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H.BROTHERS ENTERTAINMENT

華誼騰訊娛樂

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: 419)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

HIGHLIGHT			
	2022	2021	Change
	HK\$'000	HK\$'000	%
Total revenue:			
– Online prescription, circulation and marketing of pharmaceutical products	606,218	36,150	+16 times
– Smart healthcare services platform	824,209	22,494	+36 times
– Entertainment and media	150,964	155,340	–3%
– Healthcare and wellness services	110,670	113,729	–3%
	<u>1,692,061</u>	<u>327,713</u>	+4.2 times
Gross profit/(loss):			
– Online prescription, circulation and marketing of pharmaceutical products	335,657	14,637	+22 times
– Smart healthcare services platform	16,282	(343)	N/A
– Entertainment and media	1,107	(19,725)	N/A
– Healthcare and wellness services	43,603	47,332	–8%
	<u>396,649</u>	<u>41,901</u>	+8.5 times
Loss for the year	<u>(316,598)</u>	<u>(141,427)</u>	+124%
Loss for the year attributable to equity owners of the Company	<u>(269,980)</u>	<u>(110,402)</u>	+145%
Non-HKFRS Adjustments:			
Adjusted loss for the year	<u>(295,619)</u>	<u>(114,335)</u>	+159%

- For the year ended 31 December 2022, the Group recorded revenue of HK\$1.692 billion, an increase of more than 4 times comparing to the revenue of approximately HK\$328 million for the prior year. Gross profit was approximately HK\$397 million, and increase of more than 8 times comparing to the gross profit of approximately HK\$42 million for the prior year.
- “Echartnow” and “Meerkat Health” are the major sources of revenue of the Group, with revenues of HK\$606 million and HK\$824 million respectively, together accounting for 85% of the total revenue. Through these two operations, the Group has successfully established its market coverage with regard to internet healthcare and enhanced its footprint in smart healthcare services, which remains a new market to be charted.
- “Echartnow” platform dedicates itself to the establishment of an integrated healthcare platform which covers different user terminals in the industry and offers them different “digitised enterprise operation solutions”. “Echartnow” has seen the opportunity for pharmaceutical companies to transform from offline drug promotion to online marketing by developing a digital marketing business. “Echartnow” has already reached in-depth cooperation with a number of leading pharmaceutical companies in the PRC, and is expected to further develop the SaaS business for pharmaceutical companies and their agents this year, as well as invest in the development of the online prescription circulation business in a timely manner in line with the pace of the national healthcare reform.
- Since the launch of its business in late 2021, “Meerkat Health” has successfully built an industry-leading smart supply chain for pharmaceutical and healthcare products, providing one-stop intelligent solutions for offline pharmacies. On the other hand, “Meerkat Health” focuses on the development of smart healthcare consumption and health management services, including appointment services for vaccination and digital intellectualised body check services. “Meerkat Health” has successfully entered into partnerships with a number of grade A tertiary hospitals, including Tianjin First Central Hospital, to jointly develop smart body checks and health management.

The board of directors (the “Board”) of Huayi Tencent Entertainment Company Limited (the “Company”) is pleased to announce the results of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 2022, together with the comparative figures for the year ended 31 December 2021.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
Revenue	3	1,692,061	323,809
Film investment income	3	–	1,912
Interest revenue calculated using the effective interest method	3	–	1,992
		1,692,061	327,713
Cost of sales		(1,295,412)	(285,812)
Gross profit		396,649	41,901
Other income and other (losses)/gains, net	3	(8,553)	15,388
Marketing and selling expenses		(499,453)	(50,670)
Research and development expenses		(35,751)	(3,146)
Administrative expenses		(152,301)	(136,230)
Net provision for impairment of financial assets		(11,029)	(1,875)
		(310,438)	(134,632)
Finance costs, net	5	(1,768)	(2,280)
Share of results of an associate	15(a)	(4,817)	(4,933)
Loss before taxation	6	(317,023)	(141,845)
Taxation	7	425	418
Loss for the year		(316,598)	(141,427)
Attributable to:			
Equity holders of the Company		(269,980)	(110,402)
Non-controlling interests		(46,618)	(31,025)
		(316,598)	(141,427)
		HK Cents	HK Cents
Loss per share attributable to the equity holders of the Company for the year			
Basic and diluted loss per share	8	(1.99)	(0.82)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
Loss for the year		<u>(316,598)</u>	<u>(141,427)</u>
Other comprehensive (loss)/income:			
Item that may be reclassified to profit or loss:			
– Currency translation differences		(11,793)	(22,091)
Item that may not be reclassified to profit or loss:			
– Currency translation differences		<u>1,875</u>	<u>466</u>
Other comprehensive loss for the year, net of tax		<u>(9,918)</u>	<u>(21,625)</u>
Total comprehensive loss for the year		<u><u>(326,516)</u></u>	<u><u>(163,052)</u></u>
Total comprehensive loss attributable to:			
Equity holders of the Company		(281,773)	(132,493)
Non-controlling interests		<u>(44,743)</u>	<u>(30,559)</u>
		<u><u>(326,516)</u></u>	<u><u>(163,052)</u></u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2022

		As at 31 December	
	Notes	2022	2021
		HK\$'000	HK\$'000
Assets			
Non-current assets			
Property, plant and equipment	10	13,943	7,466
Right-of-use assets	11	41,732	61,914
Film rights and films production in progress	12	–	116,949
Intangible assets	13	4,527	4,793
Goodwill	14	27,853	30,397
Interests in associates	15	238,575	261,072
Financial assets at fair value through profit or loss	16	17,110	–
Prepayments, deposits and other receivables	18	3,846	1,803
		<u>347,586</u>	<u>484,394</u>
Current assets			
Inventories	19	4,832	2,272
Trade and bills receivables	17	95,787	63,327
Prepayments, deposits and other receivables	18	99,585	211,227
Financial asset at fair value through profit or loss	16	–	1,428
Restricted cash	20	3,096	–
Cash and cash equivalents	21	38,300	148,552
		<u>241,600</u>	<u>426,806</u>
Total assets		<u>589,186</u>	<u>911,200</u>
Equity and liabilities			
Equity			
Equity attributable to the equity holders of the Company			
Share capital	25	271,707	269,962
Reserves	26	116,493	385,391
		<u>388,200</u>	<u>655,353</u>
Non-controlling interests		<u>(38,275)</u>	<u>3,547</u>
Total equity		<u>349,925</u>	<u>658,900</u>

		As at 31 December	
		2022	2021
	Notes	HK\$'000	HK\$'000
Liabilities			
Non-current liabilities			
Lease liabilities	11	13,773	10,036
Deferred income tax liabilities		525	1,011
		14,298	11,047
Current liabilities			
Trade payables	23	94,182	29,291
Other payables and accrued liabilities	24	78,265	89,135
Contract liabilities	24	8,922	80,670
Bank and other borrowings	22	32,740	–
Lease liabilities	11	10,854	42,157
		224,963	241,253
Total liabilities		239,261	252,300
Total equity and liabilities		589,186	911,200

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
Cash flows from operating activities			
Cash (used in)/generated from operations		(90,092)	108,383
Interest received from programmes and films production in progress		–	322
Interest paid		(144)	(10)
Net cash (used in)/generated from operating activities		(90,236)	108,695
Cash flows from investing activities			
Interest received		1,213	1,484
Purchases of property, plant and equipment		(12,134)	(6,397)
Purchases of intangible assets		(1,598)	(4,829)
Investment in an associate		–	(24,160)
Acquisition of subsidiaries		–	(2,791)
Proceeds from sales of property, plant and equipment		558	–
Net cash used in investing activities		(11,961)	(36,693)
Cash flow from financing activities			
Repayment of bank and other borrowings		–	(1,197)
Proceeds from bank and other borrowings		33,784	–
Principal elements of lease payments		(44,228)	(38,399)
Net cash used in financing activities		(10,444)	(39,596)
Net (decrease)/increase in cash and cash equivalents		(112,641)	32,406
Cash and cash equivalents at 1 January		148,552	113,837
Currency translation differences		2,389	2,309
Cash and cash equivalents at 31 December	21	38,300	148,552

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to equity holders of the Company				Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		
Balance at 1 January 2021	269,962	2,061,151	(1,554,521)	776,592	–	776,592
Comprehensive loss:						
– Loss for the year	–	–	(110,402)	(110,402)	(31,025)	(141,427)
Other comprehensive (loss)/income:						
Currency translation differences						
– Group	–	(639)	–	(639)	–	(639)
– Associate (Note 15)	–	(21,452)	–	(21,452)	–	(21,452)
– Non-controlling Interests	–	–	–	–	466	466
Total comprehensive loss	–	(22,091)	(110,402)	(132,493)	(30,559)	(163,052)
Contribution by and distribution to owners of the Company recognized directly in equity:						
– Share-based compensation	–	11,254	–	11,254	17,759	29,013
Acquisition of subsidiaries (Note 28)	–	–	–	–	16,347	16,347
Balance at 31 December 2021	269,962	2,050,314	(1,664,923)	655,353	3,547	658,900

	Attributable to equity holders of the Company				Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		
Balance at 1 January 2022	269,962	2,050,314	(1,664,923)	655,353	3,547	658,900
Comprehensive loss:						
– Loss for the year	–	–	(269,980)	(269,980)	(46,618)	(316,598)
Other comprehensive (loss)/income:						
Currency translation differences						
– Group	–	1,320	–	1,320	–	1,320
– Associate (Note 15)	–	(13,113)	–	(13,113)	–	(13,113)
– Non-controlling Interests	–	–	–	–	1,875	1,875
Total comprehensive loss	–	(11,793)	(269,980)	(281,773)	(44,743)	(326,516)
Contribution by and distribution to owners of the Company recognized directly in equity:						
– Vested share awards	1,250	(1,250)	–	–	–	–
– Share-based compensation	–	14,620	–	14,620	2,921	17,541
– Acquisition of subsidiaries (Note 28)	495	(495)	–	–	–	–
Balance at 31 December 2022	271,707	2,051,396	(1,934,903)	388,200	(38,275)	349,925

Notes:

1. GENERAL INFORMATION

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

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 shares of the Company are listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousand Hong Kong dollars (HK\$’000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 29 March 2023.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and interest in an associate — Deep Sea Health Limited which are carried at fair values.

For the year ended 31 December 2022, the Group had a loss of HK\$316,598,000 (2021: HK\$141,427,000) and operating cash outflow of HK\$90,236,000 (2021: operating inflow of HK\$108,695,000), while the cash and cash equivalents was HK\$38,300,000 as at 31 December 2022 (2021: HK\$148,552,000). The directors of the Company have reviewed the Group’s cash flow projections covering a period of not less than 12 months from 31 December 2022, 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 31 December 2022. Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The preparation of these consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

(a) Amended standards adopted by the Group

The Group has applied the following amended standards for the first time for their annual reporting period commencing 1 January 2022:

Annual Improvements Project	Annual Improvements to HKFRSs 2018–2020 (amendments)
HKFRS 3, HKAS 16 and HKAS 37	Narrow-scope amendments (amendments)
HKFRS 16	Covid-19-Related Rent Concessions beyond 2021 (amendments)
AG 5 (Revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations

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

(b) New standards, interpretation and amendments not yet adopted by the Group

A number of new standards, interpretation 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 and HKFRS Practice Statement 2	Disclosure of Accounting Policies (amendments)	1 January 2023
HKAS 8	Definition of Accounting Estimates (amendments)	1 January 2023
HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction (amendments)	1 January 2023
HKFRS 17	Insurance Contracts (new standard)	1 January 2023
HKFRS 17	Amendments to HKFRS 17	1 January 2023
HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9-Comparative Information	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current (amendments)	1 January 2024
Amendments to HKAS 1	Non-current Liabilities with Covenants (amendments)	1 January 2024
Amendments to 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 — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK Int 5 (Revised))	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 has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the directors, management does not anticipate any significant impact on the Group's financial positions and results of operations.

3. REVENUE, FILM INVESTMENT INCOME, INTEREST REVENUE CALCULATED USING THE EFFECTIVE INTEREST METHOD AND OTHER INCOME AND OTHER (LOSSES)/GAINS, NET

The Group is principally engaged in (i) online prescription, circulation and marketing of pharmaceutical products; (ii) smart healthcare services platform; (iii) entertainment and media business; and (iv) provision of healthcare and wellness services.

