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H. BROTHERS | ENTERTAINMENT

華 誼 騰 訊 娛 樂

華 誼 騰 訊 娛 樂 有 限 公 司

Huayi Tencent Entertainment Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 419)

ANNOUNCEMENT OF INTERIM RESULTS

HIGHLIGHTS

Six months ended 30 June

2022 2021

HK\$'000 HK\$'000

Total revenue:

– Online prescription, circulation and marketing of pharmaceutical products (“Echartnow”)	229,124	–	N/A
– Smart healthcare services platform (“Meerkat Health”)	345,969	–	N/A
– Entertainment and media	44,958	127,392	–65%
– Healthcare and wellness services	52,632	55,985	–6%
	<u>672,683</u>	<u>183,377</u>	267%

Gross profit

<u>140,528</u>	<u>40,780</u>	245%
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Loss for the period

<u>(141,081)</u>	<u>(9,009)</u>	N/A
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Loss for the period attributable to equity owners of the Company

<u>(118,413)</u>	<u>(7,190)</u>	N/A
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Non-HKFRS Adjustments:

Adjusted loss for the period	<u>(122,995)</u>	<u>(9,097)</u>	N/A
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- The Group resolutely implemented its layout in the areas of internet pharmaceutical and healthcare services in the PRC last year, acquiring “Echartnow”, a platform for online prescription, circulation and marketing of pharmaceutical products, and forming a joint venture “Meerkat Health” together with the industry elites, focusing on smart healthcare services. These two platforms have quickly become the core business of the Group with 85% revenue attribution, contributing a significant growth in the Group’s revenue by approximately 2.7 times to approximately HK\$673 million, comparing to the revenue for same period in the prior year of approximately HK\$183 million.
- “Echartnow” dedicates itself to the establishment of an integrated healthcare platform which covers different user terminals in the industry, including pharmaceutical companies, retail pharmacies, doctors and patients, and offers them different “digitised enterprise operation solutions”. Currently, “Echartnow” has signed contracts with more than 60 pharmaceutical companies, including top ones such as Qilu Pharmaceutical and Jiangsu Hengrui Pharmaceuticals. Contracted pharmacies reached over 2,700, and the number of drugs listed increased to over 162,000 units. For the six months ended 30 June 2022, “Echartnow” had completed revenues equivalent to HK\$229 million, accounted for 34% of the Group’s revenue for the period.
- Launched in the second half of 2021, “Meerkat Health” is devoted to effectively combining the industrial internet and consumer internet in the healthcare management industry, with the mission of “being the expert in safeguarding the health of your family”. The healthcare consumption business of “Meerkat Health” has established partnerships with more than 100 pharmaceutical and healthcare product manufacturers and distributors. Regarding the medical services business of “Meerkat Health”, the GMV of the online appointment services for vaccination in the second quarter of 2022 increased by 154% compared with the first quarter, while the digital intellectualised body check services has covered 19 cities and 21 hospitals, more than 35% of which were Grade A tertiary hospitals. For the six months ended 30 June 2022, “Meerkat Health” has achieved revenue of equivalent to HK\$346 million, accounted for 51% of the Group’s revenue for the period.

The board of directors (the “Board”) of Huayi Tencent Entertainment Company Limited (the “Company”) is pleased to present the condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2022, together with the comparative figures for the corresponding period in 2021. The condensed consolidated interim results have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Revenue	4	672,683	182,549
Interest revenue calculated using the effective interest method	4	—	828
		672,683	183,377
Cost of sales		(532,155)	(142,597)
Gross profit		140,528	40,780
Other income and other (losses)/gains, net	4	(4,491)	10,951
Marketing and selling expenses		(178,375)	(12,481)
Research and development expenses		(10,821)	—
Administrative expenses		(80,489)	(45,009)
Net provision for impairment of financial assets	7	(3,746)	18
		(137,394)	(5,741)
Finance costs, net	6	(743)	(1,498)
Share of result of an associate		(3,247)	(1,917)
Loss before taxation	7	(141,384)	(9,156)
Taxation	8	303	147
Loss for the period		(141,081)	(9,009)
Loss attributable to:			
Equity holders of the Company		(118,413)	(7,190)
Non-controlling interests		(22,668)	(1,819)
		(141,081)	(9,009)
Loss per share attributable to equity holders of the Company for the period			
Basic and diluted loss per share	9	(0.88)	(0.05)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the period	<u>(141,081)</u>	<u>(9,009)</u>
Other comprehensive loss:		
<i>Item that may be subsequently reclassified to profit or loss:</i>		
— Currency translation differences	<u>(17,540)</u>	<u>(10,592)</u>
Other comprehensive loss for the period, net of tax	<u>(17,540)</u>	<u>(10,592)</u>
Total comprehensive loss for the period	<u>(158,621)</u>	<u>(19,601)</u>
Total comprehensive loss attributable to:		
Equity holders of the Company	(136,604)	(17,900)
Non-controlling interests	<u>(22,017)</u>	<u>(1,701)</u>
	<u>(158,621)</u>	<u>(19,601)</u>

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2022

		30 June	31 December
		2022	2021
		(Unaudited)	(Audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	12	14,365	7,466
Right-of-use assets	11	44,257	61,914
Film rights and films production in progress	13	62,555	116,949
Intangible assets	14	4,282	4,793
Goodwill	15	29,078	30,397
Interests in associates	16	235,098	261,072
Prepayments, deposits and other receivables	19	2,238	1,803
		<u>391,873</u>	<u>484,394</u>
Current assets			
Inventories	20	4,976	2,272
Trade and bills receivables	18	90,307	63,327
Prepayments, deposits and other receivables	19	196,114	211,227
Financial asset at fair value through profit or loss	17	2,867	1,428
Restricted cash	21	3,234	–
Cash and cash equivalents	21	52,793	148,552
		<u>350,291</u>	<u>426,806</u>
Total assets		<u><u>742,164</u></u>	<u><u>911,200</u></u>

		30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
EQUITY AND LIABILITIES			
Equity			
Equity attributable to the equity holders of the Company			
Share capital	25	271,212	269,962
Reserves		<u>257,652</u>	<u>385,391</u>
		528,864	655,353
Non-controlling interests		<u>(13,332)</u>	<u>3,547</u>
Total equity		<u>515,532</u>	<u>658,900</u>
Liabilities			
Non-current liabilities			
Lease liabilities	11	6,493	10,036
Deferred income tax liabilities		<u>644</u>	<u>1,011</u>
		<u>7,137</u>	<u>11,047</u>
Current liabilities			
Trade payables	23	81,652	29,291
Other payables and accrued liabilities	24	81,074	89,135
Contract liabilities	24	7,031	80,670
Bank and other borrowings	22	10,364	–
Lease liabilities	11	<u>39,374</u>	<u>42,157</u>
		<u>219,495</u>	<u>241,253</u>
Total liabilities		<u>226,632</u>	<u>252,300</u>
Total equity and liabilities		<u>742,164</u>	<u>911,200</u>

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities	<u>(88,270)</u>	<u>79,177</u>
Cash flows from investing activities		
Interest received	1,025	41
Purchase of property, plant and equipment	(9,720)	(1,289)
Purchase of intangible assets	(350)	–
Acquisition of subsidiaries	–	(2,791)
Proceeds from sales of property, plant and equipment	<u>531</u>	<u>–</u>
Net cash used in investing activities	<u>(8,514)</u>	<u>(4,039)</u>
Cash flows from financing activities		
Proceeds from bank and other borrowings	10,364	–
Principal elements of lease payments	<u>(5,910)</u>	<u>(32,709)</u>
Net cash generated from/(used in) financing activities	<u>4,454</u>	<u>(32,709)</u>
Net (decrease)/increase in cash and cash equivalents	(92,330)	42,429
Cash and cash equivalents at 1 January	148,552	113,837
Currency translation differences	<u>(3,429)</u>	<u>572</u>
Cash and cash equivalents at 30 June	<u><u>52,793</u></u>	<u><u>156,838</u></u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

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

	(Unaudited)										
	Attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Capital redemption reserve HK\$'000	Currency translation reserve HK\$'000	Shares held for share award scheme HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling Interest HK\$'000	Total HK\$'000
Balance at 1 January 2021	269,962	1,213,484	860,640	1,206	(14,179)	-	-	(1,554,521)	776,592	-	776,592
Loss for the period	-	-	-	-	-	-	-	(7,190)	(7,190)	(1,819)	(9,009)
Other comprehensive loss	-	-	-	-	(10,710)	-	-	-	(10,710)	118	(10,592)
Total comprehensive loss	-	-	-	-	(10,710)	-	-	(7,190)	(17,900)	(1,701)	(19,601)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	16,347	16,347
Balance at 30 June 2021	269,962	1,213,484	860,640	1,206	(24,889)	-	-	(1,561,711)	758,692	14,646	773,338

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

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

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

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

This condensed consolidated interim financial information is presented in thousand Hong Kong dollars (HK\$’000), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 30 August 2022.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2022 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2021, as described in those annual consolidated financial statements, except for the estimation of income tax and the adoption of new and amended standard as set out below. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standard adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

