallocated					(558)
Fair value change on interest in an associate measured at fair value through profit or loss — unallocated					(800)
Other unallocated expenses, net					(16,679)
Finance costs, net					(55,963)
Loss before taxation					(1,196)
Taxation					(57,159)
Loss for the period					(218)
Loss for the period attributable to non-controlling interests					(57,377)
Loss for the period attributable to equity holders of the Company					13,535
					(43,842)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

An analysis of the Group's assets and liabilities as at 30 June 2023 by segment and other information for the six months ended 30 June 2023 are as follows:

	Digitized operation services in healthcare industry (Unaudited) HK\$'000	Smart healthcare services platform (Unaudited) HK\$'000	Healthcare and wellness service (Unaudited) HK\$'000	Entertainment and media (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 30 June 2023 (unaudited):					
Segment assets	104,958	101,638	39,787	293,123	539,506
Unallocated assets					28,970
Total assets					<u>568,476</u>
Segment liabilities	92,456	91,282	3,531	715	187,984
Unallocated liabilities					93,138
Total liabilities					<u>281,122</u>
For the six months ended 30 June 2023 (unaudited):					
Other information:					
Purchases of property, plant and equipment	29	19	2,197	-	2,245
Purchases of intangible assets	-	1,142	-	-	1,142
Depreciation of right-of-use assets					
– Allocated	624	1,736	10,371	-	12,731
– Unallocated					3,441
Depreciation of property, plant and equipment					
– Allocated	424	1,122	652	-	2,198
– Unallocated					18
Amortization of intangible assets	-	948	-	-	948

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The segment results for the six months ended 30 June 2022 are as follows:

	Digitized operation services in healthcare industry (Unaudited) HK\$'000	Smart healthcare services platform (Unaudited) HK\$'000	Healthcare and wellness service (Unaudited) HK\$'000	Entertainment and media (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Revenue	229,124	345,969	52,632	44,958	672,683
Share of result of an associate	-	-	-	(3,247)	(3,247)
Segment results	(30,870)	(34,992)	471	(48,063)	(113,454)
Exchange losses, net					(3,476)
Fair value change on financial asset at fair value through profit or loss – unallocated					1,439
Fair value change on interest in an associate measured at fair value through profit or loss – unallocated					(4,272)
Provision for impairment of financial assets – unallocated					(3,994)
Other unallocated expenses, net					(16,884)
Finance costs, net					(743)
Loss before taxation					(141,384)
Taxation					303
Loss for the period					(141,081)
Loss for the period attributable to non-controlling interests					22,668
Loss for the period attributable to equity holders of the Company					(118,413)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

An analysis of the Group's assets and liabilities as at 31 December 2022 by segment and other information for the six months ended 30 June 2022 are as follows:

	Digitized operation services in healthcare industry (Unaudited) HK\$'000	Smart healthcare services platform (Unaudited) HK\$'000	Healthcare and wellness service (Unaudited) HK\$'000	Entertainment and media (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 31 December 2022 (Audited):					
Segment assets	110,056	93,435	30,701	318,912	553,104
Unallocated assets					36,082
Total assets					<u>589,186</u>
Segment liabilities	92,992	72,386	3,499	-	168,877
Unallocated liabilities					70,384
Total liabilities					<u>239,261</u>
For the six months ended 30 June 2022 (unaudited):					
Other information:					
Additions of right-of-use assets	1,949	54	-	-	2,003
Purchases of property, plant and equipment	2,304	6,924	492	-	9,720
Purchases of intangible assets	-	350	-	-	350
Depreciation of right-of-use assets					
- Allocated	1,085	1,951	11,255	-	14,291
- Unallocated					2,113
Depreciation of property, plant and equipment					
- Allocated	280	935	506	-	1,721
- Unallocated					60
Amortization of intangible assets	-	657	-	-	657
Amortization of completed film rights	-	-	-	53,633	53,633
Provision for/(reversal of) impairment of trade receivables	71	(21)	(4)	(61)	(15)
Provision for/(reversal of) impairment of other receivables					
- Allocated	10	15	47	(305)	(233)
- Unallocated					3,994
Provision for impairment of film rights and film production in progress	-	-	-	1,498	1,498

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(b) Geographical segment

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets ^{Note}	
	30 June 2023 (Unaudited) HK\$'000	30 June 2022 (Unaudited) HK\$'000	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
The People's Republic of China (the "PRC")	687,287	652,015	59,080	82,418
Hong Kong	-	-	3,520	5,637
Other countries	375	20,668	-	-
	687,662	672,683	62,600	88,055

Note: Non-current assets exclude interests in associates, financial assets at fair value through profit or loss and non-current portion of prepayment, deposits and other receivables. The portion of film rights and films production in progress subject to global circulation is included in other countries.

