



Kaisa Health Group Holdings Limited

佳兆業健康集團控股有限公司

(Incorporated in Bermuda with limited liability 於百慕達註冊成立之有限公司)

(Stock Code 股份代號: 876)

2023

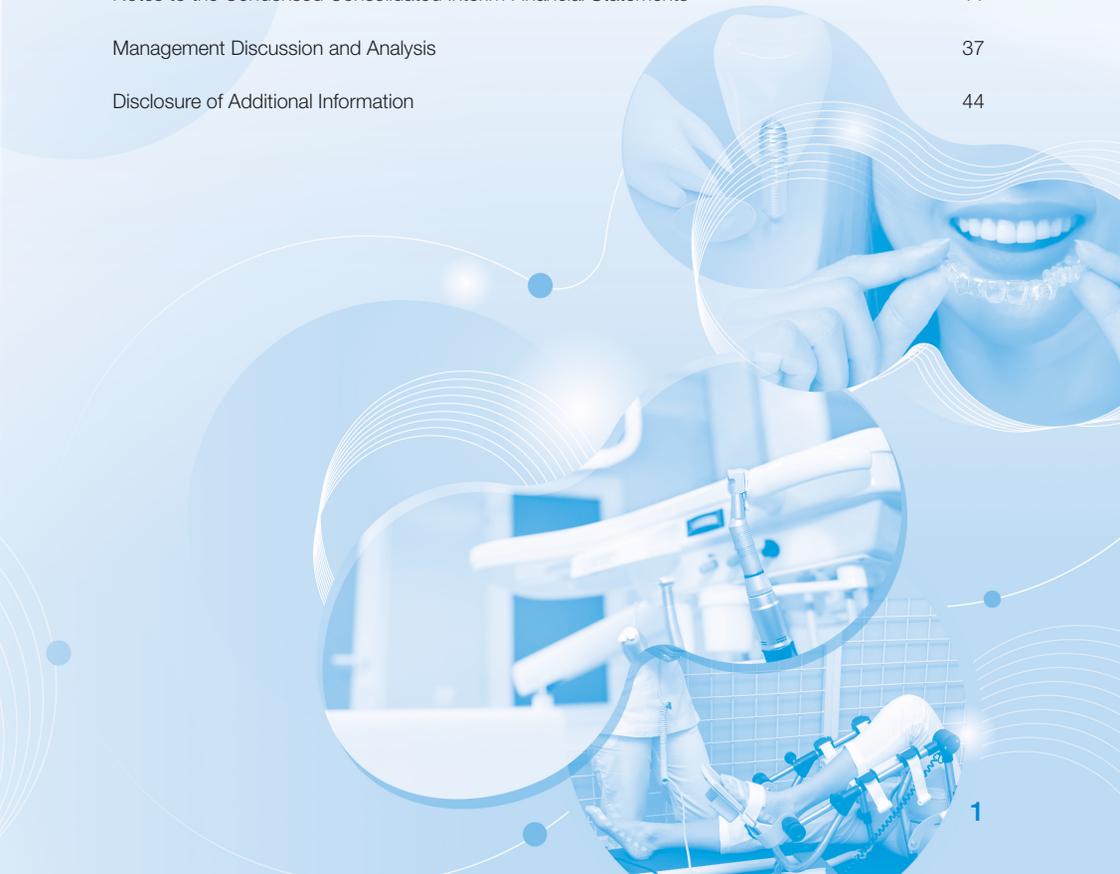
Interim Report

中期報告



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Kwok Ying Shing (*Chairman*)
Mr. Luo Jun (*Co-Vice Chairman and Chief Executive Officer*)
Mr. Wu Tianyu (*Co-Vice Chairman*)
Mr. Zhang Huagang

Independent Non-executive Directors

Dr. Liu Yanwen
Dr. Lyu Aiping
Ms. Li Zhiying

AUDIT COMMITTEE

Dr. Liu Yanwen (*Chairman*)
Dr. Lyu Aiping
Ms. Li Zhiying

REMUNERATION COMMITTEE

Dr. Lyu Aiping (*Chairman*)
Mr. Wu Tianyu
Dr. Liu Yanwen

NOMINATION COMMITTEE

Mr. Kwok Ying Shing (*Chairman*)
Dr. Lyu Aiping
Dr. Liu Yanwen

COMPANY SECRETARY

Mr. Yu Kwok Leung

AUTHORISED REPRESENTATIVES

Mr. Luo Jun
Mr. Yu Kwok Leung

INDEPENDENT AUDITOR

Elite Partners CPA Limited
Certified Public Accountants

LEGAL ADVISERS

Hong Kong

Sidley Austin

Bermuda

Conyers Dill & Pearman

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Nanyang Commercial Bank, Limited

REGISTERED OFFICE

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Hamilton HM 11
Bermuda

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Central, Hong Kong

SHARE REGISTRARS

Bermuda Principal

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Hong Kong Branch

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
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STOCK CODE

876

COMPANY WEBSITE

www.kaisahealth.com

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS



To the Board of Directors of Kaisa Health Group Holdings Limited

佳兆業健康集團控股有限公司

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated interim financial statements of Kaisa Health Group Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 5 to 36, which comprise the condensed consolidated statement of financial position as at 30 June 2023, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on the interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with HKAS 34.

Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of these condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Elite Partners CPA Limited

Certified Public Accountants

Hong Kong, 28 August 2023

Yip Kai Yin

Practising Certificate Number: P07854

10/F, 8 Observatory Road,
Tsim Sha Tsui, Kwoloon,
Hong Kong

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

		Six months ended 30 June	
		2023	2022
	Notes	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	3	92,590	93,979
Cost of sales		(54,030)	(54,046)
Gross profit		38,560	39,933
Other income, gains and losses		21,475	6,538
Selling and distribution costs		(23,818)	(20,062)
Administrative expenses		(25,350)	(47,567)
Loss from change in fair value of financial assets at fair value through profit or loss		(28,306)	(13,891)
Gain/(loss) from change in fair value of financial liabilities at fair value through profit or loss	16	875	(21,749)
Gain on disposal of subsidiaries		67,861	—
Reversal of impairment loss/(impairment loss) on trade receivables, net		204	(1,666)
Impairment loss on a loan receivable		—	(2,905)
Reversal of impairment loss on amount due from a director		81	373
Impairment loss on right-of-use assets		—	(3,930)
Impairment loss on property, plant and equipment		—	(18,326)
Impairment loss on property under development		—	(23,096)
Other expenses		(8,522)	(10,000)
Finance costs		(3,022)	(4,084)
Profit/(Loss) before income tax	4	40,038	(120,432)
Income tax expense	5	(1,262)	(199)
Profit/(Loss) for the period		38,776	(120,631)
Other comprehensive expense			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(18,907)	(21,826)
Reclassification of exchange differences upon disposal of subsidiaries		(4,811)	—
Other comprehensive expense for the period		(23,718)	(21,826)
Total comprehensive income/(expense) for the period		15,058	(142,457)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

		Six months ended 30 June	
		2023	2022
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Profit/(Loss) for the period attributable to:			
— Owners of the Company		40,001	(97,017)
— Non-controlling interest		(1,225)	(23,614)
		<u>38,776</u>	<u>(120,631)</u>
Total comprehensive income/(expense) for the period attributable to:			
— Owners of the Company		14,689	(120,127)
— Non-controlling interests		369	(22,330)
		<u>15,058</u>	<u>(142,457)</u>
Earnings/(Loss) per share			
		HK cents	HK cents
Basic and diluted	7	<u>0.79</u>	<u>(1.92)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
	Notes		
Non-current assets			
Property, plant and equipment	8	18,330	19,464
Right-of-use assets	8	17,272	20,362
Land use rights	9	—	3,745
Intangible assets		4,083	4,579
Goodwill		20,217	20,217
Prepayments and deposits	12	21,568	22,562
Financial assets at fair value through profit or loss ("Financial assets at FVTPL")	10	198,468	200,280
Deferred tax assets		243	264
		280,181	291,473
Current assets			
Properties under development	11	—	124,571
Inventories		16,532	18,790
Trade and other receivables	12	131,221	126,919
Loan receivable		22,355	21,968
Amount due from a director	13	9,761	9,787
Amounts due from fellow subsidiaries	14	865	640
Bank balances and cash		148,340	173,450
		329,074	476,125
Current liabilities			
Trade and other payables	15	65,742	123,995
Other financial liabilities	16	—	100,753
Lease liabilities		6,077	7,013
Amount due to a related party	17	691	723
Amounts due to fellow subsidiaries	14	2,655	2,034
Amount due to a holding company	14	72	—
Amount due to a non-controlling shareholder of a subsidiary	14	—	15,318
Taxation payable		19,287	21,172
		94,524	271,008
Net current assets		234,550	205,117
Total assets less current liabilities		514,731	496,590

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Non-current liabilities		
Lease liabilities	13,302	24,859
Deferred tax liabilities	776	825
	14,078	25,684
Net assets	500,653	470,906
Equity		
Share capital	6,303	6,303
Reserves	494,500	479,026
Equity attributable to owners of the Company	500,803	485,329
Non-controlling interests	(150)	(14,423)
Total equity	500,653	470,906