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

Certain new accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Online prescription, circulation and marketing of pharmaceutical products		
– Digital marketing services	229,059	–
– Circulation of prescribed pharmaceutical products	65	–
Smart healthcare services platform		
– Healthcare consumption	340,579	–
– Medical services	5,390	–
Entertainment and media		
– Film exhibition and license fee	44,958	126,564
Healthcare and wellness services		
– Club activities income	34,205	32,136
– Membership fees	15,200	16,377
– Food and beverage	3,227	7,472
	672,683	182,549
Interest revenue calculated using the effective interest method (Entertainment and media)	–	828
	672,683	183,377
Other income and other (losses)/gains, net		
Share of subsidies for movie production	–	10,645
Interest income	1,025	41
Fair value change on financial asset at fair value through profit or loss	1,439	88
Fair value change on interest in an associate measured at fair value through profit or loss	(4,272)	–
Fair value change on film investment fund received	–	(950)
Loss on disposal of property, plant and equipment	(5)	(12)
Exchange (losses)/gains, net	(3,476)	1,023
Others	798	116
	(4,491)	10,951

5. SEGMENT INFORMATION

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

In previous years, the management committee has determined that the Group is organized into two main operating segments: (i) Entertainment and media businesses and (ii) Healthcare and wellness services. Following the completion of the acquisition of Pingtan Xinban Clinic Company Limited and the establishment of new operations of Hangzhou Meerkat Health Technology Co., Ltd. in 2021, the management committee has added two more main operating segments: (i) Online prescription, circulation and marketing of pharmaceutical products ("Echartnow"); and (ii) Smart healthcare services platform ("Meerkat Health"). Therefore, the management committee has currently determined that the Group is organised into four operating segments. The management committee measures the performance of the segments based on their respective segment results. The segment results derived from loss before taxation, excluding exchange gain/(losses), net, finance income/(costs), net and unallocated expenses, net. Unallocated expenses, net mainly comprise of corporate income net off with corporate expenses including salary, depreciation of right-of-use assets in relation to office and apartment and other administrative expenses which are not attributable to particular reportable segment.

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

There were no sales between the operating segments during the six months ended 30 June 2022 (2021: Nil).

(a) **Business segment**

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

	Online prescription circulation, and marketing of pharmaceutical products (Unaudited) <i>HK\$'000</i>	Smart healthcare services platform (Unaudited) <i>HK\$'000</i>	Entertainment and media (Unaudited) <i>HK\$'000</i>	Healthcare and wellness service (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Revenue	<u>229,124</u>	<u>345,969</u>	<u>44,958</u>	<u>52,632</u>	<u>672,683</u>
Share of result of an associate	<u>–</u>	<u>–</u>	<u>(3,247)</u>	<u>–</u>	<u>(3,247)</u>
Segment results	<u>(30,870)</u>	<u>(34,992)</u>	<u>(48,063)</u>	<u>471</u>	<u>(113,454)</u>
Exchange losses, net					(3,476)
Fair value change on financial asset at fair value through profit or loss — unallocated					1,439
Fair value change on interest in an associate measured at fair value through profit or loss — unallocated					(4,272)
Provision for impairment of financial assets — unallocated					(3,994)
Other unallocated expenses, net					<u>(16,884)</u>
Finance costs, net					<u>(140,641)</u> <u>(743)</u>
Loss before taxation					(141,384)
Taxation					<u>303</u>
Loss for the period					(141,081)
Loss for the period attributable to non-controlling interests					<u>22,668</u>
Loss for the period attributable to equity holders of the Company					<u>(118,413)</u>

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

	Online prescription circulation, and marketing of pharmaceutical products (Unaudited) HK\$'000	Smart healthcare services platform (Unaudited) HK\$'000	Entertainment and media (Unaudited) HK\$'000	Healthcare and wellness service (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 30 June 2022 (unaudited):					
Segment assets	119,794	69,122	397,921	97,797	684,634
Unallocated assets					<u>57,530</u>
Total assets					<u><u>742,164</u></u>
Segment liabilities	90,443	31,639	644	69,914	192,640
Unallocated liabilities					<u>33,992</u>
Total liabilities					<u><u>226,632</u></u>
For the six months ended 30 June 2022 (unaudited):					
Other information:					
Additions of right-of-use assets	1,949	54	–	–	2,003
Purchases of property, plant and equipment	2,304	6,924	–	492	9,720
Purchases of intangible assets	–	350	–	–	350
Depreciation of right-of-use assets					
— Allocated	1,085	1,951	–	11,255	14,291
— Unallocated					2,113
Depreciation of property, plant and equipment					
— Allocated	280	935	–	506	1,721
— Unallocated					60
Amortization of intangible assets	–	657	–	–	657
Amortization of completed film rights	–	–	53,633	–	53,633
Provision for/(reversal of) impairment of trade receivables	71	(21)	(61)	(4)	(15)
Provision for/(reversal of) impairment of other receivables					
— Allocated	10	15	(305)	47	(233)
— Unallocated					3,994
Provision for impairment of film rights and film production in progress	<u>–</u>	<u>–</u>	<u>1,498</u>	<u>–</u>	<u>1,498</u>

The segment results for the six months ended 30 June 2021 are as follows:

	Entertainment and media (Unaudited) <i>HK\$'000</i>	Healthcare and wellness service (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Revenue	126,564	55,985	182,549
Interest revenue calculated using the effective interest method	<u>828</u>	<u>–</u>	<u>828</u>
	<u>127,392</u>	<u>55,985</u>	<u>183,377</u>
Share of result of an associate	<u>(1,917)</u>	<u>–</u>	<u>(1,917)</u>
Segment results	<u>9,117</u>	<u>(1,269)</u>	7,848
Exchange gains, net			1,023
Fair value change on financial asset at fair value through profit or loss — unallocated			88
Other unallocated expenses, net			<u>(16,617)</u>
			(7,658)
Finance cost, net			<u>(1,498)</u>
Loss before taxation			(9,156)
Taxation			<u>147</u>
Loss for the period			(9,009)
Loss for the period attributable to non- controlling interests			<u>1,819</u>
Loss for the period attributable to equity holders of the Company			<u>(7,190)</u>

An analysis of the Group's assets and liabilities as at 31 December 2021 by segment and other information for the six months ended 30 June 2021 are as follows:

	Online prescription, circulation and marketing of pharmaceutical products <i>HK\$'000</i>	Smart healthcare services platform <i>HK\$'000</i>	Entertainment and media <i>HK\$'000</i>	Healthcare and wellness service <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December (Audited):					
Segment assets	158,783	64,564	486,299	98,843	808,489
Unallocated assets					<u>102,711</u>
Total assets					<u><u>911,200</u></u>
Segment liabilities	124,409	32,265	1,051	72,760	230,485
Unallocated liabilities					<u>21,815</u>
Total liabilities					<u><u>252,300</u></u>
For the six months ended 30 June 2021 (unaudited):					
Other information:					
Purchases of property, plant and equipment	–	–	–	1,289	1,289
Depreciation of right-of-use assets					
— Allocated	–	–	–	11,404	11,404
— Unallocated					2,364
Depreciation of property, plant and equipment					
— Allocated	–	–	–	182	182
— Unallocated					83
Amortization of completed film rights	–	–	81,513	–	81,513
Decrease in loss allowance of programmes and film production in progress	<u>–</u>	<u>–</u>	<u>(18)</u>	<u>–</u>	<u>(18)</u>

(b) Geographical segment

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

	Revenue from external customers		Non-current assets^{Note}	
	30 June 2022 (Unaudited) HK\$'000	30 June 2021 (Unaudited) HK\$'000	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
The People's Republic of China (the "PRC")	652,015	56,487	86,512	96,986
Hong Kong	–	–	5,469	7,585
Other countries	20,668	126,890	62,556	116,948
	<u>672,683</u>	<u>183,377</u>	<u>154,537</u>	<u>221,519</u>

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

6. FINANCE COSTS, NET

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Finance costs		
Interest on bank and other borrowings	(91)	(8)
Interest on lease liabilities (<i>Note 11</i>)	<u>(652)</u>	<u>(1,490)</u>
Finance costs, net	<u>(743)</u>	<u>(1,498)</u>

7. LOSS BEFORE TAXATION

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Film production and distribution fee	33,585	43,153
Depreciation of property, plant and equipment (<i>Note 12</i>)	1,781	265
Depreciation of right-of-use assets (<i>Note 11</i>)	16,404	13,768
Expense relating to short-term leases (<i>Note 11</i>)	2,473	52
Provision for impairment of film rights and film production in progress (<i>Note 13</i>)	1,498	–
Provision for/(reversal of) impairment of financial assets		
— Trade receivables	(15)	–
— Deposits and other receivables	3,761	–
— Programmes and films production in progress	–	(18)
Amortization of completed film rights (<i>Note 13</i>)	53,633	81,513
Amortization of intangible assets (<i>Note 14</i>)	657	–
Costs of online prescription, circulation and marketing of pharmaceutical products	104,567	–
Costs of inventories sold (<i>Note 20</i>)	337,312	–
Food and beverage costs in relation to “Bayhood No. 9 Club” operation	2,573	4,302
Labour costs in relation to “Bayhood No. 9 Club” operation	15,806	16,397
Marketing and promotion expenses	119,297	–
Employee benefit expenses:		
Directors’ fees	360	360
Wages and salaries	27,659	7,521
Contributions to defined contribution pension schemes	4,534	715
Share-based compensation expenses	15,253	–
	47,806	8,596

8. TAXATION

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

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Current income tax		
— Hong Kong profits tax	—	—
— PRC corporate income tax	—	—
Deferred income tax	<u>303</u>	<u>147</u>
Income tax credit	<u><u>303</u></u>	<u><u>147</u></u>

The weighted average applicable tax rate for the six months ended 30 June 2022 was 18.8% (2021: 23.3%).