(c) Revenue from major customers who have individually contributed 10% or more of the total revenue of the Group for the six months ended 30 June 2023 are disclosed as follows:

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Customer A	96,956	N/A
Customer B	71,122	N/A
Customer C	69,650	N/A

Note: Revenue from customers A, B and C did not exceed 10% of total revenue for the six months ended 30 June 2022.

6. FINANCE COSTS, NET

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Finance costs		
Interest on bank and other borrowings	(706)	(91)
Interest on lease liabilities (Note 11)	(490)	(652)
Finance costs, net	(1,196)	(743)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7. LOSS BEFORE TAXATION

Loss before taxation is stated after charging/(crediting) the following:

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Film production and distribution fee	–	33,585
Depreciation of property, plant and equipment (Note 12)	2,216	1,781
Depreciation of right-of-use assets (Note 11)	16,172	16,404
Expense relating to short-term leases (Note 11)	2,259	2,473
Provision for impairment of film rights and film production in progress	–	1,498
Provision for/(reversal of) impairment of financial assets		
– Trade receivables	(22)	(15)
– Deposits and other receivables	–	3,761
Amortization of completed film rights	–	53,633
Amortization of intangible assets (Note 13)	948	657
Costs of digitized operation services in healthcare industry	283,961	104,567
Costs of inventories sold (Note 19)	125,337	337,312
Food and beverage costs in relation to “Bayhood No. 9 Club” operation	4,355	2,573
Labour costs in relation to “Bayhood No. 9 Club” operation	13,934	15,806
Marketing and promotion expenses	197,005	119,297
Employee benefit expenses:		
– Directors’ fees	367	360
– Wages and salaries	35,933	27,659
– Contributions to defined contribution pension schemes	7,519	4,534
– Share-based compensation expenses	1,878	15,253
	45,697	47,806

8. TAXATION

No Hong Kong profits tax has been provided as the Group has no estimated assessable profit in Hong Kong for the period (2022: same). Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the regions/countries in which the Group operates.

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Current income tax		
– Hong Kong profits tax	–	–
– PRC corporate income tax	–	–
Deferred income tax	(218)	303
Income tax (expense)/credit	(218)	303

The weighted average applicable tax rate for the six months ended 30 June 2023 was 21.03% (2022: 18.8%).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue (thousands)	13,585,339	13,506,394
Loss attributable to equity holders of the Company (HK\$'000)	(43,842)	(118,413)
Basic loss per share attributable to equity holders of the Company (HK cents per share)	(0.32)	(0.88)

During the six months ended 30 June 2023, all of the share-based compensation had anti-dilutive effect to the Company and therefore, diluted loss per share is the same as basic loss per share as there were no dilutive potential ordinary shares for the six months ended 30 June 2023 (2022: same).

10. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the six months ended 30 June 2023 (2022: Nil).

11. LEASES

(i) Amounts recognized in the condensed consolidated interim balance sheet

The condensed consolidated interim balance sheet shows the following amounts relating to leases:

	30 June	31 December
	2023	2022
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Right-of-use assets		
Office	13,454	23,457
Operating assets of "Bayhood No. 9 Club"	5,379	16,090
Apartment	1,044	2,185
	19,877	41,732
Lease liabilities		
Current	5,730	10,854
Non-current	9,209	13,773
	14,939	24,627

Addition to the right-of-use assets during the six months ended 30 June 2023 was Nil (2022: HK\$2,003,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(ii) Amounts recognized in the condensed consolidated interim income statement

The condensed consolidated interim income statement shows the following amounts relating to leases:

Notes	30 June 2023 (Unaudited) HK\$'000	30 June 2022 (Unaudited) HK\$'000
Depreciation charge of right-of-use assets		
	4,659	4,010
	10,371	11,254
	1,142	1,140
7	16,172	16,404
	490	652
7	2,259	2,473

The total cash outflow for leases for the six months ended 30 June 2023 was HK\$7,834,000 (2022: HK\$8,383,000).

