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# H. BROTHERS ENTERTAINMENT

## 華誼騰訊娛樂

華誼騰訊娛樂有限公司

### Huayi Tencent Entertainment Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 419)

#### ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

HIGHLIGHT			
	2023	2022	Change
	HK\$'000	HK\$'000	%
		(Restated)	
		(Note 27)	
<b>Continuing Operations</b>			
<b>Revenue:</b>			
– Digitized operation services in healthcare industry	943,936	606,218	+56%
– Smart healthcare services platform	399,413	824,209	–52%
– Entertainment and media	682	150,964	–99.5%
	<u>1,344,031</u>	<u>1,581,391</u>	–15%
<b>Gross profit:</b>			
– Digitized operation services in healthcare industry	384,218	335,657	+14%
– Smart healthcare services platform	28,529	16,282	+75%
– Entertainment and media	682	1,107	–38%
	<u>413,429</u>	<u>353,046</u>	+17%
<b>Segment result:</b>			
– Digitized operation services in healthcare industry	(29,546)	(57,809)	–49%
– Smart healthcare services platform	(45,355)	(86,337)	–47%
– Entertainment and media	3,550	(122,882)	N/A
	<u>(71,351)</u>	<u>(267,028)</u>	–73%
<b>Loss for the year from continuing operations</b>	<u>(119,567)</u>	<u>(317,701)</u>	–62%
<b>Loss for the year from continuing operations attributable to equity owners of the Company</b>	<u>(91,300)</u>	<u>(271,083)</u>	–66%
<b>Non-HKFRS Adjustments:</b>			
Adjusted loss for the year from continuing operations	<u>(106,466)</u>	<u>(296,722)</u>	–64%
<b>Discontinued Operation</b>			
<b>(Loss)/profit for the year from discontinued operation</b>	<u>(5,787)</u>	<u>1,103</u>	N/A

- The Group has two core businesses in the healthcare sector: Echartnow, the digitized operation service in the healthcare industry, which has experienced rapid expansion with 56% growth in revenue in 2023; and Meerkat Health, the smart healthcare services platform, whose business structure has been refined and optimized so as to enhance cost effectiveness. At the same time, the Group has divested itself from the operation of the non-core businesses, Bayhood No. 9 Club, in order to further optimize cash flow and profitability.
- Echartnow recorded a significant 56% growth in revenue to approximately HK\$943,936,000 (2022: HK\$606,218,000) during the year, accounting for 70% (2022: 38%) of the Group's revenue. The number of contracted pharmaceutical companies and registered doctors continues to grow and has reached 245 and 40,070 respectively, representing a 53% and 55% increase compared to the end of 2022. All registered doctors have completed real-name registration, uploaded qualification documents, and successfully passed the authentication process.
- Meerkat Health's revenue for the year amounted to HK\$399,413,000 (2022: HK\$824,209,000), reflecting a 52% decline from the previous year. This decrease can be attributed primarily to the adjustments made in the healthcare consumption business and a decrease in the proportion of lower-margin operations. Meerkat Health has strategically focused its resources on expanding high margin and high-potential operations, resulting in a significant increase in gross profit margin from 2.0% in 2022 to 7.1% for the current year. Gross profit has also seen a substantial rise of 75% to HK\$28,529,000 (2022: HK\$16,282,000).
- The loss of both Echartnow and Meerkat Health decreased by approximately half during the year, and the "Entertainment and Media" segment turned its losses into profits during the year. As a result, the Group's loss for the year significantly narrowed down to HK\$125,354,000 (2022: HK\$316,598,000), representing a reduction in losses of over 60% year-on-year.
- In addition to the ongoing expansion of its core businesses, the Group is actively diversifying its financing channels to establish a solid foundation for future development. In March 2024, the Group entered into an agreement for the subscription of HK\$120 million convertible bonds with Hony Capital, a prominent investment management group in the PRC. The proceeds raised from this subscription will be utilized as the Group's working capital to support the growth of its core businesses. With assets under management exceeding RMB120 billion, Hony Capital covers various sectors, including digital technology, cultural technology, and consumer services.