9. LOSS PER SHARE

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

	Six months ended 30 June	
	2022 (Unaudited)	2021 (Unaudited)
Weighted average number of ordinary shares in issue (thousands)	13,506,394	13,498,107
Loss attributable to equity holders of the Company (HK\$'000)	<u><u>(118,413)</u></u>	<u><u>(7,190)</u></u>
Basic loss per share attributable to equity holders of the Company (HK cents per share)	<u><u>(0.88)</u></u>	<u><u>(0.05)</u></u>

During the six months ended 30 June 2022, all of the share-based compensation had anti-dilutive effect to the Company and therefore, diluted loss per share is the same as basic loss per share as there were no dilutive potential ordinary shares for the six months ended 30 June 2022 (2021: same).

10. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the six months ended 30 June 2022 (2021: Nil).

11. LEASES

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

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

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Right-of-use assets		
Office	15,402	19,127
Operating assets of "Bayhood No. 9 Club"	27,813	40,605
Apartment	<u>1,042</u>	<u>2,182</u>
	<u>44,257</u>	<u>61,914</u>
Lease liabilities		
Current	39,374	42,157
Non-current	<u>6,493</u>	<u>10,036</u>
	<u>45,867</u>	<u>52,193</u>

Addition to the right-of-use assets during the six months ended 30 June 2022 was HK\$2,003,000 (31 December 2021: HK\$21,130,000).

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

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

	30 June 2022 (Unaudited) HK\$'000	30 June 2021 (Unaudited) HK\$'000
Depreciation charge of right-of-use assets		
Office	4,010	1,380
Operating assets of "Bayhood No. 9 Club"	11,254	11,248
Apartment	<u>1,140</u>	<u>1,140</u>
	<u>16,404</u>	<u>13,768</u>
Interest expense (included in finance costs)	6	1,490
Expenses relating to short-term leases (included in administrative expenses)	7	52

The total cash outflow for leases for the six months ended 30 June 2022 was HK\$8,383,000 (2021: HK\$34,980,000).

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

The Group leases various offices and certain operating assets of “Bayhood No. 9 Club”. Rental contracts are generally made for fixed periods of 2 to 3 years, but may have extension and termination options as described in Note 11(iv) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

(iv) Extension and termination options

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

12. PROPERTY, PLANT AND EQUIPMENT

	Building (Unaudited) HK\$'000	Machinery and equipment (Unaudited) HK\$'000	Furniture, computer and equipment (Unaudited) HK\$'000	Leasehold improvements (Unaudited) HK\$'000	Motor vehicles (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Six months ended 30 June 2022						
Opening net book amount	–	544	3,670	1,685	1,567	7,466
Additions	–	118	3,751	5,820	31	9,720
Disposal	–	–	(531)	–	–	(531)
Written-off	–	(4)	–	–	–	(4)
Depreciation (Note 7)	–	(72)	(707)	(766)	(236)	(1,781)
Exchange difference	–	(25)	(231)	(185)	(64)	(505)
Closing net book amount	–	561	5,952	6,554	1,298	14,365
Six months ended 30 June 2021						
Opening net book amount	–	508	935	–	322	1,765
Additions	–	40	414	–	835	1,289
Acquisition of subsidiaries	–	–	–	152	–	152
Disposal	–	–	–	–	(20)	(20)
Written-off	–	–	–	–	(12)	(12)
Depreciation (Note 7)	–	(55)	(109)	(20)	(81)	(265)
Exchange difference	–	6	13	–	10	29
Closing net book amount	–	499	1,253	132	1,054	2,938

During the six months ended 30 June 2022, depreciation expenses of approximately HK\$1,753,000 (2021: HK\$265,000) and HK\$28,000 (2021: Nil) have been charged in administrative expenses and marketing and selling expenses respectively.

13. FILM RIGHTS AND FILM PRODUCTION IN PROGRESS

	Completed film rights	Film production in progress	Film rights investments	Total
	<i>(Note (a))</i>	<i>(Note (a))</i>	<i>(Note (b))</i>	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended 30 June 2022				
Opening net book amount	–	116,949	–	116,949
Transfer	116,949	(116,949)	–	–
Amortization <i>(Note 7)</i>	(53,633)	–	–	(53,633)
Impairment <i>(Note 7)</i>	(1,498)	–	–	(1,498)
Exchange difference	737	–	–	737
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Closing net book amount	<u>62,555</u>	<u>–</u>	<u>–</u>	<u>62,555</u>
Six months ended 30 June 2021				
Opening net book amount	–	341,217	22,307	363,524
Transfer	82,718	(82,718)	–	–
Amortization <i>(Note 7)</i>	(81,513)	–	–	(81,513)
Return of investment	–	(4,269)	–	(4,269)
Exchange difference	(1,205)	997	256	48
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Closing net book amount	<u>–</u>	<u>255,227</u>	<u>22,563</u>	<u>277,790</u>

Note (a):

As at 30 June 2022, the total cost of completed film rights was approximately HK\$382,181,000 (31 December 2021: approximately HK\$264,495,000) and accumulated amortization and impairment was approximately HK\$319,626,000 (31 December 2021: approximately HK\$264,495,000).

Amortization of completed film rights amounting to approximately HK\$53,633,000 (2021: approximately HK\$81,513,000) has been charged in condensed consolidated interim income statement during the six months ended 30 June 2022.

For the six months ended 30 June 2022, impairment of HK\$1,498,000 (2021: Nil) on completed film rights was recognized and included in cost of sales.

The Group has entered into certain joint operation arrangements to produce or distribute up to one (31 December 2021: seven) films. The Group has participating interests in 37.5% (31 December 2021: ranging from 20% to 50%) in these joint operations. As at 30 June 2022, the aggregate amounts of assets recognized in the condensed consolidated interim balance sheet relating to the Group's interests in these joint operation arrangements are the completed film rights of HK\$62,555,000 (31 December 2021: film production in progress of HK\$116,949,000).

Note (b):

The balance represented the Group's investments in films productions which entitled the Group to predetermined percentage of income to be generated from the films based on the Group's investment portion as specified in the film rights investment agreements.

14. INTANGIBLE ASSETS

Licenses and softwares
Six months ended 30 June
2022 **2021**
(Unaudited) **(Unaudited)**
HK\$'000 **HK\$'000**

Six months ended 30 June

Opening net book amount	4,793	
Additions	350	–
Amortization (<i>Note 7</i>)	(657)	–
Exchange differences	(204)	–
	<u>4,282</u>	<u>–</u>
Closing net book amount	<u>4,282</u>	<u>–</u>
As at 30 June		
Cost	4,959	–
Accumulated amortization	(677)	–
	<u>4,282</u>	<u>–</u>
Net carrying amount	<u>4,282</u>	<u>–</u>

During the six months ended 30 June 2022, amortization expenses of approximately HK\$630,000 (2021: Nil) and HK\$27,000 (2021: Nil) have been charged in administrative expenses and marketing and selling expenses respectively.

15. GOODWILL

Six months ended 30 June
2022 **2021**
(Unaudited) **(Unaudited)**
HK\$'000 **HK\$'000**

Cost and net carrying amount as at 1 January	30,397	–
Acquisition of subsidiaries	–	30,863
Exchange differences	(1,319)	125
	<u>29,078</u>	<u>30,988</u>
Cost and net carrying amount as at 30 June	<u>29,078</u>	<u>30,988</u>

16. INTERESTS IN ASSOCIATES

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Interest in an associate accounted for using the equity method		
— Interest in HB Entertainment Co., Ltd.	215,210	236,912
Interest in an associate measured at fair value through profit or loss (Note)		
— Interest in Deep Sea Health Limited	<u>19,888</u>	<u>24,160</u>
	<u>235,098</u>	<u>261,072</u>

Note: During the six months ended 30 June 2022, net fair value loss of HK\$4,272,000 (2021: Nil) was recognized in the condensed consolidated interim income statement.

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

As at 30 June 2022, the fair value was determined by market approach with a combination of observable and unobservable inputs. The following table lists the inputs to the model used:

	30 June 2022
Median price-to-revenue ratio	2.71x
Discounts for lack of marketability	<u>25%</u>

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

Set out below are the associates of the Group as at 30 June 2022 which, in the opinion of the directors, are material to the Group. These associates are private companies and there is no quoted market price available for their shares. There are no contingent liabilities relating to the Group's interests in associates, and there are no contingent liabilities of the associates themselves.

Details of interests in associates as at 30 June 2022 and 31 December 2021 are as follows:

Name	Place of establishment and kind of legal entity	% of ownership interest		Principal activities and place of operation
		2022	2021	
HB Entertainment Co., Ltd. (“HB Entertainment”)	South Korea, limited liability company	31%	31%	Production of and investments in movies and TV drama series, provision of entertainer/artist management and agency services in South Korea
Deep Sea Health Limited (“DSH”)	Hong Kong, limited company	22%	22%	Investment holding

17. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Current:		
Put option		
— Deep Sea Health Limited (<i>Note</i>)	<u>2,867</u>	<u>1,428</u>

Note: On 12 August 2021, the Company has completed an acquisition of 21.88% equity interest in Deep Sea Health Limited (“DSH”), which became an associate of the Group. In connection with the acquisition, the Company has been granted an option to put the whole of acquired 21.88% equity interests in DSH to the founder and largest shareholder of DSH by 30 December 2022 at its original cost of acquisition.