(iii) The Group's leasing activities and how these are accounted for

The Group leases various offices and certain operating assets of "Bayhood No. 9 Club". Rental contracts are generally made for fixed periods of 6 months to 5 years, but may have extension and termination options as described in Note 11(iv) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

(iv) Extension and termination options

Extension and termination options are included in the lease held by the Group. These are used to maximize operational flexibility in terms of managing the assets used in the Group's operations. The extension and termination options held are exercisable only by the Group and not by the respective lessor.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12. PROPERTY, PLANT AND EQUIPMENT

	Building (Unaudited) HK\$'000	Machinery and equipment (Unaudited) HK\$'000	Furniture, computer and equipment (Unaudited) HK\$'000	Leasehold improvements (Unaudited) HK\$'000	Motor vehicles (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Six months ended 30 June 2023						
Opening net book amount	-	556	5,962	5,305	2,120	13,943
Additions	-	28	98	19	2,100	2,245
Disposal	-	-	(439)	(31)	-	(470)
Written-off	-	-	-	(1,933)	(19)	(1,952)
Depreciation (Note 7)	-	(82)	(834)	(992)	(308)	(2,216)
Exchange difference	-	(18)	(170)	(119)	(94)	(401)
Closing net book amount	-	484	4,617	2,249	3,799	11,149
Six months ended 30 June 2022						
Opening net book amount	-	544	3,670	1,685	1,567	7,466
Additions	-	118	3,751	5,820	31	9,720
Disposal	-	-	(531)	-	-	(531)
Written-off	-	(4)	-	-	-	(4)
Depreciation (Note 7)	-	(72)	(707)	(766)	(236)	(1,781)
Exchange difference	-	(25)	(231)	(185)	(64)	(505)
Closing net book amount	-	561	5,952	6,554	1,298	14,365

During the six months ended 30 June 2023, depreciation expenses of approximately HK\$2,073,000 (2022: HK\$1,753,000), HK\$35,000 (2022: HK\$28,000) and HK\$108,000 (2022: HK\$Nil) have been charged in administrative expenses, marketing and selling expenses and research and development expenses respectively.

13. INTANGIBLE ASSETS

	Licenses and softwares Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Six months ended 30 June		
Opening net book amount	4,527	4,793
Additions	1,142	350
Amortization (Note 7)	(948)	(657)
Exchange differences	(144)	(204)
Closing net book amount	4,577	4,282
As at 30 June		
Cost	6,889	4,959
Accumulated amortization	(2,312)	(677)
Net carrying amount	4,577	4,282

During the six months ended 30 June 2023, amortization expenses of approximately HK\$905,000 (2022: HK\$630,000) and HK\$43,000 (2022: HK\$27,000) have been charged in administrative expenses and marketing and selling expenses respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14. GOODWILL

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Cost and net carrying amount as at 1 January	27,853	30,397
Exchange differences	(856)	(1,319)
Cost and net carrying amount as at 30 June	26,997	29,078

15. INTERESTS IN ASSOCIATES

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Interest in an associate accounted for using the equity method		
– Interest in HB Entertainment Co., Ltd.	210,688	218,982
Interest in an associate measured at fair value through profit or loss		
– Interest in Deep Sea Health Limited (Note)	18,793	19,593
	229,481	238,575

Set out below are the associates of the Group as at 30 June 2023 which, in the opinion of the directors, are material to the Group. These associates are private companies and there is no quoted market price available for their shares. There are no contingent liabilities relating to the Group's interests in associates, and there are no contingent liabilities of the associates themselves.

Details of interests in associates as at 30 June 2023 and 31 December 2022 are as follows:

Name	Place of establishment and kind of legal entity	% of ownership interest		Principal activities and place of operation
		30 June 2023	31 December 2022	
HB Entertainment Co., Ltd. ("HB Entertainment")	South Korea, limited liability company	31%	31%	Production of and investments in movies and TV drama series, provision of entertainer/artist management and agency services in South Korea
Deep Sea Health Limited ("DSH")	Hong Kong, limited company	22%	22%	Investment holding

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Note: The Group has elected to measure the unlisted investment in DSH at fair value through profit or loss since the Group decides the unlisted investment in DSH has the characteristics of a venture capital investment.