	2022 HK\$'000	2021 HK\$'000
Revenue		
Online prescription, circulation and marketing of pharmaceutical products		
– Digital marketing services	606,130	35,968
– Circulation of prescribed pharmaceutical products	88	182
Smart healthcare services platform		
– Healthcare consumption	807,511	22,457
– Medical services	16,038	37
– Healthcare management	660	–
Entertainment and media		
– Film exhibition and license fee	150,964	151,436
Healthcare and wellness services		
– Club activities income	75,943	68,879
– Membership fees	25,555	27,463
– Food and beverage	9,172	17,387
	1,692,061	323,809
Film investment income (Entertainment and media)	–	1,912
Interest revenue calculated using the effective interest method (Entertainment and media)	–	1,992
	1,692,061	327,713
Other income and other (losses)/gains, net		
Share of subsidies for movie production	–	10,645
Interest income	1,213	1,484
Fair value change on financial assets at fair value through profit or loss, net	(4,567)	1,921
Fair value change on interest in an associate measured at fair value through profit or loss	1,129	–
Fair value change on film investment fund received	–	(951)
Waive of liabilities	288	–
Exchange (loss)/gain, net	(8,639)	2,003
Others	2,023	286
	(8,553)	15,388

4. 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) Online prescription, circulation and marketing of pharmaceutical products (Echartnow); (ii) Smart healthcare services platform (Meerkat Health); (iii) Entertainment and media businesses and (iv) Healthcare and wellness services. 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 year ended 31 December 2022 (2021: Nil).

(a) Business segment

For the year ended 31 December 2022

	Online prescription, circulation and marketing of pharmaceutical products HK\$'000	Smart healthcare services platform HK\$'000	Entertainment and media HK\$'000	Healthcare and wellness services HK\$'000	Total HK\$'000
Revenue	606,218	824,209	150,964	110,670	1,692,061
Share of results of an associate	-	-	(4,817)	-	(4,817)
Segment results	(57,809)	(86,337)	(122,882)	1,374	(265,654)
Exchange losses, net					(8,639)
Fair value change on financial assets at fair value through profit or loss — unallocated					(4,567)
Fair value change on interest in an associate measured at fair value through profit or loss — unallocated					1,129
Provision for impairment of financial assets — unallocated					(1,032)
Other unallocated expenses, net					(36,492)
Finance costs, net					(315,255)
					(1,768)
Loss before taxation					(317,023)
Taxation					425
Loss for the year					(316,598)
Loss for the year attributable to non-controlling interests					46,618
Loss for the year attributable to equity holders of the Company					(269,980)

	Online prescription, circulation and marketing of pharmaceutical products HK\$'000	Smart healthcare services platform HK\$'000	Entertainment and media HK\$'000	Healthcare and wellness services HK\$'000	Total HK\$'000
Segment assets	110,056	93,435	318,912	30,701	553,104
Unallocated assets					<u>36,082</u>
Total assets					<u><u>589,186</u></u>
Segment liabilities	92,992	72,386	–	3,499	168,877
Unallocated liabilities					<u>70,384</u>
Total liabilities					<u><u>239,261</u></u>
Other information:					
Additions of right-of-use assets					
– Allocated	2,368	576	–	–	2,944
– Unallocated					15,528
Purchases of property, plant and equipment					
– Allocated	2,429	8,133	–	1,418	11,980
– Unallocated					154
Purchases of intangible assets	–	1,598	–	–	1,598
Depreciation of right-of-use assets					
– Allocated	2,359	4,098	–	22,008	28,465
– Unallocated					5,398
Depreciation of property, plant and equipment					
– Allocated	761	2,243	–	1,052	4,056
– Unallocated					89
Amortization of completed film rights	–	–	73,736	–	73,736
Amortization of intangible assets	–	1,452	–	–	1,452
Provision for impairment of completed film rights	–	–	43,565	–	43,565
Provision for impairment of trade receivables	37	278	562	–	877
Provision for/(reversal of) impairment of deposits and other receivables					
– Allocated	2	9	9,468	(359)	9,120
– Unallocated					<u>1,032</u>

For the year ended 31 December 2021

	Online prescription, circulation and marketing of pharmaceutical products HK\$'000	Smart healthcare services platform HK\$'000	Entertainment and media HK\$'000	Healthcare and wellness services HK\$'000	Total HK\$'000
Revenue	36,150	22,494	151,436	113,729	323,809
Film investment income	–	–	1,912	–	1,912
Interest revenue calculated using the effective interest method	–	–	1,992	–	1,992
	<u>36,150</u>	<u>22,494</u>	<u>155,340</u>	<u>113,729</u>	<u>327,713</u>
Share of results of an associate	–	–	(4,933)	–	(4,933)
Segment results	<u>(57,261)</u>	<u>(13,881)</u>	<u>(34,317)</u>	<u>(1,019)</u>	<u>(106,478)</u>
Exchange gains, net					2,003
Unallocated expenses, net					<u>(35,090)</u>
Finance costs, net					<u>(139,565)</u>
Loss before taxation					<u>(141,845)</u>
Taxation					<u>418</u>
Loss for the year					<u>(141,427)</u>
Loss for the year attributable to non-controlling interests					<u>31,025</u>
Loss for the year attributable to equity holders of the Company					<u><u>(110,402)</u></u>

	Online prescription, circulation and marketing of pharmaceutical products HK\$'000	Smart healthcare services platform HK\$'000	Entertainment and media HK\$'000	Healthcare and wellness services HK\$'000	Total HK\$'000
Segment assets	158,783	64,564	486,299	98,843	808,489
Unallocated assets					<u>102,711</u>
Total assets					<u><u>911,200</u></u>
Segment liabilities	124,409	32,265	1,051	72,760	230,485
Unallocated liabilities					<u>21,815</u>
Total liabilities					<u><u>252,300</u></u>
Other information:					
Additions of right-of-use assets (including acquisition of subsidiaries)					
– Allocated	3,482	11,811	–	–	15,293
– Unallocated					5,837
Purchases of property, plant and equipment (including acquisition of subsidiaries)					
– Allocated	2,091	1,668	–	2,777	6,536
– Unallocated					13
Purchases of intangible assets	–	4,829	–	–	4,829
Depreciation of right-of-use assets					
– Allocated	807	672	–	22,693	24,172
– Unallocated					4,612
Depreciation of property, plant and equipment					
– Allocated	99	38	–	613	750
– Unallocated					166
Amortization of completed film rights	–	–	138,596	–	138,596
Amortization of intangible assets	–	35	–	–	35
Reversal of impairment of programmes and films production in progress	–	–	(25)	–	(25)
Provision for impairment of film rights and films production in progress	–	–	3,393	–	3,393
Provision for impairment of trade receivables	88	–	105	–	193
Provision for impairment of deposits and other receivables					
– Allocated	–	–	1,000	364	1,364
– Unallocated					343

(b) Geographical information

The geographical information for the year ended 31 December 2022 and 2021 are as follows:

	Revenue from external		Non-current assets ^{Note}	
	customers			
	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC	1,564,234	174,905	82,418	96,986
Hong Kong	–	–	5,637	7,585
Other countries	127,827	152,808	–	116,948
	1,692,061	327,713	88,055	221,519

Note: Non-current assets exclude interests in associates, financial assets at fair value through profit or loss, and non-current portion of prepayments, 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 year ended 31 December 2022 are disclosed as follows:

	2022	2021
	HK\$'000	HK\$'000
Customer A	431,565	–
Customer B	173,461	–

Note: Revenue from customers A and B did not exceed 10% of total revenue for the year ended 31 December 2021.

5. FINANCE COSTS, NET

	2022	2021
	HK\$'000	HK\$'000
Finance cost		
Interest on bank and other borrowings	548	10
Interest on lease liabilities (Note 11)	1,220	2,270
Finance costs, net	1,768	2,280

6. LOSS BEFORE TAXATION

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

	2022 HK\$'000	2021 HK\$'000
Film production cost	32,556	33,358
Film promotion and distribution fee	107,816	17,038
Depreciation of property, plant and equipment (Note 10)	4,145	916
Depreciation of right-of-use assets (Note 11)	33,863	28,784
Auditor's remuneration		
– Audit services	2,100	2,100
– Non-audit services	1,410	1,410
Expense relating to short-term leases (Note 11)	4,557	4,582
Provision for impairment of film rights and films production in progress (Note 12)	43,565	3,393
Net provision for/(reversal of) impairment of financial assets		
– Programmes and films production in progress	–	(25)
– Trade receivables (Note 17)	877	193
– Deposits and other receivables (Note 18)	10,152	1,707
Amortization of completed film rights (Note 12)	73,736	138,596
Amortization of intangible assets (Note 13)	1,452	35
Costs of online prescription, circulation and marketing of pharmaceutical products	270,561	21,513
Costs of inventories sold (Note 19)	796,905	22,802
Food and beverage costs in relation to “Bayhood No. 9 Club” operation	5,903	8,659
Labour costs in relation to “Bayhood No. 9 Club” operation	38,307	38,580
Marketing and promotion expenses	334,317	15,626
Employee benefit expense:		
<i>Directors' fees</i>	720	720
<i>Wages and salaries</i>	90,057	26,384
<i>Contributions to defined contribution pension schemes (Note a)</i>	17,306	2,658
<i>Share-based compensation expenses (Notes 25 & 28)</i>	17,541	29,013
	125,624	58,775

Note a: During the year ended 31 December 2022, no forfeited contributions were utilized by the Group to reduce its contributions for the current year (2021: Nil).

7. TAXATION

No Hong Kong profits tax has been provided as the Group has no estimated assessable profit in Hong Kong for the year (2021: Same). Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the regions/countries in which the Group operates.

	2022 HK\$'000	2021 HK\$'000
Current income tax		
– Hong Kong profits tax	–	–
– PRC corporate income tax	–	–
Deferred income tax credit	<u>425</u>	418
	<u>425</u>	<u>418</u>

8. 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 year.

	2022	2021
Weighted average number of ordinary shares in issue (thousands)	<u>13,543,887</u>	13,498,107
Loss attributable to equity holders of the Company (HK\$'000)	<u>(269,980)</u>	(110,402)
Basic loss per share attributable to equity holders of the Company (HK cents per share)	<u>(1.99)</u>	(0.82)

During the year ended 31 December 2022, 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 year ended 31 December 2022 (2021: same).

9. DIVIDEND

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2022 (2021: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

	Building HK\$'000	Machinery and equipment HK\$'000	Furniture, computer and equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Year ended 31 December 2021						
Opening net book amount	–	508	935	–	322	1,765
Additions	–	139	3,134	1,590	1,534	6,397
Acquisition of subsidiaries (Note 28)	–	–	–	152	–	152
Disposal	–	(1)	(38)	–	(36)	(75)
Depreciation (Note 6)	–	(117)	(430)	(81)	(288)	(916)
Exchange differences	–	15	69	24	35	143
Closing net book amount	–	544	3,670	1,685	1,567	7,466
At 31 December 2021						
Cost	954	3,180	7,471	3,713	6,793	22,111
Accumulated depreciation	(954)	(2,636)	(3,801)	(2,028)	(5,226)	(14,645)
Net book amount	–	544	3,670	1,685	1,567	7,466
Year ended 31 December 2022						
Opening net book amount	–	544	3,670	1,685	1,567	7,466
Additions	–	213	4,803	5,923	1,195	12,134
Written-off	–	(5)	(5)	–	(2)	(12)
Disposal	–	–	(554)	–	–	(554)
Depreciation (Note 6)	–	(147)	(1,527)	(1,994)	(477)	(4,145)
Exchange differences	–	(49)	(425)	(309)	(163)	(946)
Closing net book amount	–	556	5,962	5,305	2,120	13,943
At 31 December 2022						
Cost	899	3,070	10,692	9,235	7,334	31,230
Accumulated depreciation	(899)	(2,514)	(4,730)	(3,930)	(5,214)	(17,287)
Net book amount	–	556	5,962	5,305	2,120	13,943

Depreciation expenses of approximately HK\$3,904,000 (2021: HK\$904,000), HK\$65,000 (2021: HK\$12,000) and HK\$176,000 (2021: Nil) have been charged in administrative expenses, marketing and selling expenses and research and development expenses respectively.

11. LEASES

(i) Amounts recognized in the consolidated balance sheet

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

	2022 HK\$'000	2021 HK\$'000
Right-of-use assets		
Office	23,457	19,127
Operating assets of “Bayhood No. 9 Club”	16,090	40,605
Apartment	2,185	2,182
	<u>41,732</u>	<u>61,914</u>
Lease liabilities		
Current	10,854	42,157
Non-current	13,773	10,036
	<u>24,627</u>	<u>52,193</u>

Additions to the right-of-use assets (including acquisition of subsidiaries) during the year ended 31 December 2022 was HK\$18,472,000 (2021: HK\$21,130,000).