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Attributable to owners of the Company							Non-controlling interests	Total
	Share capital	Share premium	Special reserve	Translation reserve	Share option reserve	Accumulated losses	Sub-total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2022 (Audited)	6,303	984,639	1,545	20,649	25,414	(387,433)	651,117	31,727	682,844
Loss for the period	–	–	–	–	–	(97,017)	(97,017)	(23,614)	(120,631)
Exchange differences arising on translation of foreign operations	–	–	–	(23,110)	–	–	(23,110)	1,284	(21,826)
Total comprehensive expense for the period	–	–	–	(23,110)	–	(97,017)	(120,127)	(22,330)	(142,457)
Recognition of equity-settled share-based payment (note 18)	–	–	–	–	1,646	–	1,646	–	1,646
As at 30 June 2022 (Unaudited)	<u>6,303</u>	<u>984,639</u>	<u>1,545</u>	<u>(2,461)</u>	<u>27,060</u>	<u>(484,450)</u>	<u>532,636</u>	<u>9,397</u>	<u>542,033</u>
As at 1 January 2023 (Audited)	6,303	984,639	1,545	(24,364)	10,754	(493,548)	485,329	(14,423)	470,906
Profit for the period	–	–	–	–	–	40,001	40,001	(1,225)	38,776
Exchange differences arising on translation of foreign operations	–	–	–	(20,501)	–	–	(20,501)	1,594	(18,907)
Reclassification of exchange differences upon disposal of subsidiaries	–	–	–	(4,811)	–	–	(4,811)	–	(4,811)
Total comprehensive income for the period	–	–	–	(25,312)	–	40,001	14,689	369	15,058
Recognition of equity-settled share-based payment (note 18)	–	–	–	–	785	–	785	–	785
Capital injection for the subsidiaries	–	–	–	–	–	–	–	722	722
Disposal of subsidiaries	–	–	–	–	–	–	–	13,182	13,182
As at 30 June 2023 (Unaudited)	<u>6,303</u>	<u>984,639</u>	<u>1,545</u>	<u>(49,676)</u>	<u>11,539</u>	<u>(453,547)</u>	<u>500,803</u>	<u>(150)</u>	<u>500,653</u>

The special reserve arose pursuant to a group reorganisation in 1997 being the difference between the nominal amount of the share capital issued by the Company in exchange for the shares of the subsidiaries and the nominal amount of the share capital of the subsidiaries acquired, capital reduction and bonus issue by way of capitalisation of the reserve in 2005 and 2006.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash used in operating activities	(1,373)	(51,669)
Investing activities		
Income from short-term investments	—	959
Purchases of property, plant and equipment	(9,912)	(2,794)
Capital injection of non-controlling interest	722	—
Interest received	630	577
Dividend received	80	859
Repayment (to)/from a director	(88)	2,733
Advances from fellow subsidiaries	542	42
Advance (to)/from a non-controlling shareholder of a subsidiary	(419)	3,938
Net cash outflow from disposal of subsidiaries	(673)	—
Net cash (used in)/generated from investing activities	(9,118)	6,314
Financing activities		
Payment of lease liabilities	(4,882)	(6,322)
Net cash used in financing activities	(4,882)	(6,322)
Net decrease in cash and cash equivalents	(15,373)	(51,677)
Cash and cash equivalents at 1 January	173,450	259,264
Effect of foreign exchange rate changes	(9,737)	(5,140)
Cash and cash equivalents at 30 June, representing bank balances and cash	148,340	202,447

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

1.1 Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 June 2023 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2022.

1.2 Principal accounting policies

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as appropriate.

Except for the application of amended Hong Kong Financial Reporting Standards (“HKFRSs”) as described in note 2 and the adoption of new accounting policies noted below, the accounting policies and methods of computation used in the condensed consolidated interim financial statements for the six months ended 30 June 2023 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2022.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

2. APPLICATION OF AMENDMENTS TO HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's condensed interim consolidated financial statements:

HKFRS 17	Insurance Contracts
Amendment to HKFRS 17	Insurance Contracts
Amendment to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendment to HKAS 8	Definition of Accounting Estimates
Amendment to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a single Transaction

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated interim financial statements.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received and receivable for goods sold and services provided by the Group to outside customers, less discounts and sales tax.

For the six months ended 30 June 2023, the Group's operating activities are attributable to three (30 June 2022: three) operating segments focusing on the operation of manufacturing of and trading in the dental business, the health care – rehabilitation business and the health care – health leisure business..

** For identification purpose only*

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS*For the six months ended 30 June 2023***3. REVENUE AND SEGMENT INFORMATION (CONTINUED)****3.1 Segment revenue and results****For the six months ended 30 June 2023 (Unaudited)**

	Dental business HK\$'000	Health care – rehabilitation business HK\$'000	Health care – health leisure business HK\$'000	Total HK\$'000
REVENUE				
Revenue from external customers	88,765	2,184	1,641	92,590
RESULTS				
Segment profit/(loss) before depreciation and amortisation	13,143	5,289	(2,077)	16,355
Depreciation				
– Property, plant and equipment	(4,626)	(1,127)	(1,331)	(7,084)
– Right-of-use assets	(1,537)	(1,663)	(136)	(3,336)
Amortisation of land use rights	–	–	(42)	(42)
Amortisation of intangible assets	(177)	(243)	(18)	(438)
Segment operating profit/(loss)	6,803	2,256	(3,604)	5,455
Reversal of impairment loss on amount due from a director	81	–	–	81
Reversal of impairment loss on trade receivables	204	–	–	204
Loss from change in fair value of financial assets at FVTPL	–	(28,306)	–	(28,306)
Gain from change in fair value of financial liabilities at fair value through profit or loss	–	–	875	875
Segment profit/(loss) before income tax	7,088	(26,050)	(2,729)	(21,691)
Gain on disposal of subsidiaries				67,861
Unallocated income				6
Unallocated expenses				(6,138)
Profit before income tax				40,038

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

3. REVENUE AND SEGMENT INFORMATION (CONTINUED)

3.1 Segment revenue and results (Continued)

For the six months ended 30 June 2022 (Unaudited)

	Dental business HK\$'000	Health care – rehabilitation business HK\$'000	Health care – health leisure business HK\$'000	Total HK\$'000
REVENUE				
Revenue from external customers	87,658	4,922	1,399	93,979
RESULTS				
Segment profit/(loss) before depreciation and amortisation	6,354	(10,211)	(8,131)	(11,988)
Depreciation				
– Property, plant and equipment	(6,593)	(1,845)	(708)	(9,146)
– Right-of-use assets	(1,677)	(2,360)	(339)	(4,376)
Amortisation of land use rights	–	–	(54)	(54)
Amortisation of intangible assets	(469)	–	–	(469)
Segment operating profit/(loss)	(2,385)	(14,416)	(9,232)	(26,033)
Impairment loss on trade receivables	(1,666)	–	–	(1,666)
Reversal of impairment loss on amount due from a director	373	–	–	373
Impairment loss on property, plant and equipment	–	–	(18,326)	(18,326)
Impairment loss on right-of-use asset	–	–	(3,930)	(3,930)
Impairment loss on properties under development	–	–	(23,096)	(23,096)
Loss from change in fair value of financial assets at FVTPL	–	(13,891)	–	(13,891)
Loss from change in fair value of financial liabilities at fair value through profit or loss	–	–	(21,749)	(21,749)
Segment operating loss	(3,678)	(28,307)	(76,333)	(108,318)
Impairment loss on a loan receivable, net				(2,905)
Unallocated income				48
Unallocated expenses				(9,257)
Loss before income tax				(120,432)

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit/loss represents the profit/loss earned/incurred by each segment without allocation of central administration costs, other income, gains and losses, impairment loss on loan receivable and gain on disposal of subsidiaries. This is the information reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS*For the six months ended 30 June 2023***3. REVENUE AND SEGMENT INFORMATION (CONTINUED)****3.2 Segment assets and liabilities****As at 30 June 2023 (Unaudited)**

	Dental business HK\$'000	Health care – rehabilitation business HK\$'000	Health care – health leisure business HK\$'000	Total HK\$'000
Reportable segment assets	301,233	262,396	22,574	586,203
Loan receivable				22,355
Deferred tax assets				243
Unallocated assets				454
Total assets				<u>609,255</u>
Reportable segment liabilities	(58,962)	(28,679)	(85)	(87,726)
Taxation payable				(19,287)
Deferred tax liabilities				(776)
Unallocated liabilities				(813)
Total liabilities				<u>(108,602)</u>

As at 31 December 2022 (Audited)

	Dental business HK\$'000	Health care – rehabilitation business HK\$'000	Health care – health leisure business HK\$'000	Total HK\$'000
Reportable segment assets	322,074	256,747	159,237	738,058
Loan receivable				21,968
Deferred tax assets				264
Unallocated assets				7,308
Total assets				<u>767,598</u>
Reportable segment liabilities	(70,036)	(23,222)	(179,253)	(272,511)
Taxation payable				(21,172)
Deferred tax liabilities				(825)
Unallocated liabilities				(2,184)
Total liabilities				<u>(296,692)</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

3. REVENUE AND SEGMENT INFORMATION (CONTINUED)

3.3 Geographical information

The Group's operations are mainly situated in Hong Kong and the People's Republic of China (the "PRC") (excluding Hong Kong). The following table provides an analysis of the Group's revenue by the location of business operation and the Group's non-current assets by geographical location of assets.

	Revenue from external customers		Non-current assets	
	Six months ended 30 June 2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
PRC (excluding Hong Kong)	92,256	93,269	58,326	67,682
Others	334	710	23,144	23,247
	92,590	93,979	81,470	90,929

Note: Non-current assets include goodwill, property, plant and equipment, right-of-use assets, land use rights, intangible assets, prepayments and deposits.

3.4 Information about major customers

No individual customer contributing over 10% of the Group's total revenue during the corresponding periods.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS*For the six months ended 30 June 2023***4. PROFIT/(LOSS) BEFORE INCOME TAX**

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit/(Loss) before income tax has been arrived at after charging/(crediting):		
Amortisation of intangible assets	438	469
Amortisation of land use rights	42	54
Depreciation:		
— Property, plant and equipment	7,084	9,146
— Right-of-use assets	3,336	4,376
Lease charges:		
— Short-term leases	359	611
Research and development expenses (included in other expenses)	8,522	10,000
Finance charges on lease liabilities	843	786
Interest income (included in other income, gains and losses):		
— Bank deposits	(630)	(195)
— Loan receivable	(365)	(382)
Dividend income (included in other income, gains and losses)	(80)	(859)
Realised gain on financial asset at FVTPL (included in other income, gains and losses)	(17,131)	—
Net foreign exchange gain (included in other income, gains and losses)	(728)	(1,264)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax:		
Hong Kong Profits Tax	—	—
PRC Enterprise Income Tax	1,290	105
	1,290	105
Deferred tax (credit)/expense	(28)	94
	1,262	199

No Hong Kong Profits Tax has been provided as the Group did not have any assessable profits during the six months ended 30 June 2023 and 2022.