The Group has determined that, except for the fair value change resulting from exchange differences, the fair value of the unlisted investment in DSH as at 30 June 2023 approximates its fair value as at 31 December 2022 given the short time period in between. The Group has engaged an independent valuer to determine the fair value of the unlisted investment in DSH as at 31 December 2022, which was estimated by using the market approach that made reference to price-to-sales multiples of the comparable companies in the same industry. Key assumptions adopted in the valuation were as follows:

	31 December 2022
Price-to-sales multiples	2.5
Discounts for lack of marketability	25%

During the six months ended 30 June 2023, net fair value loss of HK\$800,000 (2022: HK\$4,272,000) was recognized in the condensed consolidated interim income statement.

16. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Non-current		
Investment in unlisted equity securities		
– Beijing Yi Yao Liang Xin (Note a)	14,100	14,553
Put option		
– Deep Sea Health Limited (Note b)	2,452	2,557
	16,552	17,110

Notes:

- (a) In December 2022, the Company has completed an acquisition of 10% equity interest in Beijing Yi Yao Liang Xin (“YYLX”), which principally engaged in construction and operation of centralised dispensary centres of traditional Chinese medicines. The consideration of this 10% equity interest was settled by setting-off with a receivable balance from YYLX of approximately HK\$14,553,000. The fair value of YYLX was estimated to be approximate to the cost of acquisition as at the completion date as the same valuation of YYLX was adopted by the other investors completing acquisition of YYLX equity interests at the same time. Except for the fair value loss arising from exchange differences of approximately HK\$453,000 during the six months ended 30 June 2023, the fair value of YYLX as at 30 June 2023 and 31 December 2022 is estimated to be approximate to the fair value at the completion date given the short period in between.
- (b) On 12 August 2021, the Company has completed an acquisition of 21.88% equity interest in Deep Sea Health Limited (“DSH”), which became an associate of the Group. In connection with the acquisition, the Company has been granted an option to put the whole of acquired 21.88% equity interests in DSH to the founder and largest shareholder of DSH by 30 December 2022 at its original cost of acquisition (“2022 option”). Pursuant to the supplemental agreement entered into on 28 December 2022, the Company has agreed not to exercise the 2022 option, and has been granted another option to put its equity interests in DSH to the founder and the largest shareholder of DSH by 31 December 2024 at its original cost of acquisition plus a premium of 8% per annum.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Except for the fair value loss arising from exchange differences of approximately HK\$105,000 during the six months ended 30 June 2023, the Group has determined that the fair value of the put option as at 30 June 2023 approximates its fair value as at 31 December 2022 given the short time period in between. The Group has engaged an independent valuer to determine the fair value of the put option as at 31 December 2022, which was estimated using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

As at 31 December 2022

Unobservable inputs adopted

Expected volatility	57.63%
Expected dividend	0.00%
Exercise probability	25.00%
Risk-free interest rate	2.27%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

17. TRADE AND BILLS RECEIVABLES

At 30 June 2023 and 31 December 2022, the aging analysis of the trade and bills receivables based on invoice date were as follows:

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
0-3 months	87,177	82,887
4-6 months	695	6,432
7-9 months	4,468	2,405
10-12 months	-	-
Over 1 year	10,624	13,435
	102,964	105,159
Less: Provision for impairment	(9,381)	(9,372)
	93,583	95,787

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Prepayments	30,982	11,965
Deposits and other receivables	117,202	107,134
	148,184	119,099
Less: Provision for impairment of deposits and other receivables	(15,586)	(15,668)
	132,598	103,431
Less: Non-current portion	(1,476)	(3,846)
	131,122	99,585

The balances of prepayments, deposits and other receivables mainly comprised (i) prepayments, deposits and other receivables for the operations of Echartnow and Meerkat Health; (ii) prepayments and other receivables in relation to the leasing of operating assets of "Bayhood No. 9 Club"; and (iii) other receivables arising from the refund of previous investments in certain film rights and film production in progress.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19. INVENTORIES

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Finished goods	5,771	4,832

The cost of inventories sold of approximately HK\$125,337,000 (2022: HK\$337,312,000) was recognized as expense and included in "Cost of sales" in the condensed consolidated interim income statement for the six months ended 30 June 2023.