(ii) Amounts recognized in the consolidated income statement

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

	Notes	2022 HK\$'000	2021 HK\$'000
Depreciation charge of right-of-use assets			
Office		9,575	3,812
Operating assets of “Bayhood No. 9 Club”		22,008	22,692
Apartment		2,280	2,280
	6	<u>33,863</u>	<u>28,784</u>
Interest expense (included in finance costs)	5	1,220	2,270
Expense relating to short-term leases (included in administrative expenses)	6	4,557	4,582

(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 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.

12. FILM RIGHTS AND FILMS PRODUCTION IN PROGRESS

	2022	2021
	HK\$’000	HK\$’000
Films production in progress (Note a)	–	116,949
	–	116,949

	Completed	Films	Film rights	Total
	film rights	production	investments	Total
	HK\$’000	in progress	HK\$’000	HK\$’000
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Year ended 31 December 2021				
Opening net book amount	–	341,217	22,307	363,524
Film investment income	–	–	1,976	1,976
Transfer	139,311	(139,311)	–	–
Transfer to other receivables	–	(78,366)	–	(78,366)
Transfer to trade receivables	–	–	(24,898)	(24,898)
Amortization (Note 6)	(138,596)	–	–	(138,596)
Impairment (Note 6)	–	(3,393)	–	(3,393)
Return of investment	–	(4,269)	–	(4,269)
Exchange differences	(715)	1,071	615	971
Closing net book amount	–	116,949	–	116,949

	Completed film rights HK\$'000	Films production in progress HK\$'000	Film rights investments HK\$'000	Total HK\$'000
Year ended 31 December 2022				
Opening net book amount	–	116,949	–	116,949
Transfer	116,949	(116,949)	–	–
Amortization (Note 6)	(73,736)	–	–	(73,736)
Impairment (Note 6)	(43,565)	–	–	(43,565)
Exchange differences	352	–	–	352
Closing net book amount	–	–	–	–

Note (a):

As at 31 December 2022, the total cost of completed film rights amounting to approximately HK\$381,796,000 (2021: HK\$264,495,000) and accumulated amortization and impairment amounting to approximately HK\$381,796,000 (2021: HK\$264,495,000).

Amortization of completed film rights amounting to approximately HK\$73,736,000 has been charged to the cost of sales in the consolidated income statement during the year ended 31 December 2022 (2021: HK\$138,596,000).

For the year ended 31 December 2022, impairment of HK\$43,565,000 (2021: impairment of HK\$3,393,000) on completed film rights was recognized by using the latest available information and best estimate from the management and has been charged to cost of sales.

During the year, the Group has several joint operation arrangements to produce or distribute up to one (2021: seven) films. The Group has participating interests in 37.5% (2021: ranging from 20% to 50%) in these joint operations. As at 31 December 2022, the aggregate amounts of assets recognized in the consolidated balance sheet relating to the Group's interests in these joint operation arrangements are the completed film rights and films production in progress totally zero (2021: HK\$116,949,000).

As at 31 December 2022, the Group does not have any licensing agreements for certain films production in progress with expected circulation timetables in the next year (2021: HK\$116,949,000).

13. INTANGIBLE ASSETS

	Licenses and softwares	
	2022	2021
	HK\$'000	HK\$'000
As at 1 January	4,793	–
Additions	1,598	4,829
Amortization (Note 6)	(1,452)	(35)
Exchange differences	(412)	(1)
As at 31 December	<u>4,527</u>	<u>4,793</u>
As at 31 December		
Cost	5,950	4,829
Accumulated amortization	<u>(1,423)</u>	<u>(36)</u>
Net carrying amount	<u>4,527</u>	<u>4,793</u>

Amortization expenses of approximately HK\$1,364,000 (2021: HK\$35,000) and HK\$88,000 (2021: Nil) have been charged in administrative expenses and marketing and selling expenses respectively.

14. GOODWILL

	2022	2021
	HK\$'000	HK\$'000
Cost and net carrying amount as at 1 January	30,397	–
Acquisition of subsidiaries	–	30,863
Exchange differences	<u>(2,544)</u>	<u>(466)</u>
Cost and net carrying amount as at 31 December	<u>27,853</u>	<u>30,397</u>

Impairment testing of goodwill

The above goodwill acquired through business combinations is allocated to the following CGU for impairment testing — Online prescription, circulation and marketing of pharmaceutical products. The recoverable amount of this CGU as at 31 December 2022 has been determined by fair value less costs of disposal calculation using discounted cash flow projections based on financial budgets covering a five-year period with the assistance of an Independent valuer. The compound annual revenue growth rate is 28.91% (2021: 81.6%). The discount rate applied to the cash flow projections is 22.7% (2021: 20%). The discount rate for lack of marketability is 40% (2021: 30%). The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2021: 3%), which approximates the long-term average growth rate of the internet healthcare services in the PRC.

There is no impairment required from the review on goodwill. A reasonable change in assumptions would not result in impairment as a such disclosure of sensitivity analysis is not considered necessary.

15. INTERESTS IN ASSOCIATES

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Interest in an associate accounted for using the equity method		
– Interest in HB Entertainment Co., Ltd.	218,982	236,912
Interest in an associate measured at fair value through profit or loss		
– Interest in Deep Sea Health Limited	19,593	24,160
	<u>238,575</u>	<u>261,072</u>

Set out below are the associates of the Group as at 31 December 2022 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 31 December 2022 and 2021 are as follows:

Name	Place of establishment and kind of legal entity	% of ownership interest		Principal activities and place of operation
		2022	2021	
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

(a) **HB Entertainment Co., Ltd.**

Summarized financial information

Set out below is the summarized financial information of HB Entertainment. The entity is accounted for using the equity method.

Summarized balance sheet

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Current		
Cash and cash equivalents	65,980	98,826
Other current assets (excluding cash)	66,620	99,000
Total current assets	132,600	197,826
Current financial liabilities (excluding trade payables)	(123,714)	(3,484)
Other current financial liabilities	(70,896)	(78,460)
Total current liabilities	(194,610)	(81,944)
Non-current		
Total non-current assets	240,055	95,822
Total non-current liabilities	(14,250)	(18,177)
Net assets	163,795	193,527
Non-controlling interests	12,983	10,348
Net assets attributable to the equity holders	176,778	203,875

Summarized statement of comprehensive income

	2022	2021
	HK\$'000	HK\$'000
Revenue	33,283	38,620
Loss before taxation	(18,532)	(21,097)
Taxation	842	194
Loss after taxation	(17,690)	(20,903)
Other comprehensive loss	(9,407)	(14,224)
Total comprehensive loss	(27,097)	(35,127)

The information above reflects the amounts presented in the financial statements of the associate and not the Group's share of those amounts. They have been amended to reflect adjustments (if any) made by the entity when using the equity method.

Movements of interest in HB Entertainment are as follows:

	2022	2021
	HK\$'000	HK\$'000
At 1 January	236,912	263,297
Share of results	(4,817)	(4,933)
Exchange differences	(13,113)	(21,452)
At 31 December	218,982	236,912

Reconciliation of summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of its interest in HB Entertainment

	2022	2021
	HK\$'000	HK\$'000
Summarized financial information		
Opening net assets as at 1 January	203,875	239,002
Loss for the year	(17,690)	(20,903)
Exchange differences	(9,407)	(14,224)
Closing net assets as at 31 December	<u>176,778</u>	<u>203,875</u>
Interest in HB Entertainment	54,386	62,718
Goodwill	<u>164,596</u>	<u>174,194</u>
Carrying value	<u>218,982</u>	<u>236,912</u>

Impairment assessment for the interest in HB Entertainment

Recoverable amount was determined by the higher of the amount determined by value-in-use calculation or by fair value less costs of disposal.

The recoverable amount as at 31 December 2022 and 2021 was determined by fair value less costs of disposal. Management determined that the average enterprise value-to-revenue ratio based on a pool of comparable listed companies within the same industry.

There is no impairment required from the review on goodwill. A reasonable change in assumptions would not result in impairment as a such disclosure of sensitivity analysis is not considered necessary.

Key assumptions adopted in the calculation of recoverable amount were as follows:

	As at 31 December	
	2022	2021
Unobservable inputs adopted in fair value less costs of disposal calculation		
Average enterprise value-to-revenue ratio	2.6	5.9
Discounts for lack of marketability	25%	25%
Significant influence premium	15%	15%

No provision for impairment of interest in HB Entertainment has been recognized for the year ended 31 December 2022 and 2021.

(b) Deep Sea Health Limited

On 12 August 2021, the Company has completed an acquisition of 21.88% equity interest in Deep Sea Health Limited (“DSH”) at a consideration equivalent to RMB20 million. Through the investment the Company has indirectly obtained a minority stake in a high-end clinic and hospital operation currently based in Shanghai.

The Group is able to exercise significant influence over DSH. The Group has elected to measure the investment in DSH at fair value through profit or loss since the Group decides the investment in DSH has the characteristics of a venture capital investment.

The Group has engaged an independent valuer to determined the fair value of the unlisted investment as at 31 December 2022. The valuation of DSH was determined 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:

	As at 31 December
	2022
Unobservable inputs adopted	
Price-to-sales multiples	2.5
Discounts for lack of marketability	25%

The fair value of DSH as at 31 December 2021 was estimated to be approximate to the cost of acquisition as at the completion date as the same valuation of DSH was adopted by the other few investors completing acquisition of DSH equity interests at the same time. The fair value of DSH as at 31 December 2021 is estimated to be approximate to the fair value at the completion date given the short time period in between.

Summarized financial information

Set out below is the summarized financial information of DSH. The entity is measured at fair value through profit or loss.

Summarized balance sheet

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Current		
Cash and cash equivalents	<u>1,328</u>	<u>1,447</u>
Total current assets	<u>1,328</u>	<u>1,447</u>
Current financial liabilities	<u>(332)</u>	<u>(307)</u>
Total current liabilities	<u>(332)</u>	<u>(307)</u>
Non-current		
Total non-current assets	<u>161,279</u>	<u>175,854</u>
Total non-current liabilities	<u>–</u>	<u>–</u>
Net assets	<u>162,275</u>	<u>176,994</u>
Non-controlling interests	<u>(76,074)</u>	<u>(82,808)</u>
Net assets attributable to the equity holders	<u>86,201</u>	<u>94,186</u>

Summarized statement of comprehensive income

	2022	2021
	HK\$'000	HK\$'000
Revenue	<u>–</u>	<u>–</u>
Loss before taxation	(14,340)	(14,968)
Taxation	<u>–</u>	<u>–</u>
Loss after taxation	(14,340)	(14,968)
Other comprehensive loss	<u>–</u>	(220)
Total comprehensive loss	<u>(14,340)</u>	<u>(15,188)</u>

The information above reflects the amounts presented in the financial statements of the associate and not the Group's share of those amounts.

Movements of interest in DSH are as follows:

	HK\$'000
At 12 August 2021 (date of completion of acquisition of 21.88% equity interest in DSH) and 31 December 2021	<u>24,160</u>
At 1 January 2022	24,160
Fair value change through profit or loss	<u>(4,567)</u>
At 31 December 2022	<u>19,593</u>

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Current:		
Put option		
– Deep Sea Health Limited (Note a)	–	1,428
Non-current		
Investment in unlisted equity securities		
– Beijing Yi Yao Liang Xin (Note b)	14,553	–
Put option		
– Deep Sea Health Limited (Note a)	2,557	–
	17,110	–

Note:

- (a) 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.

Upon initial recognition, the put option was classified as a financial asset measured at fair value through profit or loss. The fair value of the put option was estimated as at the date of grant and each financial reporting period end, 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	2021
Unobservable input adopted		
Expected volatility	57.63%	63.05%
Expected dividend	0.00%	0.00%
Exercise probability	25.00%	25.00%
Risk-free interest rate	2.27%	2.19%

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

- (b) 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. The fair value of YYLX as at 31 December 2022 is estimated to be approximate to the fair value at the completion date given the short period in between.

17. TRADE AND BILLS RECEIVABLES

The aging analysis of the trade and bills receivables based on invoice date is as follows:

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
0–3 months	82,887	61,360
4–6 months	6,432	2,160
7–9 months	2,405	–
10–12 months	–	–
Over 1 year	13,435	8,322
	105,159	71,842
Less: Provision for impairment	(9,372)	(8,515)
	95,787	63,327

The Group’s credit terms with its customers are up to 90 days.