The provision for PRC Enterprise Income Tax ("EIT") is based on the estimated taxable income for PRC taxation purpose at the rate of taxation applicable for both periods.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. A subsidiary of the Group was accredited as a "High and New Technology Enterprise" in the PRC with effect from 9 November 2018, and was registered with the local tax authority to be eligible to a concessionary tax rate of 15% for three years from 2021 to 2023.

According to a policy promulgated by the State Tax Bureau of the PRC, effective from September 2019 onwards, enterprises engage in research and development activities are entitled to claim 175% of the research and development expenses incurred in a year as tax deductible expenses in determining taxable profits for that period ("Super Deduction"). A subsidiary is eligible to such Super Deduction in ascertaining its tax assessable profit for the six months ended 30 June 2023 and 2022.

6. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended 30 June 2023 and 2022, nor has any dividend been proposed since the end of the reporting periods.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS*For the six months ended 30 June 2023***7. EARNINGS/(LOSS) PER SHARE**

The calculation of the basic and diluted earnings/(loss) per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit/(Loss) for the period attributable to owners of the Company	<u>40,001</u>	<u>(97,017)</u>
Number of shares		
Weighted average number of ordinary shares in issue during the period	<u>5,042,139,374</u>	<u>5,042,139,374</u>

The diluted earnings per share for the six months ended 30 June 2023 and 2022 does not assume the exercise of the Company's share options because the exercise price of those share options was higher than the average market price for shares. Therefore, the diluted earnings/(loss) per share is the same as basic earnings/(loss) per share for the six months ended 30 June 2023 and 2022.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

8. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the six months ended 30 June 2023, the Group has acquired property, plant and equipment of HK\$9,912,000 (six months ended 30 June 2022: HK\$2,794,000), and has written off property, plant and equipment of HK\$212,000 (six months ended 30 June 2022: HK\$2,649,000 respectively).

During the six months ended 30 June 2023, the Group has entered into lease agreements for PRC office and has recognised right-of-use assets amounted to approximately HK\$6,654,000 (six months ended 30 June 2022: HK\$4,577,000).

Due to recurring losses incurred by the health care-health leisure business (see note 3.1) during the year ended 30 June 2022, the management concluded there was indication for impairment and performed impairment assessment on the assets that belong to the cash-generated-unit for the health care-health leisure business.

The recoverable amount of cash-generating unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering the following 5 years with a pre-tax discount rate is 13.02% as at 30 June 2022, respectively. The discount rate as at 30 June 2022 have been reassessed taking into consideration higher degree of estimation uncertainties in due to uncertainty on how the COVID-19 pandemic may progress and evolve.

Based on the result of the assessment, management of the Group determined that the recoverable amount of the cash-generating unit is lower than the carrying amount. The impairment amount has been allocated to each category of property, plant and equipment and right-of-use assets such that the carrying amount of each category of asset is not reduced below the highest of its fair value less cost of disposal, its value in use and zero. Based on the value in use calculation and the allocation, impairment losses of approximately HK\$18,326,000 and HK\$3,930,000 have been recognised against the carrying amounts of property, plant and equipment and right-of-use assets respectively within the relevant functions to which these assets relate.

9. LAND USE RIGHTS

The land use rights represent prepayments in relation to lease of land in the PRC. The land use rights fall into the scope of HKFRS 16 as it meets the definition of right-of-use assets. Details of movement is set out below:

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
As at 1 January	3,745	4,175
Amortisation	(42)	(104)
Disposal of subsidiaries	(3,610)	—
Exchange realignment	(93)	(326)
	<hr/> — <hr/>	<hr/> 3,745 <hr/>
As at 30 June/31 December	—	3,745

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

10. FINANCIAL ASSETS AT FVTPL

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Non-current: Limited partnership interest	<u>198,468</u>	<u>200,280</u>

Details of movement is set out below:

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
As at 1 January	200,280	230,098
Change in fair value recognised in profit or loss (note (a))	(28,306)	(12,070)
Recognition of financial assets at FVTPL upon disposal of subsidiaries (note (b))	34,013	—
Exchange realignment	<u>(7,519)</u>	<u>(17,748)</u>
As at 30 June/31 December	<u>198,468</u>	<u>200,280</u>

Notes:

As at 30 June 2023, the Group has the following Financial assets at FVTPL:

- (a) The Group owns 5.51% equity interest in a limited partnership which is focus on equity and equity related securities in the information technology, high-quality medical and health industries. As at 30 June 2023, the carrying amount of such investment was approximately HK\$164,455,000.
- (b) During the reporting period, the Group has disposed of its subsidiaries as described in note 23. Upon the disposal, the remaining interest of the subsidiaries has classified as Financial asset at FVTPL. As at 30 June 2023, the carrying amount of such investment was approximately HK\$34,013,000.

* For identification purpose only

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

11. PROPERTIES UNDER DEVELOPMENT

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
As at 1 January	124,571	144,669
Additions	14,249	28,621
Impairment loss	—	(37,628)
Disposal of subsidiaries	(135,193)	—
Exchange realignment	(3,627)	(11,091)
	<u>—</u>	<u>124,571</u>
As at 30 June/31 December	<u>—</u>	<u>124,571</u>
Amount comprise:		
Construction costs	—	114,968
Interest capitalised	—	8,111
Land use rights	—	39,120
	<u>—</u>	<u>162,199</u>
Less: Impairment loss	—	(37,628)
	<u>—</u>	<u>124,571</u>
Amounts are expected to be completed:		
Within the normal operating cycle included under current assets	<u>—</u>	<u>124,571</u>

Land use rights for properties under development represent prepayments in relation to leases of land in the PRC. The analysis of carrying amount of land use rights for properties under development is as follows:

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
In PRC, with remaining lease term of:		
– between 10 to 50 years	<u>—</u>	<u>39,120</u>

As at 31 December 2022, the properties under development was not pledged to secure any borrowings granted to the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

12. TRADE AND OTHER RECEIVABLES

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Non-current:		
Deposits for acquisition of land use rights (note (i))	<u>21,568</u>	<u>22,562</u>
Current:		
Trade receivables	91,761	82,814
Less: Expected credit losses ("ECL") allowance	(1,492)	(2,048)
	<u>90,269</u>	<u>80,766</u>
Other receivables, prepayments and deposits (note (ii))	44,355	50,112
Less: ECL allowance	(3,403)	(3,959)
	<u>40,952</u>	<u>46,153</u>
	<u>152,789</u>	<u>149,481</u>

Note:

- (i) The amount represented deposits paid for an acquisition of land use rights pursuant to the Original Cooperation Agreement and the Supplementary Cooperation Agreement entered into by the Group, Shanghai Jiaxu Health Services Co., Ltd.* (上海佳煦健康服務有限公司), The Economic Cooperative of the Fuhu Village of Xuhang Town, Jiading District, Shanghai* (上海嘉定區徐行鎮伏虎經濟合作社) and Shanghai Xinxing Construction Investment Co., Ltd.* (上海新行建設投資有限公司) on 3 March 2021 and 2 July 2021, respectively.

Pursuant to the Original Cooperation Agreement and Supplementary Cooperation Agreement, the Group is committed to contribute RMB167,000,000 (equivalent to approximately HK\$201,000,000) which comprises contribution of RMB120,000,000 (equivalent to approximately HK\$144,000,000) to be the registered capital to Shanghai Jiading Health Services Co., Ltd.* (上海嘉定健康服務有限公司), and shareholder's loan of RMB47,000,000 (equivalent to approximately HK\$57,000,000) to engage in a project for rural revitalization, construction and development in the Fuhu Village.

- (ii) The amounts mainly included deposits paid, prepayments to suppliers and VAT tax receivables.

The directors of the Group consider that the fair values of trade and other receivables which are expected to be recorded within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

* For identification purpose only

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

12. TRADE AND OTHER RECEIVABLES (CONTINUED)

The following is an aged analysis of trade receivables, presented based on invoice date (approximates to revenue recognition date), net of ECL allowance, at the end of the reporting period:

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
0 – 90 days	61,827	57,232
91 – 180 days	7,719	7,558
181 – 365 days	9,112	7,632
Over 1 year	11,611	8,344
	<u>90,269</u>	<u>80,766</u>

Payment terms with customers are mainly on credit. Invoices are normally payable within 30 to 90 days after issuance, except for certain well-established customers, where the terms are extended to 360 days.

13. AMOUNT DUE FROM A DIRECTOR

The amount is unsecured, interest-free and repayable on demand.

The amount is due from a director, Mr. Wu Tianyu ("Mr. Wu", the executive director of the Company), and the maximum amount outstanding during the six months ended 30 June 2023 is HK\$20,956,000 (31 December 2022: HK\$21,447,000).

During the six months ended 30 June 2023, having considered the repayment from the director has been reducing in recent years, the Group considered that the credit quality have deteriorated significantly since the credit risk is not low, a Stage 2 ECL allowance was recognised. Accordingly a reversal of impairment loss on amount due from a director of approximately HK\$81,000 was recognised.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

14. AMOUNTS DUE FROM/ TO A NON-CONTROLLING SHAREHOLDER OF SUBSIDIARIES/ FELLOW SUBSIDIARIES/HOLDING COMPANY

The amounts are unsecured, interest-free and repayable on demand.