The board of directors (the “Board”) of Huayi Tencent Entertainment Company Limited (the “Company”) is pleased to announce the results of the Company and its subsidiaries (together, the “Group”) for the year ended 31 December 2023, together with the comparative figures for the year ended 31 December 2022.

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000 (Restated) (Note 27)
<b>Continuing Operations</b>			
Revenue	3	1,344,031	1,581,391
Cost of sales		(930,602)	(1,228,345)
Gross profit		413,429	353,046
Other income and other gains/(losses), net	3	(7,439)	(8,753)
Marketing and selling expenses		(419,683)	(499,453)
Research and development expenses		(29,491)	(35,751)
Administrative expenses		(75,860)	(109,513)
Net reversal of/(provision for) impairment of financial assets		4,569	(11,388)
		(114,475)	(311,812)
Finance costs, net	5	(3,605)	(1,497)
Share of results of an associate	14(a)	(1,556)	(4,817)
Loss before taxation	6	(119,636)	(318,126)
Taxation	7	69	425
Loss for the year from continuing operations		(119,567)	(317,701)
<b>Discontinued Operation</b>			
(Loss)/profit for the year from discontinued operation	27	(5,787)	1,103
Loss for the year		(125,354)	(316,598)
Attributable to:			
Equity holders of the Company			
– continuing operations		(91,300)	(271,083)
– discontinued operation		(5,787)	1,103
		(97,087)	(269,980)
Non-controlling interest			
– continuing operations		(28,267)	(46,618)
		(125,354)	(316,598)
(Loss)/earnings per share attributable to the equity holders of the Company for the year			
		HK Cents	HK Cents
Basic and diluted (loss)/earnings per share	8		
– from continuing operations		(0.67)	(2.00)
– from discontinued operation		(0.04)	0.01
		(0.71)	(1.99)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Loss for the year		<u>(125,354)</u>	<u>(316,598)</u>
Other comprehensive (loss)/income:			
Item that may be reclassified to profit or loss:			
– Currency translation differences		(3,171)	(11,793)
Item that may not be reclassified to profit or loss:			
– Currency translation differences		<u>(1,452)</u>	<u>1,875</u>
Other comprehensive loss for the year, net of tax		<u>(4,623)</u>	<u>(9,918)</u>
Total comprehensive loss for the year		<u><u>(129,977)</u></u>	<u><u>(326,516)</u></u>
Total comprehensive loss attributable to:			
Equity holders of the Company		(100,258)	(281,773)
Non-controlling interest		<u>(29,719)</u>	<u>(44,743)</u>
		<u><u>(129,977)</u></u>	<u><u>(326,516)</u></u>

## CONSOLIDATED BALANCE SHEET

As at 31 December 2023

		As at 31 December	
		2023	2022
	Notes	HK\$'000	HK\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	5,453	13,943
Right-of-use assets	11	14,530	41,732
Intangible assets	12	2,274	4,527
Goodwill	13	27,203	27,853
Interests in associates	14	228,033	238,575
Financial assets at fair value through profit or loss	15	9,856	17,110
Prepayments, deposits and other receivables	17	45,798	3,846
		<u>333,147</u>	<u>347,586</u>
<b>Current assets</b>			
Inventories	18	4,332	4,832
Trade and bills receivables	16	96,436	95,787
Prepayments, deposits and other receivables	17	60,291	99,585
Financial asset at fair value through profit or loss	15	5,049	–
Restricted cash	19	–	3,096
Cash and cash equivalents	20	27,037	38,300
		<u>193,145</u>	<u>241,600</u>
<b>Total assets</b>		<u><b>526,292</b></u>	<u><b>589,186</b></u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Equity attributable to the equity holders of the Company			
Share capital	24	271,707	271,707
Reserves	25	18,486	116,493
		<u>290,193</u>	<u>388,200</u>
Non-controlling interests		<u>(67,400)</u>	<u>(38,275)</u>
<b>Total equity</b>		<u><b>222,793</b></u>	<u><b>349,925</b></u>