Movements on the Group’s provision for impairment of trade and bills receivables are as follows:

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
At 1 January	8,515	8,274
Provision for impairment (Note 6)	877	193
Exchange differences	(20)	48
At 31 December	9,372	8,515

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

The carrying amounts of trade and bills receivables approximate their fair values.

The maximum exposure to credit risk at the balance sheet date is the carrying value of trade and bills receivables disclosed above. The Group does not hold any collateral as security.

The carrying amounts of trade and bills receivables are denominated in the following currencies:

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
HK\$	3,186	6,938
RMB	92,601	54,259
KRW	–	2,130
	95,787	63,327

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Prepayments	11,965	36,422
Deposits and other receivables	107,134	201,552
	119,099	237,974
Less: Provision for impairment of deposits and other receivables	(15,668)	(24,944)
	103,431	213,030
Less: Non-current portion	(3,846)	(1,803)
	99,585	211,227

The balances of prepayments, deposits and other receivables mainly comprised (i) prepayments, deposits and other receivables for the operations of online prescription, circulation and marketing of pharmaceutical products and smart healthcare services platform; (ii) prepayments 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.

Movements on the Group's provision for impairment of deposits and other receivables are as follows:

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
At 1 January	24,944	23,097
Provision for impairment (Note 6)	10,152	1,707
Written off	(19,558)	–
Exchange differences	130	140
At 31 December	<u>15,668</u>	<u>24,944</u>

The carrying amounts of prepayments, deposits and other receivables of the Group are denominated in the following currencies:

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
HK\$	4,100	20,000
RMB	99,331	193,030
	<u>103,431</u>	<u>213,030</u>

The carrying amounts of deposits and other receivables approximate their fair values.

The maximum exposure to credit risk at the balance sheet date is the carrying value of deposits and other receivables disclosed above.

19. INVENTORIES

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Finished goods	4,832	2,272

The cost of inventories sold of approximately HK\$796,905,000 (2021: HK\$22,802,000) was recognized as expense and included in “Cost of sales” in the consolidated income statement for the year ended 31 December 2022.

No provision of impairment of inventories was recognized for the year ended 31 December 2022 (2021: same).

20. RESTRICTED CASH

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Pledged bank deposits	<u>3,096</u>	–

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

21. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Cash and bank balances	<u>38,300</u>	<u>148,552</u>
Denominated in:		
HK\$	2,874	10,862
RMB	31,420	127,753
US\$	<u>4,006</u>	<u>9,937</u>
	<u>38,300</u>	<u>148,552</u>
Maximum exposure to credit risk	<u>38,245</u>	<u>148,429</u>

The Group’s cash and bank balances of approximately HK\$31,405,000 and HK\$127,616,000 as at 31 December 2022 and 2021, respectively, 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.

22. BANK AND OTHER BORROWINGS

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Current:		
Bank borrowing (Note a)	5,605	–
Other borrowings (Note b)	27,135	–
	<u>32,740</u>	<u>–</u>

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

Note a: Bank borrowing is secured, interest bearing at 4.35% and repayable within 1 year. As at 31 December 2022, the bank borrowing was secured by corporate guarantee provided by a state-owned entity and personal guarantee of a senior management in favour of the Group.

Note b: Other borrowings are unsecured and repayable within 1 year. Out of the total of approximately HK\$27,135,000, HK\$4,746,000 is bearing at a weighted average rate of 9.71% per annum. The remaining borrowings are interest-free and the Group has unconditional rights to extend the maturity date for one year.

23. TRADE PAYABLES

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

	2022	2021
	HK\$'000	HK\$'000
0–3 months	93,903	28,986
Over 6 months	279	305
	<u>94,182</u>	<u>29,291</u>

The carrying amounts of trade payables of the Group are denominated in RMB.

The carrying amounts of trade payables approximate their fair values.

24. CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUED LIABILITIES

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Current liabilities:		
Other payables and accrued liabilities (Note i)	78,265	88,595
Film investment fund received, net	–	540
	78,265	89,135
Contract liabilities (Note ii)	8,922	80,670
	87,187	169,805

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 online prescription, circulation and marketing of pharmaceutical products.

The carrying amounts of other payables and accrued liabilities approximate their fair values.

The carrying amounts of the Group's contract liabilities, other payables and accrued liabilities were denominated in the following currencies:

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
HK\$	5,402	2,387
RMB	81,785	166,878
KRW	–	540
	87,187	169,805

25. SHARE CAPITAL

	Ordinary shares of HK\$0.02 each		Preference shares of HK\$0.01 each		
	No. of shares		No. of shares		
	'000	HK\$'000	'000	HK\$'000	HK\$'000
Authorized:					
At 31 December 2021 and 31 December 2022					
(Note a)	150,000,000	3,000,000	240,760	2,408	3,002,408
Issued and fully paid:					
At 1 January 2022	13,498,107	269,962	–	–	269,962
Issuance of vested share award	62,500	1,250	–	–	1,250
Acquisition of subsidiaries (Note 28)	24,732	495	–	–	495
At 31 December 2022	13,585,339	271,707	–	–	271,707
At 1 January 2021 and 31 December 2021	13,498,107	269,962	–	–	269,962

Note:

(a) Authorized share capital

The total number of authorized shares includes ordinary shares and preference shares. 150,000,000,000 (2021: 150,000,000,000) shares are ordinary shares with par value of HK\$0.02 (2021: HK\$0.02) per share. 240,760,000 (2021: 240,760,000) shares are preference shares with par value of HK\$0.01 per share (2021: HK\$0.01). All issued shares are fully paid.

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 consolidated income statement accordingly (2021: Nil).

During the year ended 31 December 2022, no share options were granted, exercised, cancelled or lapsed, and there was no outstanding option under the New Share Option Scheme as at 31 December 2022 (2021: 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 year ended 31 December 2022, 77,500,000 shares were granted to selected participants pursuant to the Share Award Scheme (2021: Nil). 15,000,000 shares were lapsed because the vesting conditions had not been fulfilled. 62,500,000 (2021: Nil) shares, which par value amounted to HK\$1,250,000 (2021: Nil) 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 year ended 31 December 2022, share-based compensation expense recognized in the consolidated income statement for share awards was approximately HK\$3,054,000 (2021: Nil).

The fair value of the awarded shares of HK\$0.142 per share was calculated based on the closing price of the Shares at the date of grant.

26. RESERVES

	Share premium HK\$'000 (Note ii)	Merger reserve HK\$'000 (Note i)	Capital redemption reserve HK\$'000 (Note iii)	Currency translation reserve HK\$'000 (Note iv)	Shares held for share award scheme HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2021	1,213,484	860,640	1,206	(14,179)	–	–	(1,554,521)	506,630
Loss for the year	–	–	–	–	–	–	(110,402)	(110,402)
Share-based compensation	–	–	–	–	–	11,254	–	11,254
Currency translation differences								
– Group	–	–	–	(639)	–	–	–	(639)
– Associate	–	–	–	(21,452)	–	–	–	(21,452)
Balance at 31 December 2021	<u>1,213,484</u>	<u>860,640</u>	<u>1,206</u>	<u>(36,270)</u>	<u>–</u>	<u>11,254</u>	<u>(1,664,923)</u>	<u>385,391</u>

	Share premium HK\$'000 (Note ii)	Merger reserve HK\$'000 (Note i)	Capital redemption reserve HK\$'000 (Note iii)	Currency translation reserve HK\$'000 (Note iv)	Shares held for share award scheme HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2022	1,213,484	860,640	1,206	(36,270)	–	11,254	(1,664,923)	385,391
Loss for the year	–	–	–	–	–	–	(269,980)	(269,980)
Share-based compensation	–	–	–	–	–	14,620	–	14,620
Issuance of shares for vested share awards	–	–	–	–	(1,250)	–	–	(1,250)
Acquisition of subsidiaries	13,244	–	–	–	–	(13,739)	–	(495)
Currency translation differences								
– Group	–	–	–	1,320	–	–	–	1,320
– Associate	–	–	–	(13,113)	–	–	–	(13,113)
Balance at 31 December 2022	<u>1,226,728</u>	<u>860,640</u>	<u>1,206</u>	<u>(48,063)</u>	<u>(1,250)</u>	<u>12,135</u>	<u>(1,934,903)</u>	<u>116,493</u>

Notes:

- (i) The merger reserve of the Group derives from the difference between the nominal value of the Company's shares issued to acquire the issued share capital of a group company pursuant to the Group reorganization in 2002, and the consolidated net asset value of the group company so acquired. Under the Companies Law (2003 Revision) (Cap. 22) of the Cayman Islands, the merger reserve is distributable to shareholders under certain prescribed circumstances.
- (ii) The share premium of the Company represents the excess of the fair value of the issued shares over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2003 Revision) (Cap. 22) of the Cayman Islands, a company may make distributions to its members out of the share premium in certain circumstances.
- (iii) During the year ended 31 December 2008, the Company repurchased 120,600,000 issued ordinary shares on the Stock Exchange. These repurchased shares were cancelled immediately upon repurchase. The total amount paid to acquire these issued ordinary shares of HK\$4,609,000 were deducted from shareholders' equity. A sum equivalent to the nominal value of the repurchased shares amounting to HK\$1,206,000 has been transferred from accumulated losses to capital redemption reserve.
- (iv) The Group has certain investments in subsidiaries and associate with RMB/KRW as their functional currency, which is subjected to foreign currency translation risk. Fluctuation in such currencies would be reflected in the movement of the translation reserve. Fluctuation of currency translation differences in other comprehensive income in current year was resulted from revaluation of RMB/KRW against HK\$ and reclassification to profit or loss upon deregistration of a subsidiary of the Group.

27. RELATED PARTY TRANSACTIONS

(a) Related party transactions

Save as disclosed elsewhere in these consolidated financial statements, the Group had the following related party transactions:

Name of party	Nature of transaction	31 December 2022 HK\$'000	31 December 2021 HK\$'000
華誼兄弟電影有限公司 ("Huayi Brothers Film Co., Ltd")* (Note)	Interest revenue calculated using effective interest method	–	620
	Film investment income	23,136	1,912
	Film exhibition and license fee income	–	971
		23,136	3,503

* English name is made for identification purpose only.

Note: Huayi Brothers Film Co., Ltd is the subsidiary of Huayi Brothers Media Corporation, a former substantial shareholder of the Company. The above transactions were conducted in the normal course of business of the Group and charged at terms mutually agreed by the parties concerned.

(b) Related party balances

	31 December 2022 HK\$'000	31 December 2021 HK\$'000
Film rights and films production in progress		
– HBI	–	116,949
Trade receivables		
– Huayi Brothers Film Co., Ltd	6,351	24,899
Other borrowings (unsecured and non-interest bearing)		
– Mr. YUEN Hoi Po, an executive director and CEO of the Company	16,792	–
	23,143	141,848

Note: WR Brothers Inc. is the subsidiary of Huayi Brothers Media Corporation, a substantial shareholder of the Company.

28. ACQUISITION OF PINGTAN XINBAN CLINIC COMPANY LIMITED

On 7 April 2021, the Group entered into the Capital Increase and Acquisition Agreement with Pingtan Xinban Clinic Company Limited (“PTXB”, the “Target Company”) and completed an acquisition of the 51% equity interest in PTXB and its subsidiaries (together, the “Target Group”) for a total cash consideration of RMB40,000,000 (equivalent to approximately HK\$47,877,000) on 29 April 2021.

Upon closing of the said transaction, the Group acquired controls over the Target Group which became subsidiaries of the Group.

On 12 July 2022, the Company and other relevant parties have entered into the third supplemental agreement to the Capital Increase and Acquisition Agreement (as supplemented by the Second Supplemental Agreement) (the “Third Supplemental Agreement”).

The following are the amendments in the Third Supplemental Agreement:

First Performance Target

First Performance Target shall mean: at any time within a period from 1 January to 31 December of the same calendar year, or a period from 1 July of a year to 30 June of the next year (a “Reference Year”) after the Completion Date and ending no later than 30 June 2024, (i) the aggregate amount of the revenue of the Target Group reaches RMB150,000,000 as shown in the Target Group’s consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards, (ii) out of the said revenue, the revenue generated from prescription circulation businesses shall be no less than RMB105,000,000, (iii) the net profits after taxation of the Target Group reaches RMB20,000,000 as shown in the Target Group’s consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards, (iv) there exists no circumstances which would render any members of the Target Group unable to continue its operation, and (v) the aforesaid (i), (ii), (iii) and (iv) being confirmed by the Investor in writing (“Revised First Performance Target”).