No provision of impairment of inventories was recognized for the six months ended 30 June 2023 (2022: Nil).

20. RESTRICTED CASH

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Pledged bank deposits	—	3,096

There was no restricted cash balance as at 30 June 2023. As at 31 December 2022, the Group had bank balance of approximately HK\$3,096,000 which was restricted as to use and mainly to be utilised for the purpose of potential settlement for a litigation claim. The restricted cash was released as the litigation claim was fully settled during the six months ended 30 June 2023.

The carrying amounts of pledged bank deposits approximate their fair values and are denominated in RMB.

21. CASH AND CASH EQUIVALENTS

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Cash and bank balances	27,891	38,300
Denominated in:		
HK\$	2,346	2,874
RMB	21,582	31,420
US\$	3,963	4,006
	27,891	38,300
Maximum exposure to credit risk	27,849	38,245

The Group's cash and bank balances of approximately HK\$21,567,000 (31 December 2022: HK\$31,405,000) as at 30 June 2023 were denominated in RMB and held in the PRC. The remittance of these funds out of the PRC is subject to the foreign exchange restrictions imposed by the PRC government.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

22. BANK AND OTHER BORROWINGS

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Current:		
Bank borrowing (Note a)	2,441	5,605
Other borrowings (Note b)	64,535	27,135
	66,976	32,740
Non-Current:		
Bank borrowing (Note a)	2,982	–
	69,958	32,740

As at 30 June 2023 and 31 December 2022, carrying amounts of bank and other borrowings approximated their fair values and were denominated in RMB.

Note a: As at 30 June 2023, bank borrowing is secured (31 December 2022: secured), interest bearing at 12% (31 December 2022: 4.35%) and repayable within 2 years (31 December 2022: 1 year). The bank borrowings as at 30 June 2023 were secured by corporate guarantee provided by a subsidiary of the Group and personal guarantee of a senior management in favour of the Group. The bank borrowings as at 31 December 2022 amounting to HK\$5,605,000 has been fully repaid during the six months ended 30 June 2023.

Note b: Other borrowings are unsecured and repayable within 1 year. Approximately HK\$29,827,000 (31 December 2022: HK\$4,746,000) is bearing at a weighted average rate of 7.57% (31 December 2022: 9.71%) per annum. The remaining other borrowings of approximately HK\$34,708,000 (31 December 2022: HK\$22,389,000) are interest-free. The Group has unconditional rights to extend the maturity date of certain other borrowings amounting to approximately HK\$19,523,000 (31 December 2022: HK\$22,389,000) for one more year.

23. TRADE PAYABLES

The aging analysis of the trade payables based on invoice date were as follows:

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
0–3 months	103,694	93,903
Over 6 months	271	279
	103,965	94,182

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24. CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUED LIABILITIES

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Current liabilities:		
Other payables and accrued liabilities (Note i)	63,143	78,265
Contract liabilities (Note ii)	2,371	8,922
	65,514	87,187

Notes:

- (i) Other payables and accrued liabilities mainly represented accrued operating expenses and PRC other tax payables.
- (ii) Contract liabilities represent advanced payments received from the customers for services that have not been transferred to the customers. The balance was mainly arising from the business in relation to Echartnow.

25. SHARE CAPITAL

	Ordinary shares of HK\$0.02 each		Preference shares of HK\$0.01 each		Total HK\$'000
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000	
Authorized:					
At 30 June 2023 (Unaudited)	150,000,000	3,000,000	240,760	2,408	3,002,408
At 31 December 2022 (Audited)	150,000,000	3,000,000	240,760	2,408	3,002,408
Issued and fully paid:					
At 1 January 2023 and 30 June 2023	13,585,339	271,707	-	-	271,707
At 1 January 2022	13,498,107	269,962	-	-	269,962
Issuance of share award	62,500	1,250	-	-	1,250
At 30 June 2022	13,560,607	271,212	-	-	271,212

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Share Option

The previous share option scheme adopted by the Company on 4 June 2012 (the “Previous Share Option Scheme”) for a period of 10 years had expired on 3 June 2022. Upon the termination of the Previous Share Option Scheme, no further share options could be granted by the Company under such scheme. As the Previous Share Option Scheme had expired, the Company adopted a new share option scheme (the “New Share Option Scheme”) on 21 June 2022, pursuant to a resolution passed on the extraordinary general meeting of the Company on the same date.