15. TRADE AND OTHER PAYABLES

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Trade payables	6,359	46,552
Receipts in advance	18,974	20,385
Other payables (note (a))	13,667	40,997
Accrued charges (note (a))	23,407	12,740
Contract liabilities (note (b))	995	981
Deferred contingent consideration	2,340	2,340
	<u>65,742</u>	<u>123,995</u>

Notes:

- (a) Other payables mainly include value added tax and other tax payables in the PRC, and accrued charges mainly include accrued staff salaries and allowances, contributions to defined contribution retirement schemes and consultancy fees for dental and health care projects.
- (b) Contract liabilities represents deposits received from medical services under the health care – rehabilitation business segment. When the Group receives a deposit before the commencement of medical services, this will give rise to a contract liability at the inception of a contract until the revenue recognised on the service could cover the amount of the deposit. The contract liabilities represent receipts in advance for the medical services and are expected to be recognised as revenue within one year.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

15. TRADE AND OTHER PAYABLES (CONTINUED)

The following is an aged analysis of trade payables, presented based on the invoice date at the end of the reporting period.

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
0 – 90 days	5,693	6,558
91 – 180 days	592	33,268
Over 180 days	74	6,726
	<u>6,359</u>	<u>46,552</u>

The average credit period on purchases of goods is 90 days (31 December 2022: 90 days).

All amounts are short-term and hence the carrying values of the Group's trade and other payables are considered to be a reasonable approximation of fair value.

16. OTHER FINANCIAL LIABILITIES

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Financial liabilities at fair value through profit or loss:		
Put option liability (note (a))	—	39,936
Financial liabilities measured at amortised cost:		
Other financial liabilities (note (b))	—	60,817
	<u>—</u>	<u>100,753</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

16. OTHER FINANCIAL LIABILITIES (CONTINUED)

- (a) On 31 May 2021, the Group, Zhuhai Shili Lianjiang Development and Sinochem Investment Management (Tianjin) Co., Ltd.* (中能化投資管理(天津)有限公司) ("Sinochem"), had entered into the Capital Contribution Agreement, pursuant to which, among others, Sinochem agreed to make a capital contribution of RMB65,600,000 (equivalent to approximately HK\$80,327,000) ("Capital Contribution") in cash to Zhuhai Shili Lianjiang Health Care, out of which an amount of RMB43,870,000 (equivalent to approximately HK\$53,718,000) and RMB21,730,000 (equivalent to approximately HK\$26,608,000) will be contributed to the registered capital and capital reserve of Zhuhai Shili Lianjiang Health Care, respectively. Upon completion of the Capital Contribution, Zhuhai Shili Lianjiang Health Care will be owned as to 40% by Sinochem, 33% by the Group and 27% by Zhuhai Shili Lianjiang Development. Pursuant to the Capital Contribution Agreement, Sinochem will not involve in daily operation of Zhuhai Shili Lianjiang Health Care.

Pursuant to the Capital Contribution Agreement, the Group and Zhuhai Shili Lianjiang Development undertake that, the audited annual operating income growth rate and net profit growth rate of Zhuhai Shili Lianjiang Health Care shall not be less than 21% and 30%, respectively (the "Profit Guarantee"). In the event the Profit Guarantee is not being achieved in any of the years, Sinochem has the option right ("Put Option"), upon expiry of 18 months after its capital contribution, to request the Group and Zhuhai Shili Lianjiang Development to repurchase its 40% equity interest in Zhuhai Shili Lianjiang Health Care at a repurchase price, based on 100% of the amount of Capital Contribution made by Sinochem, and a simple annual return rate of 9.8% from the date on which Sinochem has fully paid up the Capital Contribution until the date of repurchase, with a deduction of the dividends declared and distributed to Sinochem, and the repurchase price is capped at RMB100,000,000 (equivalent to approximately HK\$122,450,000).

During the reporting period, an indirect wholly-owned subsidiary of the Group has entered into a sale and purchase agreement with an independent third party to dispose of its 0.1% equity interest for each in Haoyi Healthcare Services (Shenzhen) Partnership (Limited Partnership)* (浩易康養服務(深圳)合夥企業(有限合夥)) ("Haoyi") and Guanghao Health Consulting Service (Zhuhai) Co., Ltd.* (光浩健康諮詢服務(珠海市)有限公司) ("Guanghao") together with undertake the Capital Contribution Agreement and the position of general partner of Haoyi (the "Disposal") which has disclosed in note 23.

The Put Option is classified as financial liabilities at FVTPL on initial recognition and are measured at fair value with changes in fair value recognised in profit or loss. The remaining balance of the Capital Contribution over the Put Option was initially recognised at its fair value and was subsequently measured at amortised cost.

Details of movement is set out below:

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
As at 1 January	39,936	25,350
Fair value (gain)/loss recognised in profit or loss	(875)	17,076
Disposal of subsidiaries	(38,084)	—
Exchange realignment	(977)	(2,490)
	<hr/> — <hr/>	<hr/> 39,936 <hr/>
As at 30 June/31 December	—	39,936

* For identification purpose only

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

16. OTHER FINANCIAL LIABILITIES (CONTINUED)

Notes: (Continued)

(a) (Continued)

As at 31 December 2022, the Put Option had been fair valued with reference to the valuation conducted by an independent qualified professional valuer, using the Binomial Option Pricing Model. Key valuation assumptions used to determine the fair value of the Put Option as at 31 December 2022 are as follows:

	31 December 2022 (Audited)
– Volatility	49.0%
– Risk-free rate	2.4%
– Risky rate	15.8%
– Dividend yield	0%

(b) The movement of liability component of the Capital Contribution recognised in the consolidated statement of financial position is as follows:

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
As at 1 January	60,817	63,728
Interest expense	5,187	12,786
Interest paid	–	(10,738)
Disposal of subsidiaries	(64,293)	–
Exchange realignment	(1,711)	(4,959)
As at 30 June/31 December	–	60,817

Interest expense on the liability component of other financial liabilities is calculated using the effective interest method by applying effective interest rate of 14.7% per annum.

* For identification purpose only

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

17. AMOUNT DUE TO A RELATED PARTY

The balance as at 30 June 2023 and 31 December 2022 represents amount due to Ms. Jiang Sisi (“Ms. Jiang”, the spouse of Mr. Wu (defined in note 13)). The amount is unsecured, interest-free and repayable on demand.

18. SHARE OPTIONS

The Company approved and adopted a share option scheme (the “Scheme”) for eligible participant which includes any full-time or part-time employees, potential employees, executives or officers (including executive, non-executive and independent non-executive directors) of the Company or any of its subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the sole opinion of the board of directors, will contribute or has contributed to the Company and/or any of its subsidiaries.

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Closing price of the securities immediately before the date on which the options were granted	Exercisable period	Exercise price
2016	12.9.2016	12.9.2016 – 11.9.2021	HK\$0.350	12.9.2017 – 11.9.2022	HK\$0.400
2020	22.7.2020 (note i)	22.7.2020 – 21.7.2023	HK\$0.144	22.7.2021 – 21.7.2030	HK\$0.196
2021	26.8.2021 (note ii)	26.8.2021 – 25.8.2024	HK\$0.275	26.8.2022 – 25.8.2031	HK\$0.450

Notes:

- (i) Share options were granted by board of directors with the approval of independent directors of the ultimate holding company on 22 July 2020.
- (ii) Share options was granted by board of directors on 26 August 2021. All the share options were forfeited on 10 November 2021 upon the resignation of grantees.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

18. SHARE OPTIONS (CONTINUED)

A summary of the movements of the number of share options under the Scheme during the period/year is as follows:

Type of participant	Option type	Closing price of the securities immediately before the date on which the options were granted	Outstanding	Forfeited/	Granted	Outstanding	Forfeited/	Granted	Outstanding
			at 1 January 2022	Lapsed during the year	during the year	at 31 December 2022	Lapsed during the period	during the period	at 30 June 2023
			(Audited)	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)
Mr. Wu	2016	HK\$0.350	38,000,000	(38,000,000)	–	–	–	–	–
Ms. Jiang Sisi	2016	HK\$0.350	38,000,000	(38,000,000)	–	–	–	–	–
Employees	2016	HK\$0.350	8,200,000	(8,200,000)	–	–	–	–	–
Mr. Zhang Huagang	2020	HK\$0.144	50,000,000	–	–	50,000,000	–	–	50,000,000
Mr. Luo Jun	2020	HK\$0.144	40,000,000	–	–	40,000,000	–	–	40,000,000
Mr. Wu Tianyu	2020	HK\$0.144	20,000,000	–	–	20,000,000	–	–	20,000,000
Dr. Liu Yanwen	2020	HK\$0.144	6,000,000	–	–	6,000,000	–	–	6,000,000
Dr. Lyu Aiping	2020	HK\$0.144	6,000,000	–	–	6,000,000	–	–	6,000,000
Ms. Jiang Sisi	2020	HK\$0.144	10,000,000	–	–	10,000,000	–	–	10,000,000
Employee	2020	HK\$0.144	10,000,000	–	–	10,000,000	–	–	10,000,000
			<u>226,200,000</u>	<u>(84,200,000)</u>	<u>–</u>	<u>142,000,000</u>	<u>–</u>	<u>–</u>	<u>142,000,000</u>
Exercisable at the end of year/period			<u>141,600,000</u>			<u>100,000,000</u>			<u>100,000,000</u>
Weighted average exercise price			<u>HK\$0.272</u>	<u>HK\$0.400</u>	<u>HK\$Nil</u>	<u>HK\$0.196</u>	<u>HK\$Nil</u>		<u>HK\$0.196</u>

In the opinion of the directors, the fair value of the services received from consultants cannot be estimated reliably, the equity-settled share-based payment transactions with consultants are measured at the fair value of the equity instruments granted.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

18. SHARE OPTIONS (CONTINUED)

The Group recognised a share-based payment expense in the condensed consolidated statement of profit or loss and other comprehensive income as follows:

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Directors	111	1,414
Employees	674	232
	<u>785</u>	<u>1,646</u>

19. LEASE COMMITMENTS

At the end of the reporting period, the lease commitments for short-term leases are as follows:

	30 June	31 December
	2023	2022
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within one year	<u>49</u>	<u>379</u>

As at 30 June 2023 and 31 December 2022, the Group leases a number of properties with a lease period of 12 months, which are qualified to be accounted for under short-term lease exemption under HKFRS 16.