**Second Performance
Target**

Second Performance Target shall mean: at any time within a Reference Year after the Completion Date and ending no later than 30 June 2025, (i) the aggregate amount of the revenue of the Target Group reaches RMB600,000,000 as shown in the Target Group's consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards, (ii) out of the said revenue, the revenue generated from prescription circulation businesses shall be no less than RMB420,000,000, (iii) the net profits after taxation of the Target Group reaches RMB40,000,000 as shown in the Target Group's consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards, (iv) there exists no circumstances which would render any members of the Target Group unable to continue its operation, and (v) the aforesaid (i), (ii), (iii) and (iv) being confirmed by the Investor in writing ("Revised Second Performance Target").

For the purpose of the Revised First Performance Target and the Revised Second Performance Target, "revenue generated from prescription circulation businesses" shall mean the net revenue legally obtained and generated from businesses related to prescription circulation businesses such as platform services, online diagnosis, referral, consultation and triage, medication management services, health management services, and sales sharing with pharmacy suppliers, etc.

For the purpose of determining the Revised First Performance Target, the Revised Second Performance Target and the Guaranteed Profits, the net profits after taxation referred therein shall exclude items recorded as "share-based compensation expenses" or similar items, arising from cash investment amounts and consideration in the form of shares paid or to be paid by the Company or its subsidiaries pursuant to the Capital Increase and Acquisition Agreement as supplemented by the Second Supplemental Agreement and the Third Supplemental Agreement, as shown in the Target Group's consolidated management accounts reported in accordance with Hong Kong Financial Reporting Standards.

Payment Terms in relation to the First Consideration Shares and the Second Cash Investment (a) the First Consideration Shares shall be issued to the founding shareholders in proportion to their shareholding in the Platform Co immediately after the completion of the Corporate Restructuring within one month after the date of the Third Supplemental Agreement. Accordingly, a total of 24,732,032 new shares of the Company have been issued to the founding shareholders in August 2022; (b) HKD or USD equivalent of RMB39,000,000 shall be paid by the Company to the Platform Co by instalments according to actual circumstances from the date of the Third Supplemental Agreement up to the satisfaction of the Revised First Performance Target; and (c) HKD or USD equivalent of RMB11,000,000 shall be paid by the Company to the Platform Co within 10 Working Days after the satisfaction of the Revised First Performance Target.

Save for the amendments as stated above, all other principal terms and conditions of the Capital Increase and Acquisition Agreement as supplemented by the Second Supplemental Agreement (including but not limited to the terms concerning the determination of the number and issue price of the Consideration Shares, lock-up undertakings agreed by the Founding Shareholders, the amount of the First Cash Investment, the Second Cash Investment and the Third Cash Investment, the obligations in relation to the Further Acquisition, the Guaranteed Profits and the adjustments to the consideration for the Further Acquisition in case of failure to satisfy the Guaranteed Profits) shall remain in full force and effect. For the year ended 31 December 2022, share-based compensation expense recognized in the consolidated income statement was approximately HK\$14,487,000 (2021: HK\$26,603,000).

CEO'S STATEMENT

I am pleased to present the annual results of Huayi Tencent Entertainment Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31 December 2022.

The PRC is facing a serious ageing population issue and there is a huge gap in the supply of quality healthcare services, resulting in the rapid emergence and development of the internet healthcare market. In recent years, the PRC has been introducing various policies to support the development of internet healthcare, and the market capacity has been on the rise. In addition, the COVID-19 epidemic has further accelerated the demand for internet healthcare services, including online consultation, pharmaceutical e-commerce, and online healthcare services, which are all receiving strong policy support and consumer attention, and the outlook for the whole industry is positive. According to an Ernst & Young market research report, the internet healthcare market in the PRC is expected to reach RMB162.6 billion by 2023, with a compound annual growth rate of 20% from 2020 to 2023.

The Group has seen the right opportunity to transform its business strategy to internet healthcare over the past two years, and the results are beginning to emerge. The two core businesses — “Echartnow”, a platform for online prescription, circulation and marketing of pharmaceutical products, and “Meerkat Health”, which focuses on smart healthcare services — are now largely in place and are gradually taking shape. During the year, the Group’s revenue surged more than four times to HK\$1.69 billion, mainly due to the revenue of HK\$0.61 billion and HK\$0.82 billion generated by “Echartnow” and “Meerkat Health” respectively, which have become the focus of the Group’s business by contributing 85% of the Group’s revenue in just over a year of operation.

The building of a digital China is an important engine for modernising the PRC in the digital age, and internet healthcare is a key development objective of the national healthcare reform. After two years of investment and development, the “Echartnow” and “Meerkat Health” platforms have been upgraded and expanded in scale and popularity.

“Echartnow” has successfully built an industry-wide healthcare services ecosystem covering pharmaceutical companies, retail pharmacies, doctors and patients, and has seen the opportunity for pharmaceutical companies to transform from offline drug promotion to online marketing by developing a digital marketing business. “Echartnow” has already reached in-depth cooperation with a number of leading pharmaceutical companies in the PRC, and is expected to further develop the SaaS business for pharmaceutical companies and their agents this year, as well as invest in the development of the online prescription circulation business in a timely manner in line with the pace of the national healthcare reform.

Since the launch of its business in late 2021, “Meerkat Health” has grown rapidly, successfully building an industry-leading smart supply chain for pharmaceutical and healthcare products and providing one-stop intelligent solutions for offline pharmacies. On the other hand, “Meerkat Health” focuses on the development of smart healthcare consumption and health management services, including appointment services for vaccination and digital intellectualised body check services. “Meerkat Health” has successfully entered into partnerships with a number of grade A tertiary hospitals, including Tianjin First Central Hospital, to jointly develop smart body checks and health management. With the adjustment of COVID-19 prevention and control measures to Class B, the speed and scale of cooperation with hospitals are expected to accelerate, making it another future growth spot of “Meerkat Health”.

With the worldwide release of the last film project of the entertainment and media business, “Moonfall”, in 2022, the Group’s investment and operations in the entertainment and media business are essentially completed. The Group has confirmed that it will not invest in new films and television projects in order to focus its resources on the development of its internet healthcare business.

Looking ahead, the Group will continue to expand the scale of its two core businesses, “Echartnow” and “Meerkat Health”. That includes building a comprehensive product system for “Echartnow” and shaping “Meerkat Health” into a “new entity enterprise” committed to the effective combination of industrial internet and consumer internet. Once the investment period is completed, we will enter into a fruitful period, achieving long-term stable development, maximising profits and bringing substantial returns to our shareholders.

May I also take this opportunity to, on behalf of the Board, express gratitude to the shareholders, investors and business partners for the trust and support all along, and to all our staff who had been performing their duties in an arduous year with diligence for bringing the Group to new heights.

MANAGEMENT DISCUSSION AND ANALYSIS

Since the Group launched its strategic plan of expanding into the areas of internet pharmaceutical and healthcare services in the PRC in 2021, it has actively engaged in upfront investment, such as acquiring “Echartnow”, a platform for online prescription, circulation and marketing of pharmaceutical products, and forming a joint venture “Meerkat Health” together with the industry elites, focusing on smart healthcare services. In 2022, “Echartnow” and “Meerkat Health” have quickly become the Group’s core businesses, and the overall layout is now largely complete, with its internet healthcare services business becoming well-established and successfully positioned to take the lead in the industry.

The healthcare services market of the PRC is huge, and its development is further accelerated by the ageing population, urbanisation and wealth growth. In particular, the new health services market, which combines value-based healthcare with digital healthcare, has been growing rapidly in recent years. According to an Ernst & Young market survey, the internet healthcare market has been growing rapidly in recent years, and with the COVID-19 epidemic, the demand for internet healthcare, including online medical consultation, pharmaceutical e-commerce and online payment, has increased rapidly. With strong policy support from the PRC, the outlook for the industry is positive. The report expects the internet healthcare market to reach RMB162.6 billion in 2023, with a compound annual growth rate of 20% from 2020 to 2023. This shows the huge growth potential of the industry. The Group has successfully grasped the opportunity of the rapid development of the industry, actively tied in with the national policies and flexibly adjusted its strategy to capture the market opportunities.

For the year ended 31 December 2022, the Group recorded a significant increase in total revenue of HK\$1,692,061,000 (2021: HK\$327,713,000), a sharp increase of more than four times compared to FY2021. “Echartnow” and “Meerkat Health” were the major sources of revenue of the Group, with revenues of HK\$606,218,000 (2021: HK\$36,150,000) and HK\$824,209,000 (2021: HK\$22,494,000) respectively, together accounting for approximately 85% (2021: 18%) of the total revenue. As mentioned in the Interim Report, through these two digitalised healthcare services platforms, the Group has successfully established its market coverage with regard to internet healthcare and enhanced its footprint in smart healthcare services, which remains a new market to be charted.

In addition, revenue from the Healthcare and Wellness Service “Bayhood No. 9 Club” remained stable at HK\$110,670,000 (2021: HK\$113,729,000), remaining at a similar level to FY2021. During the year, the business had to be suspended temporarily due to the impact of the epidemic in the PRC, but operations resumed quickly due to strong market demand.

As for the entertainment and media business, the last film project, “Moonfall”, was released worldwide in 2022 and generated revenue of HK\$150,964,000 (2021: HK\$155,340,000), similar to that of FY2021. The Group is focusing on the internet healthcare services business, and has confirmed that it will not invest in new films and television projects. The Group is also actively seeking to sell or realise the Group’s remaining film and television projects and investments, including its investment in HB Entertainment in South Korea.

Overall, losses of HK\$316,598,000 (2021 : HK\$141,427,000) were recorded for the year, being an increase of approximately 1.2 times comparing to the loss for the prior year. The increase in loss for the year was mainly attributable to:

- The Media and Entertainment segment recorded a loss for the year of HK\$122,882,000, being a significant increase comparing to the loss of HK\$34,317,000 for the prior year. This is mainly due to the cost amortisation and impairment provision arising from that the box office receipts and other incomes of the Group’s movie project distributed in 2022 could not recover the corresponding cost of investment. The Group is focusing on the internet healthcare services business, and has confirmed that it will not invest in new films and television drama projects. The Group is also actively seeking to sell or realise the Group’s remaining film and television drama projects and investments, including its investment in HB Entertainment in South Korea.
- The Smart Healthcare Services Platform segment recorded a loss for the year of HK\$86,337,000 (2021: HK\$13,881,000). As the “Meerkat Health” operation only commenced in the fourth quarter of 2021, resources need to be invested in research and development, system build-up, infrastructure, obtaining of qualifications and credentials, etc. during the start-up phase in 2022, leading to a much significant loss amount. Following the gradual completion of the said infrastructure and credentials, and that “Meerkat Health” has built up business scale with revenue of over HK\$800 million, the loss is expected to be narrowed down in the future.

BUSINESS REVIEW AND PROSPECTS

(1) “Echartnow”, a platform for online prescription, circulation and marketing of pharmaceutical products

The “Digital Pharmaceutical Marketing Industry Report 2022” estimates that the national digital pharmaceutical marketing market will further increase in size to RMB40.3 billion in 2022, with a compound annual growth rate of 62.8% over the two-year period, and is expected to reach RMB111 billion and RMB356.8 billion in 2025 and 2030 respectively, with a compound annual growth rate of 33.9% from 2025 to 2030. In addition, the “Annual Report on China’s Mobile Internet Development (2022)” released by the Research Institute of People Net in June 2022 stated that the national policy documents issued by the PRC in the past three years had established a new type of productivity of “Internet + Medicine” and have walked in the front of the world and taken a new path of independent innovation. It not only enhances the capability of standardised primary care through telemedicine, but also facilitates the use of digital information and communication technology to facilitate the public’s access to medical treatment, in line with the national policy of healthcare reform.

Since the normalisation of epidemic prevention and control, the convenience of online medical consumption has created a demand for more levels and diversity of internet medical and healthcare services. As a scenario-based medical service platform, “Echartnow” offers different user terminals in the healthcare industry their own “digitised enterprise 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.