Upon initial recognition, the put option was classified as a financial asset measured at fair value through profit or loss. The fair value of the put option was estimated as at the date of grant and each financial reporting period end, using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the option was granted. The following table lists the inputs to the model used:

	30 June 2022	31 December 2021
Expected volatility	63.36%	63.05%
Expected dividend yield	0.00%	0.00%
Exercise probability	50%	25%
Risk-free interest rate	<u>1.75%</u>	<u>2.19%</u>

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

During the six months ended 30 June 2022, net fair value gain of HK\$1,439,000 (2021: Nil) was recognized in the condensed consolidated interim income statement.

18. TRADE AND BILLS RECEIVABLES

At 30 June 2022 and 31 December 2021, the aging analysis of the trade and bills receivables based on invoice date were as follows:

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
0–3 months	71,653	61,360
4–6 months	12,918	2,160
7–9 months	5,906	–
10–12 months	50	–
Over 1 year	<u>8,374</u>	<u>8,322</u>
	98,901	71,842
Less: Provision for impairment	<u>(8,594)</u>	<u>(8,515)</u>
	<u>90,307</u>	<u>63,327</u>

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Prepayments	23,753	36,422
Deposits and other receivables	<u>203,315</u>	<u>201,552</u>
	227,068	237,974
Less: Provision for impairment of Deposits and other receivables	<u>(28,716)</u>	<u>(24,944)</u>
	198,352	213,030
Less: Non-current portion	<u>(2,238)</u>	<u>(1,803)</u>
	<u>196,114</u>	<u>211,227</u>

The balances of prepayments, deposits and other receivables mainly comprised (i) prepayments, deposits and other receivables for the operations of online prescription, circulation and marketing of pharmaceutical products and smart healthcare services platform; (ii) prepayments in relation to the leasing of operating assets of “Bayhood No.9 Club”; and (iii) other receivables arising from the refund of previous investments in certain film rights and film production in progress.

20. INVENTORIES

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Finished goods	<u>4,976</u>	<u>2,272</u>

The cost of inventories sold of approximately HK\$337,312,000 (2021: Nil) was recognized as expense and included in “Cost of sales” in the condensed consolidated interim income statement for the six months ended 30 June 2022.

No provision of impairment of inventories was recognized for the six months ended 30 June 2022 (2021: Nil).

21. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Cash and bank balances	56,027	148,552
Less: Restricted cash	<u>(3,234)</u>	<u>–</u>
Cash and cash equivalents	<u>52,793</u>	<u>148,552</u>
Denominated in:		
HK\$	3,376	10,862
RMB	43,047	127,753
US\$	<u>6,370</u>	<u>9,937</u>
	<u>52,793</u>	<u>148,552</u>
Maximum exposure to credit risk	<u>52,739</u>	<u>148,429</u>

The Group’s cash and bank balances of approximately HK\$42,980,000 and HK\$127,616,000 as at 30 June 2022 and 31 December 2021, respectively, were denominated in RMB and held in the PRC. The remittance of these funds out of the PRC is subject to the foreign exchange restrictions imposed by the PRC government.

22. BANK AND OTHER BORROWINGS

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Current:		
Bank borrowing	5,854	–
Other borrowings	<u>4,510</u>	<u>–</u>
	<u>10,364</u>	<u>–</u>
Non-secured:		
Bank borrowing	5,854	–
Other borrowings	<u>4,510</u>	<u>–</u>
	<u>10,364</u>	<u>–</u>

23. TRADE PAYABLES

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

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
0–3 months	81,360	28,986
Over 6 months	<u>292</u>	<u>305</u>
	<u>81,652</u>	<u>29,291</u>

24. CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUED LIABILITIES

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Current liabilities:		
Other payables and accrued liabilities (<i>Note i</i>)	81,074	88,595
Film investment fund received, net	<u>–</u>	<u>540</u>
	81,074	89,135
Contract liabilities (<i>Note ii</i>)	<u>7,031</u>	<u>80,670</u>
	<u>88,105</u>	<u>169,805</u>

Notes:

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

25. SHARE CAPITAL

	Ordinary shares of HK\$0.02 each		Preference shares of HK\$0.01 each		Total
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000	
Authorized:					
At 30 June 2022 (Unaudited)	<u>150,000,000</u>	<u>3,000,000</u>	<u>240,760</u>	<u>2,408</u>	<u>3,002,408</u>
At 31 December 2021 (Audited)	<u>150,000,000</u>	<u>3,000,000</u>	<u>240,760</u>	<u>2,408</u>	<u>3,002,408</u>
Issued and fully paid:					
At 1 January 2022	13,498,107	269,962	–	–	269,962
Issuance of share award	<u>62,500</u>	<u>1,250</u>	<u>–</u>	<u>–</u>	<u>1,250</u>
At 30 June 2022	<u>13,560,607</u>	<u>271,212</u>	<u>–</u>	<u>–</u>	<u>271,212</u>
At 1 January 2021 and 30 June 2021 (Unaudited)	<u>13,498,107</u>	<u>269,962</u>	<u>–</u>	<u>–</u>	<u>269,962</u>

Share Option

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

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

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

Subscription price in relation to each option pursuant to the New Share Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in Stock Exchange’s daily quotation sheets on the date on which the option is offered to a Eligible Participant(s); or (ii) the average of the closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the Board of Directors of the Company. No share-based compensation expense has been charged to the condensed consolidated interim income statement accordingly (2021: Nil).

During the six months ended 30 June 2022, no share options were granted, exercised, cancelled or lapsed, and there was no outstanding option under the New Share Option Scheme as at 30 June 2022 (2021: Nil).

Share award scheme

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

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

During the six months ended 30 June 2022, 77,500,000 shares were granted to selected participants pursuant to the Share Award Scheme (2021: Nil). 15,000,000 shares were lapsed because the vesting conditions had not been fulfilled. 62,500,000 (2021: Nil) shares, which par value amounted to

HK\$1,250,000 (2021: Nil) were vested and issued, subject to a lock-up period of one year (25% of vested shares), two years (25% of vested shares), three years (25% vested shares) and four years (25% of vested shares) respectively.

For the six months ended 30 June 2022, share-based compensation expense recognized in the condensed consolidated interim income statement for share awards was approximately HK\$436,000 (2021: Nil).

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

26. ACQUISITION OF PINGTAN XINBAN CLINIC COMPANY LIMITED

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

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

In accordance to the Capital Increase and Acquisition Agreement in relation to PTXB acquisition, the following payments (the “Performance Target Payments”) will become payable subject to the achievements of the First and Second Performance Targets.

Performance Targets

First Performance Target

During the first 12 months after the completion date, the revenue of the Target Group reaches RMB150,000,000.

Performance Target Payments

Upon satisfaction of the First Performance Target

- (a) RMB11,000,000 to be paid and settled by the allotment and issue of shares to the founding shareholders at the price of HK\$0.529 per share (the “First Contingent Shares”); and
- (b) RMB50,000,000 to be injected into PTXB in cash by PIL.

Performance Targets

Second Performance Target

At any time within 12 months from the achievement of the First Performance Target, (i) the revenue of the Target Group reaches RMB600,000,000; and (ii) the net profits after taxation of the Target Group reaches RMB40,000,000.

Performance Target Payments

Upon satisfaction of the Second Performance Target

- (a) RMB50,000,000 to be paid and settled by the allotment and issue of shares to the founding shareholders at the price per share equal to the average closing price of the shares of the Company for the last five consecutive trading days before the date of the achievement of the First Performance Target (the “Second Contingent Shares”);
- (b) RMB43,000,000 shall be paid and settled by the allotment and issue of shares to the founding shareholders at the price per share equal to the average closing price of the shares as quoted on the Stock Exchange for the last five consecutive trading days before the date of the achievement of the Second Performance Target (the “Third Contingent Shares”); and
- (c) RMB10,000,000 to be injected into PTXB in cash by PIL.

Subject to the Target Group’s achievement of the First Performance Target and the Second Performance Target and there being no nominee holding arrangement in relation to equity interest in the Target Company, the Group shall be obliged to acquire the remaining 49% of the total equity interest in the Target Company from the founding shareholders at the consideration of up to RMB196,000,000 (subject to adjustments depending on the extent of fulfilment of the guaranteed profits of not less than RMB50,000,000 by the Target Group in each of the two years after the completion of the acquisition of the remaining 49% interests (the “Guaranteed Profits”)), to be satisfied by issuance of the Company’s new shares (the “Further Payments”).

The Performance Target Payments, together with the Further Payments to be made by the Company to the founding shareholders in exchange for the 49% equity interests in the Target Company held by them, constituted an equity-settled share-based payment transactions, under which share-based compensation were granted by the Company to employees of PTXB, who are also the founding shareholders of PTXB, on the completion date of the acquisition and will be vested subject to the fulfilment of the First and Second Performance Targets and the Guaranteed Profits.

The fair value of the share-based compensation is measured at the grant date and is recognized as an employee benefits expense with a corresponding increase in equity in the other reserves. The total expense is recognized over the vesting period, which is the period over which all vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest based on the non-marketing performance. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity in the other reserves.

The Group has assessed that the First Performance Target is probable to achieve while the probability to fulfil the Second Performance Target and Guaranteed Profits is low as at 30 June 2022 and 31 December 2021.

During the six months ended 30 June 2022, share-based compensation expenses of HK\$14,817,000 (2021: Nil) was recognized in the condensed consolidated interim income statement.

During the six months ended 30 June 2022, there were no (2021: Nil) cancellation nor forfeiture of the Performance Target Payments or the Further Payments, and none of these share-based compensation were vested (2021: Nil).