20. CAPITAL COMMITMENTS

At the end of the reporting period, capital commitments outstanding but not provided for in the condensed consolidated interim financial statements are as follows:

	30 June	31 December
	2023	2022
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Contracted for:		
Construction of properties under development	<u>—</u>	<u>178,294</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 "Fair Value Measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation techniques as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly and not using significant unobservable inputs; and
- Level 3 inputs are significant unobservable inputs for the asset or liability.

	As at 30 June 2023 (Unaudited)			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Recurring fair value measurement				
Financial assets at FVTPL:				
Limited partnership interest	—	—	198,468	198,468
Financial liabilities at FVTPL:				
Deferred contingent consideration	—	—	2,340	2,340

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS*For the six months ended 30 June 2023***21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)****Financial assets and liabilities measured at fair value (Continued)**

	As at 31 December 2022 (Audited)			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Recurring fair value measurement				
Financial assets at FVTPL:				
Limited partnership interest	–	–	200,280	200,280
Financial liabilities at FVTPL:				
Put option liability	–	–	39,936	39,936
Deferred contingent consideration	–	–	2,340	2,340
	<u>–</u>	<u>–</u>	<u>42,276</u>	<u>42,276</u>

During the six months ended 30 June 2023 and the year ended 31 December 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Information about Level 3 fair value measurements

The valuation techniques and significant unobservable inputs used to determine the fair value of financial assets at fair value through profit or loss are as follows:

Valuation techniques	Significant unobservable inputs	Financial assets at fair value through profit or loss	Range		Sensitivity relationship of unobservable inputs to fair value
			30 June 2023 (Unaudited)	31 December 2022 (Audited)	
Market approach	Price to sales multiples of comparable companies	Limited partnership	1.1%-5.32%	1.1%-4.9%	Increase/(decrease) in multiples would result in increase/(decrease) in fair value
	Price to earnings multiples of comparable companies	Limited partnership	18.7%-40.1%	10.0%-37.8%	Increase/(decrease) in multiples would result in increase/(decrease) in fair value
	Discount for lack of marketability ("DLOM")	Limited partnership	20.6%	20.6%	Increase/(decrease) in DLOM would result in (decrease)/increase in fair value
Income approach	Estimation selling price taking into account the management's experience with reference to the independent qualified valuer's knowledge of market conditions of the specific industries	Limited partnership	HKD16,000-HKD23,000	N/A	Higher the selling price would increase the fair value of the financial assets
	DLOM	Limited partnership	20.5%	N/A	Increase/(decrease) in DLOM would result in (decrease)/increase in fair value

The movements during the period in the balance of Level 3 fair value measurements are disclosed in note 10.

Financial assets and liabilities not reported at fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost in the condensed consolidated interim financial statements approximate their fair values as at 30 June 2023 and 31 December 2022.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

22. RELATED PARTIES TRANSACTIONS

Other than the transactions and balances with related parties as disclosed in the respective notes, during the period, the Group entered into the following transactions with the following related parties:

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Nature of transactions		
Lease payments paid to Kaisa Group Holdings Ltd. (Note)	<u>72</u>	<u>72</u>

Note:

This is an exempted connected transaction of the Company under Chapter 14A of the Listing Rules. Please refer to paragraph (i) under Connected Transactions on page 56 of Interim Report for further details.

23. DISPOSAL OF SUBSIDIARIES

On 4 May 2023, an indirect wholly-owned subsidiary of the Group has entered into a sale and purchase agreement with an independent third party to dispose of its 0.1% equity interest for each in Haoyi and Guanghao and its subsidiaries ("Disposal Group") together with undertake the Capital Contribution Agreement and the position of general partner which responsible for performs and manage daily operation and decision of Haoyi at a consideration of RMB100,000 (equivalent to approximately HK\$110,000).

In the view that the Group had ceased to be the general partner of the Disposal Group. The director of the Group are in the opinion that the Group lost control over the Disposal Group, therefore the Disposal Group had ceased to be subsidiaries of the Group. Upon the Disposal, the Group remains to have 55% effective interest in Disposal Group which are accounted as financial assets at FVTPL. The disposal was completed on 12 June 2023.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

23. DISPOSAL OF SUBSIDIARIES (CONTINUED)

The net assets of Disposal Group as at the date of disposal were as follow:

	HK\$'000
Property, plant and equipment	2,670
Right of use assets	5,425
Land use rights	3,610
Properties under development	135,193
Inventories	152
Other receivables	1,663
Bank balances and cash	783
Other payables	(59,936)
Other financial liabilities	(102,377)
Lease liabilities	(13,819)
Amounts due to fellow subsidiaries of the Group	(5,352)
Amount due to a non-controlling shareholder of Disposal Group	(14,932)
	<u>(46,920)</u>
Non-controlling interests	<u>13,182</u>
Net liabilities disposal of	(33,738)
Gain on disposal	<u>67,861</u>
	<u>34,123</u>
Satisfied by:	
Cash	110
Financial assets at FVTPL	34,013
	<u>34,123</u>
Net cash outflow arising on the disposal:	
Cash consideration	110
Less: bank balances and cash	(783)
	<u>(673)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

For the six months ended 30 June 2023 (the “Period”), the Company and its subsidiaries (together the “Group”) recorded revenue of approximately HK\$93 million, representing a decrease of approximately 1.1% from approximately HK\$94 million for the corresponding period in 2022, with a decreased gross profit margin of approximately 41.6% (for the six months ended 30 June 2022: approximately 42.5%). The profit attributable to the owners of the Company was approximately HK\$40 million compared to a loss attributable to the owners of the Company of approximately HK\$97 million for the corresponding period in 2022. Basic and diluted earnings per share for the Period were 0.79 HK cents per share and 0.79 HK cents per share, respectively; and the basic and diluted loss per share for the corresponding period in 2022 were 1.92 HK cents per share and 1.92 HK cents per share respectively.

Interim Dividend

The board of Directors (the “Board”) did not recommend the payment of an interim dividend for the Period (six months ended 30 June 2022: Nil).

Business Review

Dental Business

The Group has engaged in the dental business, including the sales (both overseas and domestic) and production of dental prosthetics, including crowns and bridges, removable full and partial dentures, implants and full-cast restorations. The high-tech digital dental aesthetic brand developed and promoted by the Group integrated the philosophy of minimally invasive aesthetic dental prosthetic restoration and cutting-edge 3D printing technology with international recognition, promoted invisible dental brace, cosmetic dentistry and teeth whitening and veneer, providing efficient one-stop dental prosthetic restoration solutions. Revenue from the Dental Business was approximately HK\$88.8 million for the six months ended 30 June 2023, representing an increase of approximately HK\$1.1 million compared to a revenue of approximately HK\$87.7 million for the corresponding period in 2022.

The Group always adheres to the dental aesthetics and prosthetics restoration philosophy of “using minimally invasive surgery with no harm to teeth” in its research and development, in order to relieve the pain patients suffer during the treatment and improve their appearance. A series of digital dental prosthetic products including Mega Veneer (美加貼面) XS, Mega 3D Simulation Zirconium (美加3D模擬鑄), Mega YiQi Clear Aligner (美加易齊透明矯正器) and removable prosthetic devices launched under the “Mega” brand in 2019 gained wide recognition among foreign technicians and dentists.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review (Continued)

Dental Business (Continued)

Investment in research and know-hows is always a focus in the Group's business. During the six months ended 30 June 2023, research and development expense of HK\$8.5 million (six months ended 30 June 2022: approximately HK\$10 million), reflecting the management's determination and vision to invest in the future technologies in the dental business. Besides, a new utility model certificate has been obtained in the first half of 2023. On the other hand, during the six months ended 30 June 2023, government grants and the other income of training and consultation in relation to research and development technologies amounted to HK\$0.8 million (six months ended 30 June 2022: approximately HK\$1.2 million).

The Group continued to expand its team in the Sino-US Implant R&D Centre. The application for change registration of implants of more sizes has been accepted by the National Medical Products Administration (NMPA). With the release of the pandemic in the first half of the year, the implant business has grown significantly. BIOTANIUM implants, with its nano titanium technology, self-tapping design and immediate weight-bearing capacity, has been recognised and loved by various dentists. It has also been successfully purchased by large-scale chains in Guangdong, Shanghai and Jiangsu in the first half of the year, and has completed nearly 10,000 implant surgeries with favourable clinical results.

Health Care Business

Rehabilitation Business

In the first half of 2023, the fierce market competition in the rehabilitation industry has hindered the growth of the rehabilitation business. Kaisa Health's rehabilitation project has strived to explore new models of business development by opening a community rehabilitation centre in Baoan District, Shenzhen, with a focus on community chronic pain and aging disease projects to fill the gap in primary care. Meanwhile, Kaisa Health's rehabilitation project is actively carrying out marketing transformation, increasing the proportion of we-media marketing, focusing on brand image promotion and science popularisation.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review (Continued)

Health Care Business (Continued)

Health Leisure Business

In 2022, Zhuhai Shili Lianjiang International Health City* (珠海十里蓮江國際健康城) which is the project hold by Zhuhai Shili Lianjiang Agricultural Tourism Healthy Town Development Limited* (珠海十里蓮江農旅健康小鎮開發有限公司), an indirect subsidiary of the Company during the Period, which has entered into five joint construction projects with the government (the "Zhuhai Shili Lianjiang Projects") with a contract value of RMB22 million. In the first half of 2023, two new projects, rice field bar and rice filed factory, were delivered, while youth hostels and plant factories were under construction. The government-oriented infrastructure support fund of RMB9.1 million, which is specially used for upgrading the infrastructure of the park, has been completed. At the same time, the industrial operation practice of "agricultural (cultural) tourism + health care" has been actively carried out by launching a number of festivals and activities in cooperation with brands such as the Guangdong Provincial Research Conference* (廣東省研學大會) and the 2nd May Leye Life Season* (第二屆五一樂野生活季), which gradually forms a beautiful rural lifestyle integrating "agriculture (cultural) tourism + health care".