		<b>As at 31 December</b>	
		<b>2023</b>	2022
	Notes	<b>HK\$'000</b>	HK\$'000
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Lease liabilities	11	<b>8,150</b>	13,773
Long-term financial liabilities	26	<b>27,606</b>	–
Deferred income tax liabilities		<b>442</b>	525
		<b>36,198</b>	14,298
<b>Current liabilities</b>			
Trade payables	22	<b>108,115</b>	94,182
Other payables and accrued liabilities	23	<b>74,757</b>	78,265
Contract liabilities	23	<b>4,918</b>	8,922
Bank and other borrowings	21	<b>72,231</b>	32,740
Lease liabilities	11	<b>7,280</b>	10,854
		<b>267,301</b>	224,963
<b>Total liabilities</b>		<b>303,499</b>	239,261
<b>Total equity and liabilities</b>		<b>526,292</b>	589,186

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
<b>Cash flows from operating activities</b>			
Cash used in operations		(50,297)	(90,092)
Interest paid		(1,405)	(144)
<b>Net cash used in operating activities</b>		<b>(51,702)</b>	<b>(90,236)</b>
<b>Cash flows from investing activities</b>			
Interest received		156	1,213
Dividends received		633	–
Purchases of property, plant and equipment		(21,550)	(12,134)
Purchases of intangible assets		(1,274)	(1,598)
Proceeds from sales of property, plant and equipment		1,328	558
<b>Net cash used in investing activities</b>		<b>(20,707)</b>	<b>(11,961)</b>
<b>Cash flow from financing activities</b>			
Repayment of bank and other borrowings		(75,294)	–
Proceeds from bank and other borrowings		121,091	33,784
Capital contribution from a new investor of a subsidiary		26,484	–
Principal elements of lease payments		(11,280)	(44,228)
<b>Net cash generated from/(used in) financing activities</b>		<b>61,001</b>	<b>(10,444)</b>
Net decrease in cash and cash equivalents		(11,408)	(112,641)
Cash and cash equivalents at 1 January		38,300	148,552
Currency translation differences		145	2,389
Cash and cash equivalents at 31 December	20	<b>27,037</b>	<b>38,300</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

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

	Attributable to equity holders of the Company				Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000		
Balance at 1 January 2023	271,707	2,051,396	(1,934,903)	388,200	(38,275)	349,925
Comprehensive loss:						
– Loss for the year	–	–	(97,087)	(97,087)	(28,267)	(125,354)
Other comprehensive (loss)/income:						
Currency translation differences						
– Group	–	2,536	–	2,536	–	2,536
– Associate (Note 14)	–	(5,707)	–	(5,707)	–	(5,707)
– Non-controlling Interests	–	–	–	–	(1,452)	(1,452)
Total comprehensive loss	–	(3,171)	(97,087)	(100,258)	(29,719)	(129,977)
Contribution by and distribution to owners of the Company recognized directly in equity:						
– Share-based compensation	–	2,251	–	2,251	594	2,845
Total contribution by and distribution to owners	–	2,251	–	2,251	594	2,845
Balance at 31 December 2023	271,707	2,050,476	(2,031,990)	290,193	(67,400)	222,793

*Notes:*

## **1. GENERAL INFORMATION**

Huayi Tencent Entertainment Company Limited (the “Company”) and its subsidiaries (together, the “Group”) is principally engaged in (i) digitized operation services in healthcare industry (formerly known as online prescription, circulation and marketing of pharmaceutical products) (“Echartnow”); (ii) smart healthcare services platform (“Meerkat Health”); and (iii) entertainment and media business. Following the termination of the Club Lease Agreement as detailed in Note 27 to this annual results announcement, the operation of provision of healthcare and wellness services is discontinued.