In April 2021, the Group completed the Acquisition and Capital Increase of 51% equity interest in the Pingtan Xinban Clinic Company Limited (“PTXB”, together with its subsidiaries, the “Target Group”) at a consideration of RMB40,000,000. The Group has set up a mechanism for future revenue and profit targets to make further additional Cash Investment to the Target Group and to allot and issue Consideration Shares to the founding shareholders of the Target Group. On 12 July 2022, the parties entered into the third supplemental agreement to the Capital Increase and Acquisition Agreement (as supplemented by the Second Supplemental Agreement) (the “Third Supplemental Agreement”) to make amendments in relation to the payment of the balance of the consideration of the Capital Increase. Considering the Target Group has achieved positive financial rest with revenue of RMB150,000,000 for the 12-month period after the completion of the Group’s acquisition, and to provide incentives for the founding shareholders to diligently develop the Target Group’s businesses further, which would in turn help to secure and promote the Group’s commercial interest in the Target Group, the Group agreed to issue the First Consideration Shares equivalent to RMB11,000,000 to the founding shareholders in proportion to their shareholding in the Platform Co, and proceed with the capital increase to the Target Group equivalent to RMB39,000,000 by instalments according to actual circumstances. Before 30 June 2024, if the annual revenue of the Target Group reaches no less than RMB150,000,000 (among which the revenue generated from prescription circulation businesses shall be no less than RMB105,000,000) and the net profit of the Target Group reaches no less than RMB20,000,000 (‘Revised First Performance Target’), the Group will proceed with the capital increase to the Target Group equivalent to RMB11,000,000. Before 30 June 2025, if the annual revenue of the Target Group reaches no less than RMB600,000,000 (among which the revenue generated from prescription circulation businesses shall be no less than RMB420,000,000) and the net profit of the Target Group reaches no less than RMB40,000,000 (‘Revised Second Performance Target’), the Group will issue the Second Consideration Shares equivalent to RMB50,000,000 and the Third Consideration Shares equivalent to RMB43,000,000 to the founding shareholders in proportion to their shareholding in the Platform Co and will proceed with the capital increase to the Target Group equivalent to RMB10,000,000. For details, please refer to the Company’s announcements dated 7 April 2021, 21 April 2021, 17 May 2021, 20 December 2021, 12 July 2022 and 20 July 2022.

Business Review

“Echartnow” platform dedicates itself to the establishment of an integrated healthcare platform which covers different user terminals in the industry and offers them different “digitised enterprise operation solutions”:

- Pharmaceutical companies — digitised marketing solutions for the whole cycle of business development

- Retail pharmacies — professional digitised 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”

As of 31 December 2022, the “Echartnow” platform and its related marketing network have already covered 37,523 doctors, all of whom have registered with their real names, uploaded qualifications and passed the authentication. The number of patients reached 472,967, including in-hospital patients who visited offline physical hospitals and out-of-hospital patients who were online customers or pharmacy referrals.

The Group has adopted the “pharmaceutical companies driving the whole industry chain” strategy. As of 31 December 2022, the number of pharmaceutical companies that have signed contracts with the “Echartnow” platform has sharply increased to 160, with a number of large pharmaceutical companies in the PRC, including Qilu Pharmaceutical, Jiangsu Hengrui Pharmaceuticals, CSPC Pharmaceutical Group etc. The number of pharmacies that have signed contracts and gone online reached 3,402, and the number of drugs listed increased to 191,564.

During the year, the total revenue of “Echartnow” amounted to HK\$606,218,000 (2021: HK\$36,150,000), with major revenue streams including:

1. *Online Drug Prescription and Circulation Service*

Online Drug Prescription and Circulation Service are an important part of the entire ecosystem of the “Echartnow” platform. Services offered by the “Echartnow” platform cover platform service, online diagnosis, referral, consultation and triage, medication management services, health management services, and sales sharing with pharmacy suppliers, etc. Doctors can issue electronic prescriptions through the “Lead Medical” (Internet Hospital) mobile application, which will be verified and distributed by licensed pharmacists from the pharmacies listed on the app. After the contracted retail terminal pharmacies approve and dispense the medicines, patients can pick up the medicines in person or pay online and have the medicines delivered straight to their door.

2. *Digitised Marketing Service*

In line with the national healthcare policy, “Echartnow” advanced its core business of digitised marketing around the TOB strategy in 2022, consisting of three main modules: digitalised marketing systems services, digitalised marketing operations services and digitalised pharmaceutical post-launch research services. “Echartnow” continues to focus on its business in the digital transformation of healthcare companies’ full-life-cycle from R&D to marketing, from marketing to management. “Echartnow” constantly empowered its upstream and downstream

partners in the healthcare value chain to achieve complementarity of strengths, thereby promoting the digital transformation of pharmaceutical companies and providing new growth momentum for pharmaceutical companies' core business growth.

In recent years, the marketing of drugs by pharmaceutical companies has gradually extended from offline (such as academic conferences) to online. "Echartnow" helps pharmaceutical companies and major pharmaceutical distribution companies to efficiently implement digital operations online, and at the same time, nurtures groups of doctors with high potential, quality and level of skill to update and iterate on digital concepts. The online marketing activities provided through the "Echartnow" platform include the push of professional articles, live broadcasts of academic conferences online, the production and promotion of academic short videos and training on product knowledge, etc. The "Echartnow" platform enables pharmaceutical companies to begin online medical research on the clinical effect of drugs legitimately and legally. 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 possesses comprehensive legitimate credentials, including "Internet Medical Treatment License and Full-function Licenses for Medicines/Medical Consumables", "Certificate of Grade III Protection of National Information System Security", and "Value-added Telecommunication Business Operation Permit". It can offer a complete set of services to pharmaceutical companies. Through the online drug prescription and circulation service rendered by the "Echartnow" platform, pharmaceutical companies can broaden their distribution channels for prescription drugs outside the hospitals and open up their access to doctors and professional pharmacies. On the other hand, by offering the aforementioned services to pharmaceutical companies or major channels of drug sales, the "Echartnow" platform can earn fees with respect to technical services, marketing, development of systems etc., and establish and maintain good relationships with pharmaceutical companies. At the same time, it can further broaden its bases of doctors and pharmacies with the participation of pharmaceutical companies and their sales teams.

In the business of the digital transformation of pharmaceutical companies, the Group will continue to strive to provide digital operational solutions for pharmaceutical companies across the entire development cycle through its online and offline synergistic development. On the one hand, it assists pharmaceutical companies in achieving efficient online marketing conversion and operational growth. On the other hand, it can enhance the terminal accessibility of pharmaceutical products, the timely accessibility of patients and the quality of life of patients. To achieve these goals, the Group will continue to invest in developing and delivering more solutions and improving the functions of existing solutions.

Prospects

As the leading client-side digital operation solution provider in the healthcare industry, "Echartnow" aims to be the pacesetter of digitised operation in the healthcare industry. The overall business philosophy is to continuously link all segments of the entire industry chain of the medical ecology to build a new digital business network for pharmaceutical enterprises from

research and development to marketing and from marketing to management; at the same time, to provide more efficient working tools, learning platforms, medical research platforms, patient management platforms and graded diagnosis platforms for doctors' groups, thereby realising the aggregation of pharmaceutical enterprises and experts at the front end of the medical ecology and adding new impetus to the development of the industry; furthermore, to provide opportunities for the independent development of doctor-led C-terminal patient consultation and treatment, and to provide patients with more convenient consultation, medical treatment and drug purchase services.

In 2023, "Echartnow" will continue to develop the healthcare digitalisation industry, moving from the initial stage of enterprise digitalisation to the intermediate stage of enterprise digitalisation. From digitised operation solutions to digitised project management solutions, "Echartnow" will establish a digitised project operation management system and a private cloud database to realise the functional advantages of data visualisation, optimisation of operational decisions and optimisation of ROI in the management of pharmaceutical companies, and continue to provide digital operation solutions for pharmaceutical companies throughout the development cycle through online and offline integration.

Starting from the second half of 2022, "Echartnow" gradually began to lay the groundwork for its strategic plan in 2023, building a comprehensive product system to provide professional SaaS products to pharmaceutical companies on the basis of the existing medical services ecosystem. "Cistanche project management platform", a digitised management system product developed by "Echartnow", includes digitisation of business scenarios and efficient project management: linking planning and implementation, completing top-to-bottom planning, progress monitoring and bottom-to-top progress feedback, focusing on the ecology of medical enterprises and facilitating digital transformation. "Cistanche project management platform" will help pharmaceutical companies to transform through the supply, demand and ecological channels of digital transformation for compliance; increase the value of their original business by means of digitised compliance; and effectively help partner customers to reduce costs and increase efficiency, solve compliance pain points and accelerate digital transformation.

With the support of the national healthcare policies, the Group will continue to optimise the "Echartnow" whole-industry healthcare service ecosystem, including optimising the technology and service processes and creating more specialist services by connecting more top experts and offline terminal portals to cover a wider range of treatment areas and patients through platform services, online diagnosis, referral, consultation and triage, medication management services, health management services, and pharmacy vendor sales sharing etc. By integrating the healthcare services businesses and offline terminal healthcare resources with the "online-offline dual network" model, a closed-loop of internet healthcare services will be created.

(2) "Meerkat Health", a Smart Healthcare Services Platform

The "14th Five-Year Plan for the Development of the Digital Economy" emphasises the value of "internet healthcare" to the digital economy and prioritising its development. The Plan clearly states that the application of universal health information should be promoted, and the construction

of internet hospitals and “Internet + Chronic Disease” management should be facilitated. In the context of the COVID-19 epidemic and ageing, digitalised healthcare services, represented by the “Internet + Healthcare Services”, are playing an increasingly important role. As of January 2023, more than 20 provinces, including Guangdong, Hunan, Zhejiang and Ningxia, have set up internet hospital portals to connect with their medical insurance systems and provide more convenient healthcare services to urban and rural residents. In line with national policies and market demand, the Group has developed the smart healthcare services business segment through “Meerkat Health”.

Business Review

2022 was a year of both opportunities and challenges for “Meerkat Health”. Launched in the second half of 2021, the vision of “Meerkat Health” is to build a leading C2M innovative healthcare services platform in the PRC. For the consumers, the platform is focused on user needs to establish a one-stop online and offline healthcare services platform which saves them from “worrying about serious illnesses and going to the hospital for minor discomfort” and allows them “to be taken care of by the health experts”. For the industry, the platform utilises digital technologies as its drive to provide innovative upgrade solutions for medical institutions and companies of pharmaceutical, medical equipment and health products, effectively enhancing the efficiency of the entire supply chain, and driving upstream and downstream enterprises in the industry chain to transform towards informatisation, digitisation and intellectualisation.

“Meerkat Health” has seized the opportunity of the times and made significant breakthroughs in its key business. During the year, “Meerkat Health” achieved revenue of HK\$824,209,000 (2021: HK\$22,494,000). For healthcare consumption, the number of pharmacy customers covered grew from 45,000 in the second quarter to 77,000 by the end of 2022, being a growth rate of over 70%. For medical services, the vaccination business grew 229.31% in the second half of the year compared to the first half’s Gross Merchandise Value (GMV), with service coverage expanding from 43 cities in the second quarter to 78 cities in the fourth quarter.

1. Healthcare consumption

In the healthcare consumption business, “Meerkat Health” has built an industry-leading smart supply chain system, covering omnichannel drugs, medical equipment, dietary supplements, nourishing products and other health-related products, and providing offline self-run and franchised pharmacies with a digital intellectualised and one-stop omnichannel solution. During the year, the healthcare consumption business generated revenue of HK\$807,511,000 (2021: HK\$22,457,000).

As of 31 December 2022, “Meerkat Health” has entered into partnerships with nearly 1,400 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 77,000 customers cumulatively.

With the smart supply chain system, “Meerkat Health” plans to work with industry partners to develop a “new controlled sales” model for the third terminal of pharmaceuticals and build its own controlled sales channels for drugs and healthcare products, and has already reached cooperation intentions with several pharmaceutical companies. Under the “new controlled sales” model, “Meerkat Health” will build a new branding system and an internet-based distribution network to reduce costs and increase profits. The project is now steadily progressing and is expected to bring new business growth sources to the Group.

2. *Medical services*

The core business of “Meerkat Health” medical services is the online appointment services for vaccination. With family and preventive medicine as the core, “Meerkat Health” builds a science knowledge and consultation service platform for vaccination, provides diversified health screening, preventive vaccination and antibodies testing products, constructs an online and offline integrated online vaccination appointment service, and provides early screening and preventive healthcare services for its wide range of users.