On 4 May 2023, the Group disposed the controlling interest of the Zhuhai Shili Lianjiang International Health City and will remain limited partnership interests in holding the said business. Please refer to the paragraph of subheading "Significant investment on financial assets at fair value through profit or loss" in the management discussion and analysis of this report.

Prospect

The Group is principally engaged in the Dental Business and Health Care Business, and has a business strategy to further diversify its business so as to further enhance shareholder value. In order to build the brand "Mega" and "BIOTANIUMTM", the Group has been oriented towards advanced technologies and integrated quality medical devices in China and overseas to become a high-end dental prosthetics instrument supplier. The Group has put efforts in exploring a medical appliance system with the oral business as its up-stream and down-stream industry chain and a medical service system integrating medical care and health care, developing a closed-loop ecosystem with the coordination of these three major systems.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Prospect (Continued)

Dental Business

The Group considers that the increase in the consumption level in the PRC builds the base for the rapid growth in China's dental market. On this basis, through the education promoted by the overseas vendors and dentists, the populace's heightening awareness of oral hygiene provides the endogenous power for maintaining the speedy growth in the dental market. Currently, China's dental market has been rapidly developing, hence the trend of increasing dental consumption will not change, and is expected to gradually extend from the eastern coastal regions to cities in central and western part of the PRC and the overall dental market probably will continue its rapidly increasing trend for a long time in the future. It is projected that with the increase of consumption power in the PRC, regardless of whether it is in terms of the dentist proportion, consultation rate and the permeability rate of high-end dental business or the current market scale, the oral market in China has the development potential to increase over tenfold.

The Group has formulated a number of growth strategies in the dental business, including enlarging its sales network in the PRC and foreign markets (such as the US), expanding its production capacity in the PRC and developing high-end new denture prosthetics products with beauty attributes, actively participating in relevant nationwide exhibitions, and increasing its bidding of public hospitals, in order to partner with large-scale chained private clinics, providing better services such as on-site technician services for clinics.

Apart from the organic growth and sales network integration and consolidation for the dental business, the Group will also actively seek investment and collaboration opportunities in high-tech dental related areas so as to enhance cross-selling opportunities and to provide better returns of investment for the shareholders of the Company.

The Group continued to improve the production process of Basic Dental and increase capacity utilisation, in order to meet the huge demand of the marketing team who strives to expand in the global market. The implant business is expected to achieve a more rapid growth in the second half of the year as compared to that of the first half of the year.

Rehabilitation Business

As sports rehabilitation is growing in China, more individual capital has been attracted to the sports rehabilitation industry, leading to a fierce competition and a shortage of talents in the industry. As such, Kaisa Health has arrangements for the talent development of the sports rehabilitation industry in advance through technical cooperation and introduction of expert teams from reputable universities to gather a pool of young rehabilitation talents, providing talent support for the later arrangement of community rehabilitation centres. In the second half of 2023, Kaisa Health's rehabilitation project has strived to explore the community rehabilitation model and to authorise 1-2 community rehabilitation centres.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results and Financial Review

Revenue

The revenue for the Period amounted to approximately HK\$93 million (six months ended 30 June 2022: approximately HK\$94 million). The decrease in the revenue is mainly due to the reduction of patient visits in the rehabilitation business.

Gross Profit and Gross Profit Margin

Gross profit for the Period amounted to approximately HK\$38.6 million (six months ended 30 June 2022: approximately HK\$39.9 million). Gross profit margin for the Period was approximately 41.6% (six months ended 30 June 2022: approximately 42.5%). The decrease in the gross profit margin was mainly due to the decline of revenue in rehabilitation business.

Loan Receivable

The loan receivable represented the loan granted to Financiere Wow for settlement of the Group's EUR5 million investment in convertible bonds issued by Condor Tech, which specialises in the sales, distribution and development of the three dimensional intraoral scanners.

Financial assets at fair value through profit or loss

Investment in partnership interest under non-current assets was treated as a financial asset at fair value through profit or loss as at 30 June 2023. The investment in partnership interest in 珠海金鎰銘股權投資基金合夥企業(有限合夥) (Zhuhai Jinyiming Equity Investment Fund Partnership (L.P.))* at an investment cost of RMB180,000,000 through certain contractual arrangements. The partnership investment focuses in equity and equity related securities in the information technology, high quality medical and health industries. Upon completion of the disposal of subsidiaries, the Group holds 99.9% limited partnership interests in Haoyi Healthcare Services (Shenzhen) Partnership (Limited Partnership)* (浩易康養服務(深圳)合夥企業(有限合夥)) which invested in the Zhuohai Shili Lianjiang Projects.

Bank Balance and Cash

The Group has a solid cash position for the Period under review, with bank balances and cash amounting to approximately HK\$148.3 million as at 30 June 2023 (31 December 2022: approximately HK\$173.5 million).

Land Use Rights

As at 30 June 2023, there was no land use right of the Group due to the loss of control over international healthcare project.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results and Financial Review (Continued)

Capital Expenditure and Capital Commitments

During the Period, the Group invested approximately HK\$9.9 million (six months ended 30 June 2022: approximately HK\$2.8 million), mainly on production equipment. As at 30 June 2023, the Group had no capital expenditure commitment due to the disposal of subsidiaries (31 December 2022: approximately HK\$178.2 million).

Contingent Liabilities

The Group had no contingent liabilities as at 30 June 2023 (31 December 2022: Nil).

Charge on the Group's Assets

As at 30 June 2023, there was no pledge of assets of the Group for banking facilities (31 December 2022: Nil).

Treasury Policy

The Group's sales were principally denominated in Renminbi, while purchases were transacted mainly in US dollars, Renminbi and Hong Kong dollars. The currencies held under cash and cash equivalents were mainly US dollars, Renminbi and Hong Kong dollars.

The fluctuation of Hong Kong dollars and other currencies did not materially affect the costs and operations of the Group for the Period and the Directors do not foresee significant risk in exchange rate fluctuation currently. The Group has not entered into any financial instruments for hedging purposes. However, the Group will closely monitor its overall foreign exchange exposures and interest rate exposures, and consider hedging against the exposures should the need arise.

Liquidity, Capital Structure and Financial Resources

Equity attributable to owners of the Company as at 30 June 2023 amounted to approximately HK\$500.8 million (31 December 2022: approximately HK\$485.3 million).

As at 30 June 2023, the net current assets of the Group amounted to approximately HK\$234.6 million (31 December 2022: approximately HK\$205.1 million). The current and quick ratio was 3.48 and 3.31 respectively (31 December 2022: 1.76 and 1.69 respectively).

At 30 June 2023, indebtedness of the Group including an amount due to Ms. Jiang Sisi ("Ms. Jiang", the spouse of Mr. Wu Tianyu, an executive Director of the Company) of approximately HK\$691,000 (31 December 2022: approximately HK\$723,000), amount due to a holding company of approximately HK\$72,000 million (31 December 2022: Nil) and amounts due to fellow subsidiaries of approximately HK\$2,655,000 (31 December 2022: approximately HK\$2,034,000) which are unsecured, interest-free and repayable on demand.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results and Financial Review (Continued)

Liquidity, Capital Structure and Financial Resources (Continued)

As at 30 June 2023 and 31 December 2022, no gearing ratio was calculated as there was no net debt (defined as other financial liabilities less cash and cash equivalents) by the Group.

The number of issued ordinary shares (the "Shares") of the Company was 5,042,139,374 as at 30 June 2023 (31 December 2022: 5,042,139,374 Shares).

Taking the above figures into account, the management is confident that the Group is financially strong and has adequate resources to settle its outstanding debts, to finance its daily operational expenditures and also the cash requirements for the Group's future acquisition and expansion.

Employees and Remuneration Policy

The Group employed approximately 860 employees in total as at 30 June 2023 (31 December 2022: approximately 940) in Hong Kong, the PRC and USA. The Group implemented its remuneration policy, bonus and share option schemes based on the performance of the Group and its employees. The Group provided benefits such as social insurance and pensions to ensure competitiveness.

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules.

The employees of the Company's PRC subsidiaries are members of state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their basic payroll to the retirement benefits scheme to fund the benefits.

The employees of the Company's USA subsidiary are members of state-managed retirement benefits scheme operated by the New Mexico government. The Company's USA subsidiary is required to contribute a certain percentage of basic payroll to the retirement benefits scheme to fund the benefits.

In addition, the Group had also adopted a share option scheme as a long term incentive to the Directors and eligible employees. The emolument policy for the Directors and senior management of the Group is set up by the remuneration committee (the "Remuneration Committee") of the Board, having regard to the Group's performance, individual performance and comparable market conditions.

* For identification purpose only

DISCLOSURE OF ADDITIONAL INFORMATION

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors’ dealings in the Company’s securities. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2023.

The Company has also established written guidelines on no less exacting terms than the Model Code (the “Employees Written Guidelines”) for securities transactions by employees who are likely to be in possession of inside information of the Company or its securities. No incidence of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during the six months ended 30 June 2023.

Purchase, Sale or Redemption of the Company’s Listed Securities

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

Compliance with the Code on Corporate Governance Practices

During the six months ended 30 June 2023, the Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

DISCLOSURE OF ADDITIONAL INFORMATION

Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures, and Future Plans for Material Investments or Capital Assets

Significant investment on financial assets at fair value through profit or loss

On 20 July 2021, 21 July 2021 and 31 August 2021, 和晟健康科技(海口)有限公司 (Hesheng Health Technologies (Haikou) Co., Ltd.*) (formerly known as 佳兆業健康科技(海口)有限公司 (Kaisa Health Technologies (Haikou) Co., Ltd.*), an indirect wholly owned subsidiary of the Company which engaged in investment holding business, and 深圳盈都科技有限公司 (Shenzhen Yingdou Technology Co., Ltd.)* entered into the transfer agreements in relation to the transfer of an aggregate of 5.51% limited partnership interests holding 165,289,256.2 units in 珠海金鎰銘股權投資基金合夥企業 (有限合夥) (Zhuhai Jinyiming Equity Investment Fund Partnership (L.P.))* at an investment cost of RMB180,000,000 through certain contractual arrangements. The partnership investment focuses in equity and equity related securities in the information technology, high-quality medical and health industries. Further details were set out in the Company's announcements dated 31 January 2022 and 3 March 2022.