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

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

These consolidated financial statements are presented in thousand Hong Kong dollars (HK\$’000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26 March 2024.

## **2. BASIS OF PREPARATION**

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

For the year ended 31 December 2023, the Group recorded a loss of approximately HK\$125,354,000 (2022: HK\$125,354,000) and operating cash outflow of HK\$51,702,000 (2022: HK\$90,236,000). As at 31 December 2023, the Group had net current liabilities of approximately HK\$74,146,000 (2022: net current assets of HK\$16,637,000) while the cash and bank balance was HK\$27,037,000.

In view of such circumstances, the directors of the Company have taken measures to mitigate the liquidity pressure to improve the financial position that in March 2024, the Company completed the issuance of 10% convertible bonds due 2026 with an aggregate principal amount of HK\$120,000,000 and the corresponding funding has also been received in the same month.

The directors of the Company have reviewed the Group's cash flow projections covering a period of not less than 12 months from 31 December 2023, and are of the opinion that, considering the anticipated cash flows generated from the Group's operations taking into account of reasonably possible changes in operating performance, all other financing that could reasonably be expected as well as the above measure, the Group will have sufficient working capital to fulfil its financial obligations in the next twelve months from 31 December 2023. Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

**(i) Amended standards adopted by the Group**

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

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

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

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

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

		<b>Effective for annual periods beginning on</b>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1	Non-current Liabilities with Covenants	1 January 2024
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
HK Int 5 (Revised)	Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK Int 5 (Revised))	1 January 2024
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements (amendments)	1 January 2024
Amendments to HKAS 21	Lack of Exchangeability	1 January 2025
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments, certain of which are relevant to the Group's operations. According to the preliminary assessment made by the directors, management does not anticipate any significant impact on the Group's financial positions and results of operations.

**(iii) Change in accounting policy on offsetting arrangement in long service payment in Hong Kong**

In June 2022, the Hong Kong Government enacted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “Amendment Ordinance”) which will be effective from 1 May 2025 (the “Transition Date”). Under the Amendment Ordinance, any accrued benefits attributable to the employer’s mandatory contributions under mandatory provident fund scheme (“MPF Benefits”) of an entity would no longer be eligible to offset against its obligations on long service payment (“LSP”) for the portion of the LSP accrued on or after the Transition Date. There is also a change in the calculation basis of last monthly wages for the portion of the LSP accrued before the Transition Date.

Prior to 1 January 2023, the Group applied practical expedient in HKAS 19 paragraph 93(b) (the “practical expedient”) to account for the offsetable MPF Benefits as deemed employee contributions to reduce the current service costs in the period in which the related services were rendered.

In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” (the “Guidance”) which provides clarified and detailed guidance on the accounting considerations relating to the abolition of the offsetting mechanism. The Guidance clarified that following the enactment of the Amendment Ordinance, LSP is no longer a ‘simple type of contributory plans’ to which the practical expedient had been intended to apply.

By following the Guidance, the Group has therefore changed its accounting policy and ceased to apply the practical expedient and reattribute the deemed employee contributions on a straight-line basis from the date when services by employees first lead to their benefits in terms of the LSP legislation in accordance with HKAS 19 paragraph 93(a).

This change in accounting policy upon the cessation in applying the practical expedient has resulted in a catch-up adjustment for past service costs and a corresponding increase in the Group’s LSP obligations in the year of enactment of the Amendment Ordinance (i.e. year ended 31 December 2022). The adjustment is recognised as past service costs in profit or loss for the year ended 31 December 2022 as the Amendment Ordinance is not contemplated in the original LSP legislation.

The abovementioned change in accounting policy does not have any material impact to these consolidated financial statements.