The medical services business of “Meerkat Health” continued its rapid growth trend in the second half of 2022 and achieved a breakthrough in channel building. In the second half of 2022, “Meng Xiao Mei”, a self-operated platform built by “Meerkat Health”, accumulated over 500,000 users in the first six months of its launch. In terms of e-commerce channels, “Meerkat Health” has opened direct shops in JD, Tmall and other e-commerce channels, and has been able to achieve sales revenue immediately. Benefiting from the above channels, the GMV of the “Meerkat Health” online appointment services for vaccination in the second half of 2022 grew by more than two times compared to the first half. As of 31 December 2022, the relevant business has covered 78 cities in the PRC, including all of the first-tier cities of Beijing, Shanghai, Guangzhou and Shenzhen and some second-tier cities. Including the above-mentioned online appointment services for vaccination and other services such as health check appointment, etc., the medical services business of “Meerkat Health” achieved revenue of HK\$16,038,000 (2021: HK\$37,000).

“Meerkat Health” has developed a full set of C2M healthcare RPA service platform, which can help medical institutions to conduct bulk automated follow-up visits to patients who meet the precise criteria in a more intelligent and efficient manner, increasing the coverage of follow-up patients, reducing the labour cost of follow-up visits and improving the patient experience. According to the data of the pilot organisation, the satisfaction rate of customer service has increased from 40% to 80% after the application of the RPA system. At the same time, the system also supports the construction of intelligent hospital services and the collection of clinical research data, laying the foundation for the subsequent development of research work.

3. *Healthcare management*

The healthcare management business of “Meerkat Health” was transformed in the third quarter of 2022. The business pathway is to contract offline medical institutions to transform and upgrade their body check centres into digital intellectualised health management centres and provide aftercare health management services to users. The “Meerkat Health” digital intellectualised body check services cover 33 hospitals in 19 cities, including grade A tertiary hospitals like Tianjin First Central Hospital, Zhejiang Hospital, Zhejiang Cancer Hospital, Zhejiang Women’s Health Care Hospital etc., with steady progress in the business implementation.

“Meerkat Health” has strong product competitiveness in the field of digital intellectualised body check services. It has built the first digital all-in-one system in the PRC, MK Digital OS, which includes Tianshu (a smart management portal system), Tianxuan (a smart health management CRM system), Tianji (a smart guiding inspection system), and Tianhe (a body check OS system), providing one-stop services for health management centres of medical institutions. It also collaborates with health management centres on digitalisation to improve service efficiency, upgrade service capabilities and enhance user satisfaction.

Due to the impact of the COVID-19 epidemic, a large number of offline medical institutions suspended their body check services in the second half of the year, resulting in delay of our service provision. Therefore, only a small amount of revenue equivalent to HK\$660,000 (2021: nil) was realised during the year. With the adjustment of COVID-19 prevention and control measures from Class A to Class B, the healthcare management business of “Meerkat Health” is expected to gradually return to the right track in 2023.

Prospects

The COVID-19 epidemic, which has been ongoing for over three years, has had a global impact. As people become more aware of healthcare and seek more efficient and convenient solutions, internet hospitals have become the “new breed” of hospitals developing at an accelerated pace everywhere.

The “Digital Pharmaceutical Marketing Industry Report 2022” shows that since “Internet + Medicine” was incorporated into the policies, the rate at which hospitals around the country are setting up internet clinics and internet hospitals has grown rapidly. At the end of 2021, more than 1,700 internet hospitals nationwide received their official licenses to practice, and more than 94% of the approximately 13,000 level 2 and above medical institutions started their telemedicine business, and in some provinces, the telemedicine system is being used in the community and rural health centres, and in a few areas, in village health stations and even homes. More than 1,700 registered internet hospitals are using smartphone terminals to provide services such as follow-up care or chronic disease management directly to patients.

“Meerkat Health” is building a leading C2M innovative smart healthcare services platform in the PRC. Through technological innovation, it has acquired core digital capabilities to effectively improve the efficiency of the entire supply chain, and bring upstream and downstream enterprises along the supply chain to realise digital transformation and network-based, intelligent development, establishing a “new entity enterprise” committed to the effective combination of industrial internet and consumer internet.

In the future, “Meerkat Health” will rely on its own and its partners’ talent pools, medical resources and brand advantages to further enhance its industry competitiveness and expand its market scale, continuing forward-looking deployment in the three major businesses of healthcare consumption, medical services and healthcare management. In particular, the healthcare consumption business will work with a number of leading companies in the industry to promote a “new controlled sales” model for the third terminal of pharmaceuticals. Medical services are expected to continue to grow at a high rate in 2023, and will further develop the market of online appointment services for vaccination in first-tier cities such as Beijing, Shanghai, Guangzhou and Shenzhen, as well as further penetrate into second- and third-tier cities. The healthcare management business will enter into a strategic partnership with leading internet companies to jointly build a public hospital service system, and it is expected that the digital intellectualised body check services will enter an period of explosive growth.

In addition, “Meerkat Health” has obtained an internet hospital licence in the third quarter of 2022. The project of building an internet hospital with medical institutions such as Tianjin First Central Hospital is now progressing steadily and will gradually implement various capabilities in the future to provide more convenient and quality medical services to the general public.

(3) Entertainment and Media

During the year, the Group’s only film project, “Moonfall”, was released. The film was screened on 4 February 2022 in the US and most countries or regions across the globe. It has also been in theatres in the PRC since 25 March 2022. The film was directed by Roland Emmerich (the director of a number of disaster blockbusters such as “2012”, “The Day After Tomorrow” and “Independence Day” series, who is hailed as the “master of disaster movies”), with Halle Berry, winner of the Academy Award for Best Actress, and Patrick Wilson taking the leading roles. It tells the story where a mysterious force ejects the moon from orbit and propels it on a collision course toward Earth, and the gravitational imbalance sends Earth into chaos. Amidst desperation, a seemingly disorganised squad decides to fight the final battle in order to protect Earth and humankind.

According to Box Office Mojo, the film grossed the equivalent of nearly US\$67.3 million worldwide. The PRC’s box office revenue grossed approximately RMB158 million (according to the statistics by Maoyan), ranking 5th among imported films in the first half of 2022.

During the year, the revenue from the “Entertainment and Media” segment amounted to HK\$150,964,000 (2021: HK\$155,340,000), similar to that of the prior year, with a segment loss of HK\$122,882,000 (2021: HK\$34,317,000), mainly due to the cost amortisation and impairment provision arising from that the box office receipts and other incomes of the Group’s movie project distributed in 2022 could not recover the corresponding cost of investment.

The Group is focusing on the internet healthcare services business, and has confirmed that it will not invest in new films and television projects. The Group is also actively seeking to sell or realise the Group’s remaining film and television projects and investments, including its investment in HB Entertainment in South Korea.

(4) Healthcare and Wellness Services — “Bayhood No. 9 Club”

“Bayhood No. 9 Club”, a Healthcare and Wellness Service operated by 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.

During the year, the business of “Bayhood No. 9 Club” was affected by the epidemic in Beijing and had to temporarily suspend its operations. However, due to the strong market demand, operations of “Bayhood No. 9 Club” have quickly returned to normal upon service resumption. During the year, the revenue of “Bayhood No. 9 Club” remained stable at HK\$110,670,000 (2021: HK\$113,729,000), remaining at a similar level to the prior year.

ENVIRONMENTAL & SOCIAL RESPONSIBILITIES

a) Environmental responsibilities

Committed to building an “eco-friendly” enterprise, the Group strictly abides by applicable environmental laws and regulations in jurisdictions where its operations are located. The Group has implemented various environmental management actions, so as to ensure that exhaust gas, sewage and office waste are properly recycled and processed, with a view to minimising the environmental impact of our business operations. The Group embeds the concept of green environmental protection into its activities, actively promotes environmental awareness, advocates the conservation and recycling of energy and other resources, to improve the efficiency of the resource utilization, with the aim of minimising the natural resources wasted while reducing operating costs. We strictly abide by relevant laws and regulations on environmental protection where we do business and have formulated corresponding environmental management systems, actively deliver environmental protection messages, enhance environmental awareness among employees, customers as well as other stakeholders, thus fulfilling our shared commitment to protecting the natural environment.

b) Social responsibilities

The Group adheres to a “people-centric” talent strategy, attaches importance to the recruitment and cultivation of talents, and is committed to building core competitiveness with excellent staff teams. The Group complied with the laws and regulations relating to human resources management where its operations are located, and have established human resources management systems. Safety drills are conducted on a regular basis to enhance safety awareness among employees and their ability to cope with dangers; regular trainings are provided to employees and clear promotion channels are put in place to help them realise individual potential and achieve long-term career development; various employee activities are organised to enhance their physical and mental health. We also create a safe and comfortable office environment, attach importance to employees’ occupational health and safety, offer generous salary and holiday benefits, as well as safeguard the legitimate rights and interests of our employees, thus achieving growth along with employee development.

Striving to ensure product and service quality from the source, the Group has put in place strict standards for supplier selection to ensure that the business qualifications, management capabilities, service and product quality, as well as quotations of suppliers are in line with its requirements on products and services. Through on-site investigation, the Group conducts a comprehensive assessment to ensure the stability in its supplier performance, which covers aspects like production and supply capabilities, as well as credentials, etc. To ensure a sustainable supply chain, the Group also regularly evaluates the compliance of suppliers, as well as the fulfilment of their environmental and social responsibilities, and timely terminates cooperation with suppliers that underperform in service standards and secures additional suppliers of excellent performance.

The Group is committed to providing customers with a satisfactory experience through the delivery of premium health and wellness services. The Group attaches great importance to requests and suggestions made by its customers, we have therefore set up a number of channels, including group chats on WeChat and customer hotlines, so as to collect and follow up on customer feedback in a timely manner, with a view to ensuring that their requests are properly addressed. The Group conducts thorough investigation and analysis at the early stage of its media investment, and it has also established a Greenlight Committee responsible for reviewing investment projects. By considering audience preference, industry policies and other objective factors, the Group evaluates films’ profitability and compliance to the laws and regulations to determine whether to invest, and strives to present high-quality and positive film and television works to the public.

The Group safeguards the legitimate rights and interests of the shareholders, customers as well as other stakeholders. In addition to strictly complying with laws and regulations against corruption, bribery, fraud and money laundering in jurisdictions where its operations are located, the Group also strengthens management on corporate internal control to prevent corruptions.

Having acknowledged its corporate social responsibilities, the Group continues to care for vulnerable groups. In forms such as donations and provision of employment opportunities, the Group fully leverages on its strengths in resource reserve to support the development of local communities and give back to the society.

As a responsible corporate citizen, the Group keeps close communication with all of its stakeholders, so as to maintain collaborative relations based on mutual benefit and trust, to stay updated on demands and expectations of relevant stakeholders, and to keep improving its mechanism for stakeholder engagement, aiming to deliver synergistic growths in social and economic benefits. As a company listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Group strictly complies with the disclosure requirements of the Stock Exchange. As one of the platforms that we use to communicate with the stakeholders, the ESG report attached to the 2022 Annual Report of the Company will deliver a comprehensive view on what the Group has accomplished in the establishment of ESG systems, as well as its performance during 2022.