On 4 May 2023, the Group entered into a sale and purchase agreement to dispose of its 0.1% equity interest for each in Haoyi Healthcare Services (Shenzhen) Partnership (Limited Partnership)* (浩易康養服務(深圳)合夥企業(有限合夥))("Haoyi") and Guanghao Health Consulting Service (Zhuhai) Co., Ltd.* (光浩健康諮詢服務(珠海市)有限公司)("Guanghao"). Upon completion of the transaction, the Group remains 99.9% limited partnership interests in Haoyi which holds 99.9% equity interest in Guanghao. The partnership invested in the Zhuahai Shili Lianjiang Projects through Guanghao and its subsidiaries.

As at 30 June 2023, the fair value of financial assets at fair value through profit or loss was approximately HK\$198.5 million, representing approximately 32.6% of the total assets of the Group. Please refer to note 10 in this report for details.

Disposals of Subsidiaries

On 4 May 2023, an indirect wholly-owned subsidiary of the Group has entered into a sale and purchase agreement with an independent third party to dispose of its 0.1% equity interest for each in Haoyi and Guanghao and its subsidiaries ("Disposal Group") together with undertake the Capital Contribution Agreement and the position of general partner which responsible for performs and manage daily operation and decision of Haoyi at a consideration of RMB100,000 (equivalent to approximately HK\$110,000).

In the view that the Group had ceased to be the general partner of the Disposal Group. The director of the Group are in the opinion that the Group lost control over the Disposal Group, therefore the Disposal Group had ceased to be subsidiaries of the Group. Upon the Disposal, the Group remains to have 55% effective interest in Disposal Group which are accounted as financial assets at FVTPL. The disposal was completed on 12 June 2023.

* For identification purpose only

DISCLOSURE OF ADDITIONAL INFORMATION

Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures, and Future Plans for Material Investments or Capital Assets (Continued)

Disposals of Subsidiaries (Continued)

Saved as disclosed above, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2023. There was no plan authorised by the Board for other material investments or additional capital assets as at the date of this report.

Important Events After Reporting Period

The Group did not have any material subsequent events after the Reporting Period and up to the date of this report.

Use of Proceeds from Rights Issue

On 28 July 2017, in order to equip the Group with more financial resources, the Company proposed to implement the rights issue (the "Rights Issue") on the basis of one (1) new ordinary shares to be issued and allotted under the Rights Issue (the "Rights Share") for every three (3) ordinary shares held on the record date at the subscription price of HK\$0.400 per Rights Share. The Rights Issue has been completed on 13 November 2017. Kaisa Group Holdings Ltd. ("Kaisa Group") has subscribed for the 1,273,050,748 Rights Shares. The remaining 2,351,595 Rights Shares were acquired by other shareholders. The closing price of securities at the date of completion was HK\$0.375. The Group raised proceeds of approximately HK\$510.16 million before expenses and the net proceeds of the Rights Issue was HK\$507.16 million, which were intended to be applied towards (i) funding potential acquisition in an overseas dental technology company (the "Proposed Acquisition of the Target Company"); (ii) the acquisition of land to construct a manufacturing plant for the Dental Prosthetics Business in the PRC (the "Proposed Acquisition of Land"); and (iii) general working capital requirements of the Group.

On 13 March 2018, since the parties were not able to come to an agreement on certain terms of the Proposed Acquisition of the Target Company, including but not limited to, the valuation of the target company and price adjustment mechanism, the Company announced to terminate the Proposed Acquisition of the Target Company. As disclosed in the rights issue prospectus of the Company dated 20 October 2017, in case the Proposed Acquisition of the Target Company does not proceed, the Company will first apply the proceeds to working capital for the Company's current product offerings, specifically, the 3D oral scanner and the Mega Clear Aligner (the "Existing Products"), and consider other potential acquisitions in the dental prosthetic and other dentistry areas (the "Other Potential Acquisitions"). The Company is considering the Other Potential Acquisitions and are in discussions with potential acquisition targets. For details, please refer to the announcement of the Company dated 13 March 2018.

DISCLOSURE OF ADDITIONAL INFORMATION

Use of Proceeds from Rights Issue (Continued)

On 4 May 2018, due to the escalation of the tense trade relationships among various countries, the Board considered to be more prudent for the Company to take a more cautious approach for the expansion of the Group's production capacity. It is currently expected that the Group shall enhance its business diversification and risk resistance capacity in order to better cope with the uncertainty of international market. Therefore, the Board decided to re-allocate the sum of approximately HK\$296 million initially allocated for the purpose of the Proposed Acquisition of Land to the possible investment opportunities within the health industry in the PRC. On 3 August 2018, the Group entered into a transaction with an associate of Kaisa Group, the controlling shareholder of the Company, for the proposed acquisition of the target companies engaged in the provision of public health and medical services. For details, please refer to the announcements of the Company dated 4 May 2018, 24 May 2018 and 3 August 2018, 14 December 2018 and 24 May 2019 and the circular of the Company dated 28 November 2018.

Together with the re-allocation and change of use of the proceeds from the Rights Issue, the net proceeds from the Rights Issue will be allocated in the following manner: (i) approximately HK\$246 million applied to investments within the health care industry in the PRC; (ii) approximately HK\$164.16 million would be applied to the seeking suitable investment opportunities; and (iii) approximately HK\$97 million to the continuous development of dental business. The amount of proceeds brought forward of HK\$507.16 million would be used within the expected timeline of 5 years between 2019 and 2023.

As of the date of this report, (i) approximately HK\$246 million has been used for investments within the health care industry in the PRC, (ii) approximately HK\$164.16 million has been used for seeking suitable investment opportunities, and (iii) approximately HK\$97 million has been used for the continuous development of dental business. The net proceeds from the Rights Issue had been utilised to the above usage, and was fully utilised as of the date of this report.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the section headed "Directors' and Executives' Interest in Shares or Short Position in Shares and Underlying Shares and Debenture" of this Interim Report, at no time during the Period was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangement to enable the Directors or their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DISCLOSURE OF ADDITIONAL INFORMATION

Directors' and Executives' Interest in Shares or Short Position in Shares and Underlying Shares and Debenture

As at 30 June 2023, the interests of the Directors and the chief executives in the shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code and the SFO, were as follows:

(a) *Long position in the shares of the Company*

Name	Capacity/ nature of interest	Number of shares held	Approximate percentage of the issued share capital of the Company
Mr. Kwok Ying Shing	Interest of controlled corporation	308,000,000 (Note 1)	6.11%
	Interest of spouse	2,020,000 (Note 2)	0.04%
Mr. Wu Tianyu	Beneficial owner	219,350,000 (Note 3)	4.35%
Ms. Jiang Sisi	Interest of spouse	219,350,000 (Note 3)	4.35%

Note 1: Mr. Kwok Ying Shing is deemed to be interested in the 308,000,000 Shares of the Company held by Ying Hua Holdings Limited, a corporation which is beneficially owned by him.

Note 2: Mr. Kwok Ying Shing is deemed to be interested in the 2,020,000 Shares of the Company beneficially owned by his spouse, Ms. Chan Nog.

Note 3: Mr. Wu Tianyu, executive Director has personal interests in 219,350,000 shares and Ms. Jiang Sisi, chief operating officer of the Company, the spouse of Mr. Wu Tianyu. Therefore, both Mr. Wu Tianyu and Ms. Jiang Sisi were deemed to be interested in these shares.

DISCLOSURE OF ADDITIONAL INFORMATION

Directors' and Executives' Interest in Shares or Short Position in Shares and Underlying Shares and Debenture (Continued)

(b) Long position in the share options of the Company

Name	Number of share options held	Number of underlying shares of the Company	Exercisable price	Approximate percentage of the issued share capital of the Company
Mr. Luo Jun	40,000,000 (note 1)	40,000,000	HK\$0.196	0.79%
Mr. Wu Tianyu (note 2)	20,000,000 (note 1)	20,000,000	HK\$0.196	0.40%
Mr. Zhang Huagang	50,000,000 (note 1)	50,000,000	HK\$0.196	0.99%
Dr. Liu Yanwen	6,000,000 (note 1)	6,000,000	HK\$0.196	0.12%
Dr. Lyu Aiping	6,000,000 (note 1)	6,000,000	HK\$0.196	0.12%
Ms. Jiang Sisi (note 2)	10,000,000 (note 1)	10,000,000	HK\$0.196	0.20%

Note 1: These share options were granted on 22 July 2020. 30% of the granted share option would vest on 22 July 2021 and be exercisable from 22 July 2021 to 21 July 2030. Another 30% of the granted share options would vest on 22 July 2022 and be exercisable from 22 July 2022 to 21 July 2030. The remaining 40% of the granted share options would vest on 22 July 2023 and be exercisable from 22 July 2023 to 21 July 2030.

Note 2: Ms. Jiang Sisi is the Chief Operating Officer of the Group and also the director of certain subsidiaries of the Company. Ms. Jiang is also the spouse of Mr. Wu Tianyu. As such, Ms. Jiang Sisi and Mr. Wu Tianyu were deemed or taken to be interested in the share options of each other for the purposes of the SFO. The aggregate family interest in share options is 30,000,000 as at 31 December 2022.

DISCLOSURE OF ADDITIONAL INFORMATION

Directors' and Executives' Interest in Shares or Short Position in Shares and Underlying Shares and Debenture (Continued)

The details of share options held by the Directors and chief executives of the Company are disclosed under the section headed "Share Option Scheme" of this Interim Report.

Save as disclosed above, as at 30 June 2023, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DISCLOSURE OF ADDITIONAL INFORMATION

Interest and Short Positions of Substantial Shareholders in Shares and Underlying Shares of the Company

As at 30 June 2023, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued shares of the Company.