### 3. REVENUE AND OTHER INCOME AND OTHER GAINS/(LOSSES), NET

	2023	2022
	HK\$'000	HK\$'000
		(Restated)
		(Note 27)
<b>Continuing Operations:</b>		
Revenue		
Provision of digitized operation services	943,936	606,218
Revenue from sales of pharmaceutical and healthcare product	385,486	807,511
Provision of healthcare services	13,927	16,698
Revenue from film exhibition and license fee	682	150,964
	<u>1,344,031</u>	<u>1,581,391</u>
Other income and other gains/(losses), net		
Interest income	153	1,181
Fair value change on financial assets at fair value through profit or loss, net	(2,205)	1,129
Fair value change on interest in an associate measured at fair value through profit or loss	(2,646)	(4,567)
Gain on disposal of subsidiaries	174	–
Loss on disposal of property, plant and equipment	(846)	–
Loss on modification of financial assets	(4,087)	–
Government subsidy	2,132	–
Waive of liabilities	–	288
Exchange loss, net	(1,508)	(8,639)
Others	1,394	1,855
	<u>(7,439)</u>	<u>(8,753)</u>

#### 4. SEGMENT INFORMATION

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

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

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

There were no sales between the operating segments during the year ended 31 December 2023 (2022: Nil).

**(a) Business segment***For the year ended 31 December 2023*

	Digitized operation services in healthcare industry HK\$'000	Smart healthcare services platform HK\$'000	Entertainment and media HK\$'000	Total Continuing operations HK\$'000	Discontinued operation: Healthcare and wellness services HK\$'000	Total HK\$'000
Revenue	943,936	399,413	682	1,344,031	92,271	1,436,302
Share of results of an associate	–	–	(1,556)	(1,556)	–	(1,556)
Segment results	(29,546)	(45,355)	3,550	(71,351)	(5,786)	(77,137)
Exchange losses, net				(1,508)	–	(1,508)
Fair value change on financial assets at fair value through profit or loss — unallocated				(2,646)	–	(2,646)
Fair value change on interest in an associate measured at fair value through profit or loss — unallocated				(2,205)	–	(2,205)
Provision for impairment of financial assets — unallocated				(97)	–	(97)
Other unallocated expenses, net				(38,224)	–	(38,224)
Finance costs, net				(116,031)	(5,786)	(121,817)
Loss before taxation				(3,605)	(1)	(3,606)
Taxation				(119,636)	(5,787)	(125,423)
Loss for the year				69	–	69
Loss for the year attributable to non-controlling interests				(119,567)	(5,787)	(125,354)
Loss for the year attributable to equity holders of the Company				28,267	–	28,267
				(91,300)	(5,787)	(97,087)

*For the year ended 31 December 2023*

	Digitized operation services in healthcare industry HK\$'000	Smart healthcare services platform HK\$'000	Entertainment and media HK\$'000	Total HK\$'000
Segment assets	143,993	49,267	285,524	478,784
Unallocated assets				<u>47,508</u>
Total assets				<u><u>526,292</u></u>
Segment liabilities	148,469	41,901	-	190,370
Unallocated liabilities				<u>113,129</u>
Total liabilities				<u><u>303,499</u></u>
Other information:				
Additions of right-of-use assets	3,607	920	-	4,527
Purchases of property, plant and equipment				
– Allocated	1,631	17,101	-	18,732
– Unallocated				2,818
Purchases of intangible assets	-	1,274	-	1,274
Depreciation of right-of-use assets				
– Allocated	1,567	2,131	-	3,698
– Unallocated				6,805
Depreciation of property, plant and equipment				
– Allocated	1,019	1,959	-	2,978
– Unallocated				35
Amortization of intangible assets	-	1,869	-	1,869
Reversal of impairment of trade receivables	-	(220)	(332)	(552)
Provision for/(reversal) of impairment of deposits and other receivables				
– Allocated	(1)	(8)	(4,105)	(4,114)
– Unallocated				97