Pursuant to the New Share Option Scheme, the Company can grant options to Eligible Participant(s) (as defined in the New Share Option Scheme) for a consideration of HK\$1.00 for each grant payable by the Eligible Participant(s) to the Company. The total number of the shares issued and to be issued upon exercise of options granted to each Eligible Participant(s) (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue.

Pursuant to a resolution passed on 21 June 2022, the Company can further grant up to 1,356,060,657 share options to the Eligible Participant(s).

Subscription price in relation to each option pursuant to the New Share Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in Stock Exchange’s daily quotation sheets on the date on which the option is offered to a Eligible Participant(s); or (ii) the average of the closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the Board of Directors of the Company. No share-based compensation expense has been charged to the condensed consolidated interim income statement accordingly (2022: Nil).

During the six months ended 30 June 2023, no share options were granted, exercised, cancelled or lapsed, and there was no outstanding option under the New Share Option Scheme as at 30 June 2023 (2022: Nil).

Share award scheme

On 20 August 2021 (the “Adoption Date”), the Group adopted a share award scheme (“Share Award Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. An award granted under the Share Award Scheme will take the form of a Restricted Share Unit (“RSU”), being a contingent right to receive shares of the Company which are awarded under the Share Award Scheme.

All grants of RSUs to the Company’s directors (including an executive director, a non-executive and an independent non-executive director) must first be approved by all the members of the remuneration committee of the Company, or in the case where the grant is proposed to be made to any member of the remuneration committee, by all of the other members of the remuneration committee. All grants of RSUs to connected persons shall be subject to compliance with the requirements of the Listing Rules as may be applicable, including any reporting, announcement and/or shareholders’ approval requirements, unless otherwise exempted under the Listing Rules.

During the six months ended 30 June 2023, 15,000,000 (2022: 77,500,000) shares were granted to selected participants pursuant to the Share Award Scheme. No share was vested, cancelled or lapsed during the six months ended 30 June 2023. During the six months ended 30 June 2022, 15,000,000 shares were lapsed because the vesting conditions had not been fulfilled; and 62,500,000 shares, which par value amounted to HK\$1,250,000, were vested and issued, subject to a lock-up period of one year (25% of vested shares), two years (25% of vested shares), three years (25% vested shares) and four years (25% of vested shares) respectively.

For the six months ended 30 June 2023, share-based compensation expense recognized in the condensed consolidated interim income statement for share awards was approximately HK\$1,878,000 (2022: HK\$436,000).

The fair value of the awarded shares granted during the six months ended 30 June 2023 of HK\$0.140 (2022: HK\$0.142) per share was calculated based on the closing price of the Shares at the date of grant.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

26. DEEMED DISPOSAL OF PARTIAL INTERESTS IN SHAANXI YIZHINUO INFORMATION TECHNOLOGY COMPANY LIMITED (“YZN”)

In April 2023, the Company has entered into a capital increase agreement and a shareholders' agreement (the “YZN Capital Increase Agreements”) with 張家港翼唐股權投資合夥企業(有限合夥) (Zhangjiagang Yitang Equity Investment Partnership (Limited Partnership)) (the “New Investor”) and other relevant parties. Pursuant to the YZN Capital Increase Agreements, the New Investor has conditionally agreed to make a capital contribution in total of RMB40,000,000 in cash to YZN in two instalments (the “YZN Capital Increase”). The New Investor will be interested in approximately 6.25% of the enlarged equity interest in YZN and the Group's interest in YZN will be diluted from 51% to approximately 47.81%. In addition, as part of an incentive measure to the employees of the YZN Group provided for under the YZN Capital Increase Agreements, the Group, Mr. WANG Jian and Ms. SHANG Jing has undertaken to respectively transfer approximately 1.63%, 0.60% and 0.58% of the total equity interest in YZN (as enlarged by the YZN Capital Increase) to the specific entity solely for the purpose of managing YZN's employee stock ownership plan by no later than 31 December 2024, following which the Group's interest in YZN will be further reduced to approximately 46.18%.