Name of shareholder	Long position/ short position	Nature of interests	Number of issued ordinary shares held	Approximate percentage of the issued ordinary share capital of the Company
Kaisa Group Holdings Ltd. (Note 1)	Long position	Beneficial owner	2,167,600,491	42.99%
Ying Hua Holdings Limited (Note 2)	Long position	Beneficial owner	308,000,000	6.11%
Mr. Kwok Ying Shing (Note 2)	Long position	Interest of controlled corporation	308,000,000	6.11%
Mr. Huang Xiao Gang (Note 3)	Long position	Beneficial owner	472,470,256	9.37%
Gao Lang Limited (Note 3)	Long position	Interest of controlled corporation	472,470,256	9.37%
ABG II-RYD Limited (Note 4)	Long position	Beneficial owner	270,300,000	5.36%
Ally Bridge Group Capital Partners II, L.P. (Note 4)	Long position	Interest of controlled corporation	270,300,000	5.36%
ABG Capital Partners II GP, L.P. (Note 4)	Long position	Interest of controlled corporation	270,300,000	5.36%
ABG Capital Partners II GP Limited (Note 4)	Long position	Interest of controlled corporation	270,300,000	5.36%
Mr. Yu Fan (Note 4)	Long position	Interest of controlled corporation	270,300,000	5.36%

Note:

- According to the information available to the Company, Kaisa Group Holdings Ltd. is a company incorporated in Cayman Islands and is listed on the Main Board of the Stock Exchange (Stock Code: 1638).
- According to the information available to the Company, Ying Hua Holdings Limited is a company incorporated in the BVI and is wholly owned by Mr. Kwok Ying Shing who is also an executive director and a substantial shareholder of Kaisa Group Holdings Ltd. (note 1).
- According to the information available to the Company, Gao Lang Limited is a company incorporated in the BVI and is wholly owned by Mr. Huang Xiao Gang.
- According to the information available to the Company, ABG II-RYD Limited is wholly owned by Ally Bridge Group Capital Partners II, L.P.. Ally Bridge Group Capital Partners II, L.P.'s general partner is ABG Capital Partners II GP, L.P. and Ally Bridge Group Capital Partners II, L.P. is also 0.54% owned by ABG Capital Partners II GP, L.P.. ABG Capital Partners II GP, L.P. is 50% owned by Mr. Yu Fan and 50% owned by ABG Capital Partners II GP Limited which is wholly owned by Mr. Yu Fan.

DISCLOSURE OF ADDITIONAL INFORMATION

Interest and Short Positions of Substantial Shareholders in Shares and Underlying Shares of the Company (Continued)

Save as disclosed above, as at 30 June 2023, the Directors and chief executives of the Company were not aware of any person (other than a Director or chief executive of the Company) who had any other interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

Share Option Scheme

The share option scheme adopted by the Company in 2003 (the "2003 Scheme") had already expired on 31 January 2013. There was no share options outstanding under the 2003 Scheme.

A share option scheme (the "Scheme") was approved by an ordinary resolution passed by shareholders of the Company on 8 June 2015. The purpose of the Scheme is to recognise the contribution of the Directors, employees and consultants of the Group by granting share options to them as incentives or rewards. The major terms of the Scheme are summarised as follows:

1. Eligible participants of the Scheme include any full-time or part-time employees, potential employees, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company or any of its subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, will contribute or has contributed to the Company and/or any of its subsidiaries.
2. The maximum number of Shares in respect of which options under this Scheme or options under the other schemes may be granted must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Scheme i.e. 382,620,703 Shares, representing 10% of the total issued share capital of the Company as at the date of adoption of the Scheme, and such limit may be increased from time to time to 10% of the shares in issue as at the date of such shareholders approval.

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time.

3. The total number of Shares to be issued upon exercise of the options granted and to be granted to each eligible person (including both exercised and outstanding options) in any 12-month period up to and including the date of grant is limited to 1% of the Shares in issue. Any further grant of options in excess of this limit is subject to separate shareholders' approval in a general meeting of the Company.

DISCLOSURE OF ADDITIONAL INFORMATION

Share Option Scheme (Continued)

4. Any grant of share options to any connected person, such grant shall be subject to the approval by all the independent non-executive Directors of the Company (and in the event that the Board offers to grant Options to an independent non-executive Director of the Company, the vote of such independent non-executive Director shall not be counted for the purposes of approving such grant).
5. Any grant of share options to a substantial shareholder or an independent non-executive Director of the Company, or any of their associates, which would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person within the 12-month period up to the date of grant of options representing in aggregate in excess of 0.1% of the Shares in issue and having an aggregate value (based on closing price of the Company's Shares at the date of the grant) in excess of HK\$5 million, is subject to prior approval by shareholders in a general meeting.
6. The offer for the grant of options (the "Offer") must be taken up within 14 days from the date of Offer, with a payment of HK\$1.00 as consideration by the grantee.
7. The exercise price of the share option will be determined at the highest of (i) the average closing prices of Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the Offer; (ii) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the Offer; and (iii) the nominal value of the Shares.
8. The period within which the Shares must be taken up under the option, which must not be more than 10 years from the date of grant of the option.
9. The Scheme will, unless otherwise cancelled or amended, remain in force for 10 years commencing on the date of approval of the Scheme, being 8 June 2015, and ending on 7 June 2025 (both dates inclusive).

DISCLOSURE OF ADDITIONAL INFORMATION

Share Option Scheme (Continued)

The refreshment of the Scheme limit was approved by an ordinary resolution passed by shareholders of the Company on 22 June 2020. Subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the additional shares of HK\$0.00125 each in the share capital of the Company to be issued pursuant to the exercise of options which may be granted under the Scheme, the refreshment of the limit in respect of the granting of options to subscribe for Shares under the Scheme be and is hereby approved, provided that:

1. the total number of Shares in respect of which options may be granted under the Scheme shall not exceed 10% of the total number of Shares in issue as at the date of passing this resolution (the "Refreshed Limit") i.e. 504,213,937 Shares;
2. options previously granted under the Scheme (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Scheme) will not be counted for the purpose of calculating the Refreshed Limit;
3. the Directors be and are hereby unconditionally authorised to offer or grant options pursuant to the Scheme to subscribe for Shares up to the Refreshed Limit and to exercise all the powers of the Company to allot, issue and deal with the Shares upon the exercise of such options; and
4. such increase in the Refreshed Limit shall in no event result in the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company exceed 30% of the Shares in issue from time to time.

DISCLOSURE OF ADDITIONAL INFORMATION

Share Option Scheme (Continued)

Movement of share options for the six months ended 30 June 2023 is as follows:–

Name	Balance as at 1 January 2023	Granted during the period	Exercised during the period	Forfeited during the period	Balance as at 30 June 2023	Exercisable price	Approximate percentage of the issued share capital of the Company
Mr. Luo Jun	40,000,000 (note 1)	-	-	-	40,000,000	HK\$0.196	0.79%
Mr. Wu Tianyu (note 2)	20,000,000 (note 1)	-	-	-	20,000,000	HK\$0.196	0.40%
Mr. Zhang Huagang	50,000,000 (note 1)	-	-	-	50,000,000	HK\$0.196	0.99%
Dr. Liu Yanwen	6,000,000 (note 1)	-	-	-	6,000,000	HK\$0.196	0.12%
Dr. Lyu Aiping	6,000,000 (note 1)	-	-	-	6,000,000	HK\$0.196	0.12%
Ms. Jiang Sisi (note 2)	10,000,000 (note 1)	-	-	-	10,000,000	HK\$0.196	0.20%
Employees	10,000,000 (note 1)	-	-	-	10,000,000	HK\$0.196	0.20%
	142,000,000	-	-	-	142,000,000		

Note 1: These share options were granted on 22 July 2020. 30% of the granted share options would be vested on 22 July 2021 and to be exercisable from 22 July 2021 to 21 July 2030. Another 30% of the granted share options would be vested on 22 July 2022 and to be exercisable from 22 July 2022 to 21 July 2030. The remaining 40% of the granted share options would be vested on 22 July 2023 and to be exercisable from 22 July 2023 to 21 July 2030.

Note 2: Ms. Jiang Sisi is the Chief Operating Officer of the Group and also the director of certain subsidiaries of the Company. She is also the spouse of Mr. Wu Tianyu. As such, Ms. Jiang Sisi and Mr. Wu Tianyu were deemed or taken to be interested in the share options of each other for the purposes of the SFO. The aggregate family interest in share options is 30,000,000 as at 30 June 2023.

DISCLOSURE OF ADDITIONAL INFORMATION

Share Option Scheme (Continued)

Under the Scheme, save as disclosed in this report, there are no other

- (i) participants with options granted that is in excess of the 1% individual limit;
- (ii) options granted and to be granted to any related entity participant or service provider in any 12-month period exceeding 0.1% of the relevant class of shares in issue; and

saved for the Share Option Scheme, neither the Company nor its subsidiaries had any other share option schemes for the six months ended 30 June 2023.

Connected Transactions

The Group had entered into the following transaction with connected persons, as defined under the Listing Rules, during the six months ended 30 June 2023 and up to the date of this report:

- (i) During the six months ended 30 June 2023, the Group had rented a property from Kaisa Group Holdings Ltd. amounted to approximately HK\$72,000. Kaisa Group Holdings Ltd. is a substantial shareholder of the Company and therefore is a connected person of the Company under Chapter 14A of the Listing Rules and the lease constituted an exempted connected transaction of the Company under Chapter 14A of the Listing Rules.

Audit Committee

The Audit Committee of the Board was established with written terms of reference in accordance with Appendix 14 to the Listing Rules. As at the date of this Interim Report, the Audit Committee comprises of three independent non-executive Directors, namely Dr. Liu Yanwen (chairman), and Dr. Lyu Aiping and Ms. Li Zhiying.

The Audit Committee met with the management on 28 August 2023 to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting including the review of the Group's interim results for the Period, before proposing them to the Board for approval. The Audit Committee has reviewed the unaudited interim results announcement and this unaudited Interim Report of the Company for the Period.



Kaisa Health Group Holdings Limited
佳兆業健康集團控股有限公司