27. RELATED PARTY TRANSACTIONS

(a) Related party transactions

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

Name of party	Nature of transaction	30 June	30 June
		2022	2021
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
華誼兄弟電影有限公司 (“Huayi Brothers Film Co., Ltd”)* (Note)	Interest revenue calculated using effective interest method	–	500
Huayi Brothers International Limited (“HBI”)	Interest revenue calculated using effective interest method	–	322
		<u>–</u>	<u>822</u>

* English name is made for identification purpose only.

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

(b) Related party balances

	30 June	31 December
	2022	2021
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Film rights and films production in progress		
— HBI	<u>62,555</u>	<u>116,949</u>
Trade receivables		
— Huayi Brothers Film Co., Ltd	<u>1,324</u>	24,899
— HBI	<u>9,260</u>	–
	<u>73,139</u>	<u>141,848</u>

28. CONTINGENT LIABILITIES

As at 30 June 2022, there are no material contingent liabilities to the Group (31 December 2021: Nil).

29. SUBSEQUENT EVENTS

On 12 July 2022, the Company and other relevant parties have entered into the third supplemental agreement to the Capital Increase and Acquisition Agreement (as supplemented by the Second Supplemental Agreement) (the “Third Supplemental Agreement”). Details of Capital Increase and Acquisition Agreement in relation to PXTB acquisition signed on 7 April 2021, please refer to Note 26.

The following are the amendments in the Third Supplemental Agreement:

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

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

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

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

Payment Terms in relation to the First Consideration Shares and the Second Cash Investment

(a) the First Consideration Shares shall be issued to the Founding Shareholders in proportion to their shareholding in the Platform Co immediately after the completion of the Corporate Restructuring within one month after the date of the Third Supplemental Agreement; (b) HKD or USD equivalent of RMB39,000,000 shall be paid by the Company to the Platform Co by instalments according to actual circumstances from the date of the Third Supplemental Agreement up to the satisfaction of the Revised First Performance Target; and (c) HKD or USD equivalent of RMB11,000,000 shall be paid by the Company to the Platform Co within 10 Working Days after the satisfaction of the Revised First Performance Target.

Save for the amendments as stated above, all other principal terms and conditions of the Capital Increase and Acquisition Agreement as supplemented by the Second Supplemental Agreement (including but not limited to the terms concerning the determination of the number and issue price of the Consideration Shares, lock-up undertakings agreed by the Founding Shareholders, the amount of the First Cash Investment, the Second Cash Investment and the Third Cash Investment, the obligations in relation to the Further Acquisition, the Guaranteed Profits and the adjustments to the consideration for the Further Acquisition in case of failure to satisfy the Guaranteed Profits) shall remain in full force and effect.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group resolutely implemented its layout in the areas of internet pharmaceutical and healthcare services in the PRC last year, acquiring “Echartnow”, a platform for online prescription, circulation and marketing of pharmaceutical products, and forming a joint venture “Meerkat Health” together with the industry elites, focusing on smart healthcare services. Succeeding in seizing development opportunities in the market, these two platforms have quickly become the core business of the Group with 85% revenue attribution, and are entering a rapid growth period, contributing a significant amount of revenue to the Group in the first half of this year.

According to the “2022 China’s Smart Healthcare Industry Insights” report, the market concentration of the domestic smart healthcare industry is still relatively low at present, and the industry is on a diversified development trend. The report emphasises that the domestic smart healthcare industry is in a period of rapid development, and the market needs to continue to be explored. With the development of technology and the innovation of different applications, the industry will become more in-depth and professional. With the construction of enterprise healthcare professional capabilities, the market is growing at an accelerating pace, and is expected to reach RMB376.6 billion in 2022, with the hope of becoming a trendsetter for business model exploration.

With the growing public awareness of personal health and the prevalence of the Internet, the demand for internet healthcare services is increasing. The Group has been proactively adjusting its strategy to capture the market opportunities in line with the national policy and the rapid development of internet healthcare.

For the first half of 2022, the Group’s total revenue amounted to HK\$673 million, representing a significant increase of 2.7 times over the same period last year. The two main sources of business growth, “Echartnow”, a platform for online prescription, circulation and marketing of pharmaceutical products, and “Meerkat Health”, a smart healthcare service platform, recorded revenue of HK\$229 million and HK\$346 million respectively, together accounting for over 85% of the total revenue. Through these two digitalised healthcare services platforms, the Group has successfully established its market coverage with regard to internet healthcare and enhanced its footprint in the smart healthcare services, which remains a new market to be charted.

The Healthcare and Wellness Services, “Bayhood No. 9 Club”, maintained a stable revenue of approximately HK\$53 million. During the period, its operations were temporarily suspended for a month due to the impact of the epidemic. However, due to strong market demand, operations have quickly returned to normal upon service resumption. As for the Entertainment and Media segment, the major release during the period was the film “Moonfall”, which generated revenue of approximately HK\$45 million. The Group is focusing on its internet healthcare services business and therefore will not make significant investment in new films and television projects for the time being.

BUSINESS REVIEW AND PROSPECTS

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

In 2022, the State Council issued the “14th Five-Year Plan for the Development of the Digital Economy”. The plan states the development goals of the digital economy. It once again emphasises the value of “internet healthcare” to the digital economy, and prioritises its development as a new form of “digital industrialisation”, as well as clearly states the requirements for the “digitalisation” upgrade of traditional medical and health services. The introduction and improvement of policies and regulations on the healthcare industry will enable industry participants to develop the industry with a high standard on the premise of having well-defined regulations.

Since the normalisation of anti-epidemic measures, the convenience of online medical consumption has led to a more diverse demand for internet healthcare services. In 2021, the Group had acquired the “Echartnow” platform, which connects doctors, patients, physical pharmacies and pharmaceutical companies closely through the model of “private traffic” and different interfaces, and offers different user terminals in the healthcare industry their own “digitised enterprise operation solutions”.

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

Group reaches no less than RMB40,000,000 (“**Revised Second Performance Target**”), the Group will issue the Second Consideration Shares equivalent to RMB50,000,000 and the Third Consideration Shares equivalent to RMB43,000,000 to the founding shareholders in proportion to their shareholding in the Platform Co and will proceed with capital increase to the Target Group equivalent to RMB10,000,000. For details, please refer to the Company’s announcements dated 7 April 2021, 21 April 2021, 17 May 2021, 20 December 2021, 12 July 2022 and 20 July 2022.

Business Review

Since the acquisition of “Echartnow”, within only a year, the segment has expanded rapidly. As at 30 June 2022, the platform has established 9 operation centres across the country, covering 27 provinces, and its workforce expanded from less than 20 to almost 200.

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

- Pharmaceutical companies — digitised marketing solutions for the whole cycle of business development
- Retail pharmacies — professional digitised pharmacy solutions, facilitating the pharmacies to get connected with doctors and patients
- Doctors — closed-loop online consultation scene, including management of patients and electronic prescription, etc.
- Patients — can now approach a doctor easily for online follow-up appointments and consultations and order prescribed drugs, etc. via the WeChat mini-app “Echartnow Assistant to Medical Advice”

During the period, the number of doctors registered on the “Echartnow” platform and its related marketing network has increased to 30,425, of which 21,029 have registered with their real names, uploaded qualifications and passed the authentication. The number of patients reached 421,725, including 100,824 in-hospital patients who visited offline physical hospitals and 320,901 out-of-hospital patients who were online customers or pharmacy referrals.

Under the healthcare reform, the Group has adopted the “pharmaceutical companies driving the whole industry chain” strategy. As at 30 June 2022, the number of pharmaceutical companies that have signed contracts with the “Echartnow” platform has increased to 67, with a number of top-100 pharmaceutical companies among them, including Qilu Pharmaceutical and Jiangsu Hengrui Pharmaceuticals, ranked 9th and 4th by the Ministry of Industry and Information Technology respectively. In addition, “Echartnow” has negotiated and reached preliminary agreements with 93 pharmaceutical companies, all of which are top 100 on Menet. The number of pharmacies that have signed contracts and gone online reached 2,737, and the number of drugs listed increased to 162,628.

During the first half of 2022, “Echartnow” had completed contracts revenue equivalent to HK\$229 million with a gross profit equivalent to HK\$125 million and a gross profit margin of 54.4%. Its major sources of revenue included:

1. *Online Drug Prescription and Circulation Service*

The current healthcare reform in the PRC, with the separation of medical treatment and medication, is driving the development of internet healthcare and the demand for online prescription drugs with the convenience of internet healthcare. The Prescription and Circulation Service offered by the “Echartnow” platform covers platform service, online diagnosis, referral, consultation and triage, medication management services, healthcare management services, and the sales sharing with pharmacy suppliers, etc. Doctors can issue electronic prescriptions through the “Lead Medical” (Internet Hospital) mobile application, which will be verified and distributed by licensed pharmacists from the pharmacies listed on the app. After the contracted retail terminal pharmacies approve and dispense the medicines, patients can pick up the medicines in person or pay online and have the medicines delivered straight to their door.

2. *Digitised Marketing Service*

“Echartnow” is accelerating its cooperation with upstream and downstream companies in the healthcare industry chain, building a complete healthcare digitalised operation ecosystem and promoting in-depth integration and development of the digital economy in the healthcare sector.

As the epidemic persists, people have become accustomed to consumption through online platforms, and the PRC government has issued many guidelines and specific instructions for “Internet + Healthcare Services”, giving the healthcare industry’s digitalisation upgrade a further boost, gradually changing the medical and health services in terms of scenarios, channels, and formats.