Pursuant to the relevant provisions in the YZN Capital Increase Agreements, the Group controls the appointment of more than half of the total number of directors to the board of YZN. Accordingly, the Group has the right to direct the relevant activities, including but not limited to budgeting, pricing and strategies planning, of YZN Group (as defined below). As a result, YZN will continue to be an indirect non-wholly owned subsidiary of the Company and the financial results of YZN Group (as defined below) will continue to be consolidated into the consolidated financial statements of the Group.

In addition, pursuant to the YZN Capital Increase Agreements, YZN shall use all endeavours to achieve the initial public offering of YZN on a reputable securities exchange within 5 years (“Qualified IPO”). If YZN fails to complete a Qualified IPO or fails to be entirely acquired within the said period, the New Investor may require YZN to repurchase all or part of its equity interest held in YZN in cash at cost of the New Investor plus interest at 10% per annum. Accordingly, the capital contribution received/to be received by YZN is accounted for as the Group's long-term financial liabilities.

In conjunction with the YZN Capital Increase, a reorganization (the “Reorganization”) will be carried out, by which YZN will become the holding company of Pingtan Xinban Clinic Company Limited (“PTXB”) and in turn PTXB will become 100% owned by YZN, in order that the New Investor will be acquiring equity interest in YZN (the principal revenue generating entity) as the holding company of the YZN and its subsidiaries including PTXB (the “YZN Group”). After the registration of the New Investor as a 6.25% shareholder of YZN, the Group's percentage interest in YZN will be diluted to below 50% for which the Group will be permitted under applicable PRC laws and regulations to directly hold equity interest in YZN, and therefore the VIE structure in respect of the YZN Group will no longer be necessary and all relevant VIE contractual arrangements will be terminated (the “VIE Termination”).

In connection with the YZN Capital Increase Agreements, the Company has also entered into the fourth supplemental agreement (the “Fourth Supplemental Agreement”) with the relevant parties in May 2023. Pursuant to the Fourth Supplemental Agreement, upon completion of the Reorganization and VIE Termination, the terms under the Capital Increase and Acquisition Agreement (as amended by the Third Supplemental Agreement) in relation to the Further Acquisition, the First Performance Target and the Second Performance Target shall be abolished.

As of 30 June 2023, YZN has already received the first instalment of YZN Capital Increase amounting to RMB24 million (equivalent to approximately HK\$26,031,000) which is recorded as the Group's long-term financial liabilities. All of the above-mentioned YZN Capital Increase, the Reorganization, the VIE Termination and the Fourth Supplemental Agreement have been completed except for the receipt of the second instalment of YZN Capital Increase amounting to RMB16 million, which shall be paid by the New Investor within 15 working days from the fulfilment of the condition that the place of registration of YZN being changed to Zhangjiagang, Jiangsu Province of the PRC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

27. RELATED PARTY BALANCES AND TRANSACTIONS

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
<u>Related Party Balances</u>		
Trade receivables		
– Huayi Brothers Film Co., Ltd	669	6,351
Other borrowings (unsecured and non-interest bearing)		
– Mr. YUEN Hoi Po, an executive director and CEO of the Company	19,523	16,792
– Ms. Dong Yu, an director and CEO of a subsidiary of the Company, and her associates	5,423	–
	24,946	16,792
	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
<u>Related party Transactions</u>		
Service fees		
– Tencent Cloud Computing (Beijing) Company Limited, a wholly-owned subsidiary of Tencent Holdings Limited which is a substantial shareholder of the Company	800	–

28. CONTINGENT LIABILITIES

As at 30 June 2023, there are no material contingent liabilities to the Group (31 December 2022: Nil).

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. CHENG Wu (*Vice Chairman*)
Mr. YUEN Hoi Po (*Chief Executive Officer*)

Independent Non-executive Directors

Mr. YUEN Kin
Mr. CHU Yuguo
Ms. WANG Song Song
Ms. PAN Min

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Mr. HAU Wai Man, Raymond

INDEPENDENT AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Register Public Interest Entity Auditor

PRINCIPAL BANKERS

DBS Bank Ltd., Hong Kong Branch
Hang Seng Bank
The Hongkong and Shanghai Banking Corporation Limited

SOLICITORS

Woo Kwan Lee & Lo
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