For the year ended 31 December 2022

	Digitized operation services in healthcare industry HK\$'000	Smart healthcare services platform HK\$'000	Entertainment and media HK\$'000	Total Continuing operations HK\$'000 (Restated) (Note 27)	Discontinued operation: Healthcare and wellness services HK\$'000 (Restated) (Note 27)	Total HK\$'000
Revenue	606,218	824,209	150,964	1,581,391	110,670	1,692,061
Share of results of an associate	–	–	(4,817)	(4,817)	–	(4,817)
Segment results	(57,809)	(86,337)	(122,882)	(267,028)	1,374	(265,654)
Exchange losses, net				(8,639)	–	(8,639)
Fair value change on financial assets at fair value through profit or loss — unallocated				1,129	–	1,129
Fair value change on interest in an associate measured at fair value through profit or loss — unallocated				(4,567)	–	(4,567)
Provision for impairment of financial assets — unallocated				(1,032)	–	(1,032)
Other unallocated expenses, net				(36,492)	–	(36,492)
Finance costs, net				(316,629)	1,374	(315,255)
(Loss)/profit before taxation				(1,497)	(271)	(1,768)
Taxation				(318,126)	1,103	(317,023)
(Loss)/profit for the year				425	–	425
Loss for the year attributable to non-controlling interests				(317,701)	1,103	(316,598)
(Loss)/profit for the year attributable to equity holders of the Company				46,618	–	46,618
				(271,083)	1,103	(269,980)

For the year ended 31 December 2022

	Digitized operation services in healthcare industry HK\$'000	Smart healthcare services platform HK\$'000	Entertainment and media HK\$'000	Healthcare and wellness services HK\$'000 (Note 27)	Total HK\$'000
Segment assets	110,056	93,435	318,912	30,701	553,104
Unallocated assets					<u>36,082</u>
Total assets					<u><u>589,186</u></u>
Segment liabilities	92,992	72,386	–	3,499	168,877
Unallocated liabilities					<u>70,384</u>
Total liabilities					<u><u>239,261</u></u>
Other information:					
Additions of right-of-use assets					
– Allocated	2,368	576	–	–	2,944
– Unallocated				–	15,528
Purchases of property, plant and equipment					
– Allocated	2,429	8,133	–	1,418	11,980
– Unallocated				–	154
Purchases of intangible assets	–	1,598	–	–	1,598
Depreciation of right-of-use assets					
– Allocated	2,359	4,098	–	22,008	28,465
– Unallocated				–	5,398
Depreciation of property, plant and equipment					
– Allocated	761	2,243	–	1,052	4,056
– Unallocated				–	89
Amortization of completed film rights	–	–	73,736	–	73,736
Amortization of intangible assets	–	1,452	–	–	1,452
Provision for impairment of completed film rights	–	–	43,565	–	43,565
Provision for impairment of trade receivables	37	278	562	–	877
Provision for/(reversal of) impairment of deposits and other receivables					
– Allocated	2	9	9,468	(359)	9,120
– Unallocated					<u>1,032</u>

## (b) Geographical information

The geographical information for the year ended 31 December 2023 and 2022 are as follows:

	Revenue from external		Non-current assets <sup>Note</sup>	
	customers		2023	2022
	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC	1,343,349	1,453,564	47,957	82,418
Hong Kong	–	–	18,450	25,230
South Korea	–	–	211,086	218,982
Other countries	682	127,827	–	–
	<b>1,344,031</b>	<b>1,581,391</b>	<b>277,493</b>	<b>326,630</b>

Note: Non-current assets exclude financial assets at fair value through profit or loss, and non-current portion of deposits and other receivables.