In recent years, the marketing of drugs by pharmaceutical companies has gradually extended from offline (such as academic conferences) to online. “Echartnow” helps pharmaceutical companies and major channels of drug sales to effectively promote their products to real-name certified doctors online and, at the same time, fosters the targeted doctors’ habit of both issuing electronic prescriptions and staying online actively.

The online marketing activities provided through the “Echartnow” platform include the push of professional articles, live broadcasts of academic conferences online, the production and promotion of academic short videos and training on product knowledge, etc. The “Echartnow” platform enables pharmaceutical companies to begin online medical research on the clinical effect of drugs legitimately and legally. Not only can such move assist the doctors in making strides in scientific knowledge, but it also fills the gap in research information relating to new functions of the drugs.

The “Echartnow” platform possesses comprehensive legitimate credentials, including “Internet Medical Treatment License and Full-function Licenses for Medicines/Medical Consumables”, “Certificate of Grade III Protection of National Information System Security”, and “Value-added Telecommunication Business Operation Permit”. It can offer a complete set of services to pharmaceutical companies. Through the online drug prescription and circulation service rendered by the “Echartnow” platform, pharmaceutical companies can broaden their distribution channels for prescription drugs outside the hospitals and open up their access to doctors and professional pharmacies. On the other hand, by offering the aforementioned services to pharmaceutical companies or major channels of drug sales, the “Echartnow” platform can earn fees with respect to technical services, marketing, development of channels, etc., and establish and maintain good relationships with pharmaceutical companies. At the same time, it can further broaden its bases of doctors and pharmacies with the participation of pharmaceutical companies and their sales teams.

Prospects

With the favourable healthcare policies of the PRC, “Echartnow” is committed to building digitalised operation services with the healthcare industry chain to create a new healthcare service ecosystem chain of “doctor + medicine + verification + research + insurance”, with a view to achieving its strategic development goals. As the Group continues to enrich the product functions of its online platform and upgrade its healthcare services, the Group’s user base continues to grow, and the enhancement of user stickiness has become a key driver of the Group’s business growth.

In the second half of 2022, “Echartnow” will accelerate the digital transformation of healthcare companies by continuing to provide digital operational solutions for pharmaceutical companies across the entire development cycle through its online and offline synergistic development. On the one hand, it assists pharmaceutical companies in achieving efficient online marketing conversion and operational growth. On the other hand, it can enhance the terminal accessibility of pharmaceutical products, the timely accessibility of patients and the quality of life of patients. The Group will continue to invest in developing and delivering more solutions, improving the functions of existing solutions, as well as strengthening its business development capabilities through existing sales, marketing and account management staff to facilitate the growth of its core businesses.

In addition, “Echartnow” will link up more top experts and offline terminal portals to create more specialist consultation services and cover more treatment areas and patients in order to deepen the prescription and circulation service on the “Echartnow” platform. “Echartnow” will build a strong healthcare network to integrate the healthcare services businesses and offline terminal healthcare resources through the “online-offline dual network” model, and create a closed-loop of internet healthcare services, as well as build a new form of “digitalised operation service” in the healthcare industry to achieve the ultimate goal of “Healthy China 2030”.

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

The PRC has implemented the “Healthy China 2030” Planning Outline, in which it is mentioned that the realisation of a long and healthy life is an important symbol of national wealth and prosperity. The strategic theme of building a healthy China is “Building and Sharing, Good Health for All”. The core of that is to focus on people’s health, with the grassroots as the priority, using reform and innovation as the driving force, putting prevention first, integrating the concept of health into all policies, promoting healthy lifestyles, strengthening early diagnosis, early treatment, early recovery, to achieve universal health. By 2030, there will be a sustained improvement in people’s health, effective control of major health risk factors, significant enhancement in the healthcare service capacity, significant expansion of the healthcare industry, and a better health promotion system. In view of this, the Group has closely followed the national policy and market demand and created a new smart healthcare services business segment through “Meerkat Health”.

Business Review

Launched in the second half of 2021, “Meerkat Health” is devoted to effectively combining the industrial internet and consumer internet in the healthcare management industry, with the mission of “being the expert in safeguarding the health of your family”. As of 30 June 2022, after ten months of development, we have rapidly established a complete healthcare services system comprising healthcare consumption, medical services and healthcare management. In terms of healthcare consumption, a distribution platform for the supply chain of pharmaceutical and healthcare products has been developed using digital intellectualized and innovative tools to provide offline self-run and franchised pharmacies with a digital intellectualised and one-stop omnichannel solution. Medical services cover two major branches of medical consumption and digital intellectualised body check services, along with the cooperation with offline medical institutions to explore a new model of “digital intellectualised healthcare services”. Healthcare management, as an innovative business segment for the company’s future long-term development, empowers healthcare management organisations and enhances the efficiency of the industry by providing them with a smart system, knowledge base, training system and health product library.

With the strategic positioning of being “a full-life-cycle and full-scene healthcare management services platform with the supply chain as its core, the medical services as its means and the digital technologies as its drive”, and its value proposition of bringing about good drugs, good services, good health, good family and good technology, “Meerkat Health” is dedicating itself to offering all-round healthcare services which cover the entire course and cycle to everyone and building a leading C2M innovative healthcare services platform in the PRC.

The healthcare consumption business of “Meerkat Health” has established partnerships with more than 100 pharmaceutical and healthcare product manufacturers and distributors. In the second quarter, the Gross Merchandise Value (“GMV”) of the online appointment services for vaccination increased by 154% compared with the first quarter, while the digital intellectualised body check services covered 19 cities and 21 hospitals, more than 35% of which were Grade A tertiary hospitals.

During the first half of 2022, “Meerkat Health” has achieved revenue equivalent to HK\$346 million. Our businesses are expected to grow rapidly in the second half of 2022.

1. *Healthcare consumption*

In the healthcare consumption business, “Meerkat Health” has built an industry-leading smart supply chain system, covering omnichannel drugs, medical equipment, dietary supplements, nourishing products and other health-related products, and providing offline self-run and franchised pharmacies with a digital intellectualised and one-stop omnichannel solution. The system has three core functions: all-channel coverage, smart supply chain and all-domain digital intellectualisation. By establishing an all-channel, all-chain and all-scene marketing and operation centre, the system provides brands with online and offline integrated empowerment in the supply chain, marketing and operation to realise the all-around digital transformation of brands.

As of 30 June 2022, “Meerkat Health” has entered into partnerships with more than 100 pharmaceutical and healthcare product manufacturers and distributors, including listed companies like Sinopharm Group, Guilin Sanjin and Mayinglong Pharmaceutical, covering nearly 8,000 product categories and serving 45,000 customers, with cumulative half-year revenue equivalent to HK\$341 million.

2. *Medical services*

Benefitting from the continued increase in health awareness, the demand for medical services in the PRC market is strong. In the first half of 2022, the medical consumption and body check businesses of “Meerkat Health” both recorded high growths.

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

In the first and second quarters of 2022, the GMV of “Meerkat Health” online appointment services for vaccination was RMB11.24 million and RMB28.51 million respectively, representing a quarter-on-quarter growth of 154%. As of 30 June 2022, the relevant business has covered 43 cities in the PRC, including all of the first-tier cities of Beijing, Shanghai, Guangzhou and Shenzhen and some second-tier cities, and achieved revenue equivalent to HK\$5.39 million.

In addition, in the field of digital intellectualised body check services, “Meerkat Health” has built the first digital all-in-one system in the PRC, MK Digital OS, which includes Tianshu (a smart management portal system), Tiansuan (a smart health management CRM system), Tianji (a smart guiding inspection System), and Tianhe (a body check OS system), providing one-stop services for health management centres of medical institutions.

The digital intellectualised body check services are currently in the early stage of expansion, and have reached cooperation with 21 hospitals in 19 cities in the first half of 2022, including Tianjin First Central Hospital, Zhejiang Cancer Hospital, the First People’s Hospital of Nanning, the Second Affiliated Hospital of Nanchang University and other Grade A tertiary hospitals. Combining the online and offline all-domain operation capabilities of “Meerkat Health”, it can help enhance the influence of the hospitals’ health management centre brands and provide users with inclusive, convenient, personalised health management services.

3. *Healthcare management*

The PRC’s pan-health market continues to grow as the country implements the “Healthy China Action (2019–2030)”. According to the “White Paper on Insight into the Trend of China’s Integrated Health Management Service Industry”, published in December 2021, the market size of PRC’s health and wellness industry reached RMB9 trillion in 2020 and is expected to increase to RMB14.8 trillion by 2025, representing a compound annual growth rate of 10.5%.

Healthcare management is an innovative business segment for the Group’s future long-term development. With the support of national policies and in line with market demand, “Meerkat Health” has built a new healthcare management services system, which is now in its initial stage, and has already partnered with Tianjin First Central Hospital. The two parties will jointly build a smart healthcare management centre, and the cooperation will include assisting Tianjin First Central Hospital in building a smart healthcare management centre system, creating healthcare management services covering the full lifecycle of patients, and establishing a forward-looking benchmark for health management centre consortiums.

In addition, “Meerkat Health” is building a full range of one-stop industry solutions for healthcare management organisations, including a smart system, knowledge base, training system and healthcare product library to empower industry partners.

Prospects

According to the 2022 *The Global Wellness Economy* report released by the Global Wellness Institute (GWI), the world wellness economy was worth US\$4.4 trillion in 2021, accounting for 5.1% of total GDP. It is expected that the value of the global wellness economy will continue to increase in the coming years, reaching US\$7 trillion by 2025.