FINANCIAL REVIEW

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

1. Online prescription, circulation and marketing of pharmaceutical products (“Echartnow”)
2. Smart healthcare services platform (“Meerkat Health”)
3. Entertainment and Media
4. Healthcare and Wellness Services

The key financial figures of the Group for the year ended 31 December 2022 are summarized as follows:

	2022 HK\$'000	2021 HK\$'000	Change %
Total revenue:			
– Online prescription, circulation and marketing of pharmaceutical products	606,218	36,150	+16 times
– Smart healthcare services platform	824,209	22,494	+36 times
– Entertainment and media	150,964	155,340	–3%
– Healthcare and wellness services	110,670	113,729	–3%
	<u>1,692,061</u>	<u>327,713</u>	+4.2 times
Gross profit/(loss):			
– Online prescription, circulation and marketing of pharmaceutical products	335,657	14,637	+22 times
– Smart healthcare services platform	16,282	(343)	N/A
– Entertainment and media	1,107	(19,725)	N/A
– Healthcare and wellness services	43,603	47,332	–8%
	<u>396,649</u>	<u>41,901</u>	+8.5 times
Segment result:			
– Online prescription, circulation and marketing of pharmaceutical products	(57,809)	(57,261)	+1%
– Smart healthcare services platform	(86,337)	(13,881)	+522%
– Entertainment and media	(122,882)	(34,317)	+258%
– Healthcare and wellness services	1,374	(1,019)	N/A
	<u>(265,654)</u>	<u>(106,478)</u>	+149%
Loss for the year	<u>(316,598)</u>	<u>(141,427)</u>	+124%
Loss for the year attributable to equity owners of the Company	<u>(269,980)</u>	<u>(110,402)</u>	+145%
Non-HKFRS Adjustments:			
Adjusted loss for the year	<u>(295,619)</u>	<u>(114,335)</u>	+159%

— Revenue

Revenue for the year ended 31 December 2022 amounted to approximately HK\$1,692,061,000 (2021: HK\$327,713,000), being a substantial 4.2 times increase comparing to the prior year. The significant boost in revenue during the year was mainly due to the following factors:

- 1) Revenue from the “Echartnow” platform for the year boosted significantly by 16 times to approximately HK\$606,218,000 (2021: HK\$36,150,000). The digitized marketing services offered to pharmaceutical companies by “Echartnow” is a proven success business model during the year. The number of pharmaceutical companies that have signed contracts with the “Echartnow” platform has sharply increased to 160, with a number of large pharmaceutical companies in the PRC including Qilu Pharmaceutical, Jiangsu Hengrui Pharmaceuticals, CSPC Pharmaceutical Group etc; and
- 2) Revenue from “Meerkat Health” for the year boosted significantly by 36 times to approximately HK\$824,209,000 (2021: HK\$22,494,000). The strong rise in revenue was mainly driven by i) full year revenue was recorded in 2022 while in 2021 “Meerkat Health” only generated revenue since December 2021; ii) revenue from healthcare consumption increased to approximately HK\$ 807,511,000 (2021: HK\$22,457,000). “Meerkat Health” has entered into partnerships with nearly 1,400 brands, including listed companies like Sinopharm Group, Guilin Sanjin and Mayinglong Pharmaceutical, covering nearly 10,000 product categories including OTC, prescribed drugs, medical equipment, dietary supplement etc., and serving 77,000 customers cumulatively; iii) revenue from medical services, currently the core business of which is the online appointment services for vaccination, increased to approximately HK\$16,038,000 (2021: HK\$37,000).

— Cost of Sales and Gross Profit

Cost of sales for the year ended 31 December 2022 amounted to approximately HK\$1,295,412,000 (2021: HK\$285,812,000), being a 3.5 times increase comparing to the prior year. Gross profit for the year ended 31 December 2022 amounted to approximately HK\$396,649,000 (2021: HK\$41,901,000), being a 8.5 times increase comparing to the prior year, with gross profit margin increased to 23% (2021: 13%). With the much sizeable scale of operations of “Echartnow” and “Meerkat Health and the increase in proportion of high-margin business lines such as medical services, the year-to-year percentage increase in cost of sales is less than that of revenue, leading to improvement in overall gross profit margin.

— Other Income and Other (Losses)/Gains, net

Other income and other (losses)/gains, net, for the year ended 31 December 2022 amounted to a net loss of approximately HK\$8,553,000 (2021: a net gain of HK\$15,388,000). The change from a net gain to a net loss was because 1) a share of subsidies for movie production of approximately HK\$10,645,000 was recognized in the prior year following the movie release during that year; and

2) instead of an exchange gain (mainly arising from the appreciation of RMB against HK dollars) of approximately HK\$2,003,000, there is an exchange loss (mainly arising from the depreciation of RMB against HK dollars) of approximately HK\$8,639,000 during year ended 31 December 2022.

— Marketing and Selling Expenses

Marketing and selling expenses for the year ended 31 December 2022 amounted to approximately HK\$499,453,000 (2021: HK\$50,670,000), being a 8.9-time increase comparing to the prior year. The significant increase in marketing and selling expenses was mainly attributed to:

- (i) staff costs and marketing expenses incurred for the promotion of “Echartnow” platform for online prescription, circulation and marketing of pharmaceutical products, and the relevant expenses incurred for enhancing the registration of doctors and pharmacies in the “Echartnow” platform increased significantly to approximately HK\$334,317,000 (2021: HK\$15,626,000). Through such heavy investment in marketing and selling expenses, “Echartnow” platform and its related marketing network have already covered approximately 37,000 doctors, all of which have registered with their real names, uploaded qualifications and passed the authentication. The number of pharmacies that have signed contracts and gone online reached approximately 3,400 and the number of drugs listed increased to approximately 190,000 as at 31 December 2022; and
- (ii) the Group’s share of marketing expenses, promotion & advertising expenses, and distribution fees for movies released during the year increased to approximately HK\$107,816,000 (2021: HK\$17,038,000). The selling and marketing expenses incurred during the year is mainly for the theatrical release of Hollywood tentpole movie “Moonfall”, while in prior year a few movie projects were released through streaming platforms, which in turn would be responsible for the incurrence of marketing campaign expenditures.

— Research and Development Expenses

Research and development expenses for the year ended 31 December 2022 amounted to approximately HK\$35,751,000 (2021: HK\$3,146,000). 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 for the year was due to the continued expansion of “Echartnow” and “Meerkat Health” during the year.

— Administrative Expenses

Administrative expenses for the year ended 31 December 2022 amounted to approximately HK\$152,301,000 (2021: HK\$136,230,000), being a 12% increase comparing to the prior year. The increase in administrative expenses during the year was mainly due to the continued expansion of “Echartnow” and “Meerkat Health” during the year.

— 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 loss of approximately HK\$4,817,000 (2021: a loss of approximately HK\$4,933,000). There was no new TV drama being produced by HB Entertainment in 2022 and 2021 due to the impact of unstable COVID-19 outbreak in South Korea, leading to a decline in its financial performance during these years. HB Entertainment currently has two TV drama projects in post-production stage and are expected to be released in 2023.

— Finance Costs, net

Finance costs, net for the year ended 31 December 2022 amounted to approximately HK\$1,768,000 (2021: HK\$2,280,000). The net finance costs during the year mainly comprised interest on lease liabilities in relation to the Group's right-of-use assets and interest expense for bank and other borrowings. The decrease in net finance costs during the year was mainly attributable to the decrease in interest on lease liabilities along the execution of the existing lease arrangements.

— Non-Hong Kong Financial Reporting Standard indicator in relation to loss for the year

The Group's loss for the year ended 31 December 2022 amounted to HK\$316,598,000 compared that of HK\$141,427,000 for the preceding financial year. The Group's adjusted loss for the year ended 31 December 2022 amounted to HK\$295,619,000, representing an increase of HK\$181,284,000 or 159% as compared with that of HK\$114,335,000 for the preceding financial year. Adjusted loss is based on the loss for the corresponding year after excluding non-operating profit or loss items such as share-based compensation expenses and change in fair value of financial assets/interest in an associate at fair value through profit or loss. The increase in adjusted loss was mainly attributable to:

- 1) The segment loss of Media and Entertainment segment for the year amounted to approximately HK\$122,882,000, being a significant increase comparing to the segment loss of approximately HK\$34,317,000 for the prior year. This is mainly due to the cost amortization and impairment provision arising from that the box office receipts and other incomes of the Group's movie project distributed in 2022 could not recover the corresponding cost of investment. The Group is focusing on the internet healthcare services business, and has confirmed that it will not invest in new films and television drama projects; and
- 2) The segment loss of Meerkat Health segment for the year amounted to approximately HK\$86,337,000 (2021: HK\$13,881,000). As the Meerkat Health operation only commenced in the fourth quarter of 2021, resources need to be invested in research and development, system build-up, infrastructure, obtaining of qualifications and credentials, etc. during the start-up phase in 2022, leading to a much significant loss amount.

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 years ended 31 December 2022 and 2021 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 year):

	2022	2021
	HK\$’000	HK\$’000
Loss for the year	(316,598)	(141,427)
Add:		
– Shared-based compensation expenses	17,541	29,013
– Fair value loss/(gain) on financial assets at fair value through profit or loss, net of tax	4,567	(1,921)
– Fair value gain on interest in an associate measured at fair value through profit or loss	(1,129)	–
Adjusted loss for the year	<u>(295,619)</u>	<u>(114,335)</u>

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Treasury Management

We have adopted 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 31 December 2022, the Group held cash and cash equivalents of approximately HK\$38,300,000 (2021: HK\$148,552,000), being a 74% decrease comparing to the balance as at 31 December 2021. Additional financial resources have been invested in the Group's core internet healthcare business, leading to a drop in cash and cash equivalent balances during the year.

The Group is at net current asset position of HK\$16,637,000 as at 31 December 2022 (2021: HK\$185,553,000). The current ratio, representing the total current assets to the total current liabilities, decreased from 1.77 as at 31 December 2021 to 1.07 as at 31 December 2022, 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 5.45% as at 31 December 2022 (31 December 2021: Nil). The Group's total bank and other borrowings as at 31 December 2022 amounted to approximately HK\$32,740,000 (31 December 2021: Nil) and was denominated in Chinese Renminbi.

Foreign Currency Exchange Exposure

The Group has operations and investments in the PRC, Korea, the USA 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 current year, revaluation of Chinese Renminbi and Korean Won against Hong Kong dollars resulted in net exchange loss of approximately HK\$8,639,000 (2021: exchange gain of HK\$2,003,000). 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 year ended 31 December 2022, the Company has issued 62,500,000 (2021: Nil) and 24,732,000 (2021: Nil) new ordinary shares of HK\$0.02 each for vesting of share awards and settlement of consideration shares for acquisition of subsidiaries, respectively.

Total bank and other borrowings as at 31 December 2022 amounted to approximately HK\$32,740,000 (2021: Nil). All of these bank and other borrowings were current. Except for the bank borrowing which was secured by corporate guarantee provided by a state-owned entity and personal guarantee of a senior management in favour of the Group, the other borrowings were unsecured.

CHARGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2022 and 2021, none of the Group's assets was charged, and the Group did not have any material contingent liabilities or guarantees.

HUMAN RESOURCES

As at 31 December 2022, the Group employed a total of 306 (2021: 260) full-time employees in Hong Kong and the PRC, and continued to manage "Bayhood No. 9 Club" operations with 263 (2021: 279) full-time employees in the PRC. The significant increase in the Group's number of full-time employees was mainly attributed to the newly acquired/developed internet healthcare related businesses. 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 options, share awards and bonuses are also available at the discretion of the Group depending on the performance of the Group.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

There was no significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2022. For details of the third supplemental agreement to the Capital Increase and Acquisition Agreement regarding Pingtan Xinban Clinic Company Limited entered into during the year, please refer to note 28 to the consolidated financial statements.

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

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

COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high standards of corporate governance and adherence to the governance principles and practices. The Board or its delegated Board Committees has regularly reviewed and monitored its implementation and effectiveness. Throughout the year ended 31 December 2022, 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 on the Stock Exchange with the exception of the following deviation:

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 for the post of the Chairman has been appointed. The functions of the Chairman have been temporarily taken up by the chief executive officer of the Company (the “CEO”).

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.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three Independent Non-executive Directors who possess the appropriate business and financial experience and skills to understand financial statements. Mr. YUEN Kin is the chairman of Audit Committee and the other two members of the committee are Dr. WONG Yau Kar David and Mr. CHU Yuguo. The Audit Committee of the Company has adopted terms of references which are in line with the CG Code.

The Audit Committee of the Company has reviewed the Group’s annual results for the year ended 31 December 2022 and provided advice and comments thereon before presenting it to the Board for approval. The figures in respect of this results announcement of the Group’s results for the year ended 31 December 2022 have been agreed by the Company’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s draft consolidated financial statements of the year. The work performed by PricewaterhouseCoopers in this results announcement did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this results announcement.

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”) 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 year 2022.

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 such office or employment, is likely to possess inside information in relation to the Company or its securities.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company (www.huayitencent.com) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The annual report of the Company for 2022 containing all the information required by the Listing Rules will be despatched to shareholders and made available on the above websites in due course.

APPRECIATION

The Board would like to take this opportunity to express gratitude to our employees for their diligence and dedication to the Group. We also thank our shareholders, customers, banks and business partners for their continuous support.

By Order of the Board
Huayi Tencent Entertainment Company Limited
YUEN Hoi Po
Executive Director and Chief Executive Officer

Hong Kong, 29 March 2023

As at the date of this announcement, the Board comprises:

Executive directors: Mr. CHENG Wu (Vice Chairman), Mr. YUEN Hoi Po (Chief Executive Officer)
Independent non-executive directors: Dr. WONG Yau Kar David, GBS, JP, Mr. YUEN Kin, Mr. CHU Yuguo