The PRC has grown rapidly over the past decade and is now the second largest market after the US, with a market scale of US\$683 billion. During the 4th Session of the 13th National People's Congress, the "Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035" ("the Outline") was approved. The Outline proposed to give strategic priority to the protection of the people's health, maintain the emphasis on prevention, and diligently execute the "Healthy China" initiative. It also explicitly proposed to make use of digitisation as a driving force to revolutionise the ways we produce, live and manage, as well as to focus on key areas such as education and healthcare and to promote resource digitisation in public service agencies such as schools, hospitals and nursing homes. Furthermore, it is said that the community should be mobilised to participate in "Internet + Public Service" and provide innovative service modes and products. At the same time, the aging of the society, the increase in the number of patients with chronic diseases and also the growing public awareness of healthcare management are driving the development of the whole industry.

As the PRC announced a series of policies to support and encourage the healthcare services industry, particularly the internet healthcare industry's development, and the PRC's economy continues to grow, the size of the PRC's healthcare market will maintain a high growth rate at the same time.

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

In the future, "Meerkat Health" will rely on its own and its partners' talent pools, medical resources and brand advantages to further enhance its industry competitiveness and expand its market scale. In terms of the online appointment services for vaccination, it plans to expand to 31 cities by the end of 2022 and also to second- and third-tier cities, and it expects to continue to grow in the second half of 2022. Its digital intellectualised body check services will enter an explosive growth period, and it expects to cooperate with 117 cities and 124 hospitals in the second half of the year.

In addition, the smart healthcare management system will be launched by the end of 2022 to reach and convert 200,000 users with healthcare management needs. In the future, the business segment will further improve its infrastructure in terms of knowledge base, training system and healthcare product library, and is expected to provide efficient digital intellectualised services to more organisations.

Leveraging its industry resources, "Meerkat Health" will further develop its internet hospital business and it expects to obtain an internet hospital license in the second half of the year. Thereafter, "Meerkat Health" will cooperate with medical institutions to build medical associations

and launch convenient services such as prescription circulation, drug delivery, and in-hospital/out-of-hospital pharmacy pick-up, in order to provide more convenient and high-quality medical services to the general public.

(3) Entertainment and Media

In the first half of 2022, the global epidemic was gradually under control, people's lives were gradually returning to normal, and the global entertainment and cinema circuits were showing signs of recovery, with cinemas reopening and some films returning to cinemas. However, Hong Kong and the PRC were at the height of a new wave of the epidemic in the first half of the year. In order to prevent and control the epidemic, cinemas in Hong Kong were closed until mid-April, while cinemas in some cities such as Beijing, Shanghai, Shenzhen and those in Guangdong Province were also closed on a large scale, causing an impact on box office revenue. As the epidemic persists, it has changed the way audiences watch movies and prevented the film industry and box office from fully recovering to pre-epidemic levels.

Business Review

The production of “Moonfall”, a Hollywood tentpole financed by the Group, was completed and the film was screened on 4 February 2022 in the US and most countries or regions across the globe. It has also been on theatres in the PRC since 25 March 2022. The film was directed by Roland Emmerich (the director of a number of disaster blockbusters such as “2012”, “The Day After Tomorrow” and “Independence Day” series who is hailed as the “master of disaster movies”), with Halle Berry, the winner of the Academy Award for Best Actress, and Patrick Wilson taking the leading roles. It tells the story where a mysterious force ejects the moon from orbit and propels it on a collision course toward Earth, and the gravitational imbalance sends Earth into chaos. Amidst desperation, a seemingly disorganised squad decides to fight the final battle in order to protect Earth and humankind. According to Box Office Mojo, the film grossed equivalent of more than US\$44 million worldwide. The PRC's box office revenue was affected by the closure of some cinemas due to the repeated epidemics in the first half of the year, but still grossed approximately RMB158 million (according to the statistics by Maoyan), ranking 5th among imported films in the first half of 2022.

As at 30 June 2022, the revenue from the “Entertainment and Media” segment amounted to approximately HK\$45 million, with a segment loss of approximately HK\$48 million.

Prospects

The Group is focusing on the internet healthcare services business. As the uncertainty brought by the epidemic on the film industry remains, the Group's “Entertainment and Media” business will focus on the further development of existing projects (such as the operation and licensing of derivatives) and will not make significant investment in new films and television projects for the time being.

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

Business Review

“Bayhood No. 9 Club”, a Healthcare and Wellness Service of the Group, is one of the top green health clubs in the PRC with well-equipped facilities such as a standard 18-hole golf course, lakeside golf course private VIP rooms, spa facilities as well as Asia’s first PGA-branded golf academy, etc. Currently, the Group continues to operate “Bayhood No. 9 Club” on a lease basis until 2023, offering professional and excellent healthcare and wellness services to middle- and high-end enterprises and individual clients.

During the period, the business of “Bayhood No. 9 Club” was affected by the epidemic in Beijing from April to May 2022 and had to suspend its operations for about one month until it resumed operation in mid-May. However, due to the strong market demand, operations of “Bayhood No. 9 Club” have quickly returned to normal upon service resumption. Revenue of “Bayhood No. 9 Club” for the first half of 2022 remained stable at approximately HK\$53 million, representing a slight drop of 6% comparing to the same period last year.

Prospects

As the epidemic in Beijing eases and remains under control, “Bayhood No. 9 Club” is expected to continue to operate as usual. In addition, it is expected that the demand for outdoor activities will gradually recover and increase, which will continue to bring stable income to the segment. At the same time, the Group will keep the preventive hygiene measures in place at the Club to provide a hygienic and safe environment to the clients and ensure the Club’s stable operation.

FINANCIAL REVIEW

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

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

The key financial figures of the Group for the six months ended 30 June 2022 are summarized as follows:

	Six months ended 30 June		
	2022	2021	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Total revenue:			
— Online prescription, circulation and marketing of pharmaceutical products	229,124	–	N/A
— Smart healthcare services platform	345,969	–	N/A
— Entertainment and media	44,958	127,392	–65%
— Healthcare and wellness services	52,632	55,985	–6%
	<u>672,683</u>	<u>183,377</u>	267%
Gross profit/(loss):			
— Online prescription, circulation and marketing of pharmaceutical products	124,557	(105)	N/A
— Smart healthcare services platform	5,216	–	N/A
— Entertainment and media	(9,950)	14,329	N/A
— Healthcare and wellness services	20,705	26,556	–22%
	<u>140,528</u>	<u>40,780</u>	245%

	Six months ended 30 June		
	2022	2021	Change
	HK\$'000	HK\$'000	%
Segment result:			
— Online prescription, circulation and marketing of pharmaceutical products	(30,870)	–	N/A
— Smart healthcare services platform	(34,992)	–	N/A
— Entertainment and media	(48,063)	9,117	N/A
— Healthcare and wellness services	471	(1,269)	N/A
	<u>(113,454)</u>	<u>7,848</u>	N/A
Loss for the period	<u>(141,081)</u>	<u>(9,009)</u>	N/A
Loss for the period attributable to equity owners of the Company	<u>(118,413)</u>	<u>(7,190)</u>	N/A
Non-HKFRS Adjustments:			
Adjusted loss for the period	<u>(122,995)</u>	<u>(9,097)</u>	N/A
— Revenue			

Revenue for the six months ended 30 June 2022 amounted to approximately HK\$672,683,000 (2021: HK\$183,377,000), being a substantial 2.7 times increase comparing to the same period in prior year. The significant boost in revenue during the period was mainly due to the following factors:

- (1) Revenue from internet healthcare related businesses newly acquired/developed in 2021, namely “Online Prescription, Circulation and Marketing of Pharmaceutical Products” and “Smart Healthcare Services Platform”, amounted to approximately HK\$575,093,000 (2021: Nil), accounted for 85% of total revenue for the six months ended 30 June 2022 (2021: 0%). These businesses are under fast growth and management expects that the portion of revenue arising from these internet healthcare related businesses will continue to remain as the mainstream revenue source of the Group.
- (2) Revenue from the “Entertainment and Media” segment decreased by 65% to approximately HK\$44,958,000 (2021: HK\$127,392,000). Revenue from theatrical release of only one new movie, “Moonfall”, was recorded during the current period, and further revenue from its digital and other network sales are expected to be recorded in the future. On the other hand,

exclusive rights to “Space Sweepers” and “Cherry” were sold to Netflix and Apple TV+ respectively in the same period in prior year, leading to a much higher revenue figures being recorded.

- (3) Revenue from the “Healthcare and Wellness Services” segment for the six months ended 30 June 2022 amounted to approximately HK\$52,632,000 (2021: HK\$55,985,000), being a 6% decrease comparing to the same period in prior year. This was mainly attributed to the drop in food and beverage income due to the prolonged closure of the dining area of “Bayhood No.9 Club” in face of the pandemic during the first half of 2022.

— **Cost of Sales and Gross Profit**

Cost of sales for the six months ended 30 June 2022 amounted to approximately HK\$532,155,000 (2021: HK\$142,597,000), being a 2.7-time increase comparing to the same period in prior year. Gross profit for the six months ended 30 June 2022 amounted to approximately HK\$140,528,000 (2021: HK\$40,780,000), being a 2.4-time increase comparing to the same period in prior year, with gross profit margin remained at similar level of 21% (2021: 22%). The net period-to-period change of gross profit and gross profit margin is due to the mixed impacts of the following:

- (1) High gross profit margin of approximately 54% (2021: N/A) from the “Online Prescription, Circulation and Marketing of Pharmaceutical Products” segment;
- (2) Relatively low profit margin of 1.5% (2021: N/A) from the “Smart Healthcare Services Platform” segment which has only commenced its operation since December 2021;
- (3) A gross loss of approximately HK\$9,950,000 (2021: gross profit of HK\$14,329,000) was recorded for the “Entertainment and Media” segment, mainly due to the losses arising from the movie project released during the period with lower-than-expected box office performance.

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

Other income and other losses, net, for the six months ended 30 June 2022 amounting to approximately HK\$4,491,000 mainly comprised of fair value change on financial assets at fair value through profit or loss and fair value change on interest in an associate measured at fair value through profit or loss, and exchange loss arising from the depreciation of foreign currencies against Hong Kong dollars during the period. On the other hand, the other income and other gains, net for the prior period amounting to approximately HK\$10,951,000 mainly comprised of share of subsidies for movie production which was not recurring in nature.

— Marketing and Selling Expenses

Marketing and selling expenses for the six months ended 30 June 2022 increased significantly by 13.3 times to approximately HK\$178,375,000 (2021: HK\$12,481,000), which was mainly due to the following factors:

- (i) staff costs and marketing expenses were incurred during the current period for the promotion of the “Echartnow” platform for online prescription, circulation and marketing of pharmaceutical products, and other relevant expenses were also incurred during the current period for enhancing the registration of doctors and pharmacies in the “Echartnow” platform. No such expense was incurred during the prior period as the acquisition of the “Echartnow” platform was just completed in the second quarter of 2021;
- (ii) staff costs and marketing expenses were incurred during the current period for promoting the Group’s smart healthcare services platform. No such expense was incurred during the prior period as the operation was just commenced in the second half of 2021; and
- (iii) the Group’s share of marketing expenses, promotion & advertising expenses, and distribution fees during the current period was also higher than that of the prior period because of the different nature of theatrical releases (for current period) comparing to the sale of exclusive rights to streaming platform (for the prior period). For the latter, most of the marketing expenses and promotion & advertising expenses was borne by the streaming platform.

— Research and Development Expenses

Research and development expenses for the six months ended 30 June 2022 amounted to approximately HK\$10,821,000 (2021: Nil). The amount mainly comprised staff costs and employee benefit expenses in relation to research and development function. The significant increase in the research and development expenses for the period was due to the expansion of “Echartnow” platform and the establishment of “Meerkat Health” since the second half of 2021. Research and development expenses as a percentage of total revenue generated from “Echartnow” and “Meerkat Health” was 1.9% for the six months ended 30 June 2022 (2021: N/A).

— Administrative Expenses

Administrative expenses for the six months ended 30 June 2022 amounted to approximately HK\$80,489,000 (2021: HK\$45,009,000), being a 79% increase comparing to the prior period. The increase in administrative expenses during the period was mainly attributed to internet healthcare related businesses newly acquired/developed in 2021, namely “Online Prescription, Circulation and Marketing of Pharmaceutical Products” and “Smart Healthcare Services Platform”. Share-based compensation expenses for these internet healthcare related businesses of approximately HK\$15,253,000 (2021: Nil) were included in administrative expenses for the period.

— **Share of Results of an Associate**

Share of results of an associate, representing the share of results of HB Entertainment (the Group's 31%-owned associated company which is principally engaged in production of and investment in movies and TV drama series, provision of artist management and agency services in South Korea), amounted to a loss of approximately HK\$3,247,000 (2021: HK\$1,917,000). Financial performance of HB Entertainment is expected to be improved in the second half of 2022 as one to two new TV dramas are scheduled to be produced and broadcasted in the second half of 2022.

— **Finance Costs, net**

Finance costs, net for the six months ended 30 June 2022, mainly comprising of interest in bank and other borrowings and interest on lease liabilities, amounted to approximately HK\$743,000 (2021: HK\$1,498,000). The decrease in net finance costs during the period was mainly attributable to the decrease in interest on lease liabilities along the execution of the existing lease arrangements.

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

The Group's loss for the six months ended 30 June 2022 amounted to HK\$141,081,000 comparing to that of HK\$9,009,000 for the preceding financial period. The Group's adjusted loss for the six months ended 30 June 2022 amounted to HK\$122,995,000 representing an increase of HK\$113,898,000 or 12.5 times as compared with that of HK\$9,097,000 for the preceding financial period. Adjusted loss is based on the loss for the corresponding period after excluding non-operating profit or loss items such as share-based compensation expenses and change in fair value of financial assets at fair value through profit or loss and of interest in an associate measured at fair value through profit or loss. The increase in adjusted loss was mainly attributable to 1) the segment loss (excluding share-based compensation expenses) from the internet healthcare related businesses newly acquired/developed in 2021, namely "Online Prescription, Circulation and Marketing of Pharmaceutical Products" and "Smart Healthcare Services Platform", amounted to approximately HK\$50,609,000 (2021: Nil); and 2) the segment loss of "Entertainment and Media" segment of approximately HK\$48,063,000 (2021: segment gain of HK\$9,117,000).

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

non-HKFRS indicator has its limitations as an analytical tool, and it should not be regarded as being independent from the operational results or financial position presented according to HKFRSs, or as an alternative to analyze the relevant operational results or financial position. In addition, the definition of such non-HKFRS indicator may vary from those applied in other companies.

The adjusted loss for the six months ended 30 June 2022 and 2021 set out in the table below represents adjustments to the most direct and comparable financial indicator calculated and presented in accordance with HKFRSs (i.e. loss for the period):

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Loss for the period	(141,081)	(9,009)
Add:		
— Shared-based compensation expenses	15,253	—
— Fair value change on financial assets at fair value through profit or loss, net of tax	(1,439)	(88)
— Fair value change on interest in an associate measured at fair value through profit or loss, net of tax	4,272	—
Adjusted loss for the period	<u>(122,995)</u>	<u>(9,097)</u>

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Treasury Management

We have adopted prudent treasury management measures aimed at principal protection and maintaining sufficient liquidity to meet our various funding requirements in accordance with the strategic plans and policies. As at 30 June 2022, the Group held cash and cash equivalents of approximately HK\$52,793,000 (31 December 2021: HK\$148,552,000), being a 64% decrease comparing to the balance as at 31 December 2021.

The Group is at net current asset position of HK\$130,796,000 as at 30 June 2022 (31 December 2021: HK\$185,553,000). The current ratio, representing the total current assets to the total current liabilities, decreased from 1.77 as at 31 December 2021 to 1.60 as at 30 June 2022, still representing a healthy liquidity position.

The gearing ratio, representing the net debt (total borrowings less cash and cash equivalents) to total equity, is Nil as at 30 June 2022 (31 December 2021: Nil). The Group's total interest-bearing bank and other borrowings as at 30 June 2022 amounted to approximately HK\$10,364,000 (31 December 2021: Nil) and was denominated in Chinese Renminbi.

Foreign Currency Exchange Exposure

The Group has operations and investments in China, Korea, the USA and Hong Kong, and is mainly exposed to foreign exchange risk arising from Chinese Renminbi and Korean Won currency exposures, primarily with respect to the Hong Kong dollars. During the period, fluctuation in Chinese Renminbi and Korean Won against Hong Kong dollars resulted in the net exchange loss of approximately HK\$3,476,000 (2021: net exchange gain of HK\$1,023,000). The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure from Chinese Renminbi and Korean Won but manages through constant monitoring to limit as much as possible its net exposures.

Capital Structure

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

During the six months ended 30 June 2022, the Company has issued 62,500,000 (2021: Nil) new ordinary shares of HK\$0.02 each for vesting of share awards.

CHARGE OF ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2022 and 31 December 2021, none of the Group's assets was charged and the Group did not have any material contingent liabilities or guarantees.

HUMAN RESOURCES

As at 30 June 2022 the Group employed a total of 313 (31 December 2021: 260) full-time employees in Hong Kong and the PRC, and continued to manage "Bayhood No.9 Club" operations with 293 (31 December 2021: 279) full-time employees in the PRC. In addition, the Group has entered into several joint operation arrangements to produce or distribute films. The crew members employed under such joint operation arrangements have not been included in the above statistics.

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

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

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

CORPORATE GOVERNANCE CODE

The board of directors of the Company (the “Board”) is committed to achieving high standards of corporate governance. Throughout the six months ended 30 June 2022, the Company has applied the principles and complied with the code provisions in Part 2 of the Corporate Governance Code (the “CG Code”) set out in Appendix 14 to the Listing Rules on The Stock Exchange of Hong Kong Limited with the exception of the following deviation:

Code provision A.2.1 (which has been re-numbered as code provision C.2.1) of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Following the resignation of the Chairman in 2021, no replacement for the post of the Chairman has been appointed. The functions of the Chairman have been temporarily taken up by the chief executive officer of the Company (the “CEO”).

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted a code of conduct regarding securities transactions by Directors (the “Code of Conduct”) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. Having made specific enquiry, all Directors have fully complied with the required standard set out in the Model Code throughout the six months ended 30 June 2022.

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

REVIEW OF INTERIM REPORT

The Audit Committee comprising of three Independent Non-executive Directors, namely Mr. YUEN Kin (Audit Committee Chairman), Mr. CHU Yuguo and Dr. WONG Yau Kar, David has reviewed the Group’s unaudited interim report for the six months ended 30 June 2022 together with the Company’s independent auditor and there were no disagreements with any accounting treatment.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

APPRECIATION

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

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

Hong Kong, 30 August 2022

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

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