- (c) There is no individual customer who has contributed 10% or more of the total revenue of the Group for the year ended 31 December 2023. Revenue from major customers who have individually contributed 10% or more of the total revenue of the Group for the year ended 31 December 2022 are disclosed as follows:

	2022
	HK\$'000
Customer A	431,565
Customer B	<u>173,461</u>

## 5. FINANCE COSTS, NET

	2023	2022
	HK\$'000	HK\$'000
		(Restated)
		(Note 27)
<b>Continuing Operations:</b>		
Interest on bank and other borrowings	1,407	548
Interest on lease liabilities (Note 11)	880	949
Interest on long-term financial liabilities	<u>1,318</u>	–
<b>Finance costs, net</b>	<b><u>3,605</u></b>	<b>1,497</b>

## 6. LOSS BEFORE TAXATION

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

	2023 HK\$'000	2022 HK\$'000 (Restated) (Note 27)
<b>Continuing Operations:</b>		
Film production cost	–	32,556
Film promotion and distribution fee	–	107,816
Depreciation of property, plant and equipment	3,013	3,093
Depreciation of right-of-use assets (Note 11)	10,503	11,855
Auditor's remuneration		
– Audit services	2,100	2,100
– Non-audit services	585	1,410
Expense relating to short-term leases (Note 11)	2,968	190
Provision for impairment of film rights and films production in progress	–	43,565
Net (reversal of)/provision for impairment of financial assets		
– Trade receivables (Note 16)	(552)	877
– Deposits and other receivables (Note 17)	(4,017)	10,511
Amortization of completed film rights	–	73,736
Amortization of intangible assets (Note 12)	1,869	1,452
Costs of digitized operation services in healthcare industry	559,719	270,561
Costs of inventories sold (Note 18)	361,610	796,905
Marketing and promotion expenses	376,694	334,317
Employee benefit expense:		
<i>Directors' fees</i>	847	720
<i>Wages and salaries</i>	65,762	90,057
<i>Contributions to defined contribution pension schemes (Note a)</i>	13,680	17,306
<i>Share-based compensation expenses (Note 24)</i>	2,845	17,541
	<b>83,134</b>	<b>125,624</b>

*Note a:* During the year ended 31 December 2023, no forfeited contributions were utilized by the Group to reduce its contributions for the current year (2022: Nil).

## 7. TAXATION

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

	2023	2022
	HK\$'000	HK\$'000
<b>Continuing Operations:</b>		
Current income tax		
– Hong Kong profits tax	–	–
– PRC corporate income tax	–	–
Deferred income tax credit	<u>69</u>	425
	<u><u>69</u></u>	<u><u>425</u></u>

## 8. LOSS PER SHARE

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

	2023	2022
		(Restated)
		(Note 27)
Weighted average number of ordinary shares in issue (thousands)	<u><u>13,585,339</u></u>	13,543,887
Loss from continuing operations attributable to equity holders of the Company (HK\$'000)	(91,300)	(271,083)
Basic loss per share from continuing operations attributable to equity holders of the Company (HK cents per share)	<u><u>(0.67)</u></u>	<u><u>(2.00)</u></u>
(Loss)/profit from discontinued operations attributable to equity holders of the Company (HK\$'000)	(5,787)	1,103
Basic (loss)/earnings per share from discontinued operations attributable to equity holders of the Company (HK cents per share)	<u><u>(0.04)</u></u>	<u><u>0.01</u></u>
Loss per share attributable to equity holders of the Company (HK cents per share)	<u><u>(0.71)</u></u>	<u><u>(1.99)</u></u>

For the year ended 31 December 2023 and 2022, diluted loss per share from continuing operations equals to basic loss per share from continuing operation as the potential ordinary shares were not included in the calculation of diluted loss per because they are anti-dilutive.

## 9. DIVIDEND

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2023 (2022: Nil).

## 10. PROPERTY, PLANT AND EQUIPMENT

	Building HK\$'000	Machinery and equipment HK\$'000	Furniture, computer and equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Year ended 31 December 2022</b>						
Opening net book amount	–	544	3,670	1,685	1,567	7,466
Additions	–	213	4,803	5,923	1,195	12,134
Written-off	–	(5)	(5)	–	(2)	(12)
Disposal	–	–	(554)	–	–	(554)
Depreciation	–	(147)	(1,527)	(1,994)	(477)	(4,145)
Exchange differences	–	(49)	(425)	(309)	(163)	(946)
<b>Closing net book amount</b>	<b>–</b>	<b>556</b>	<b>5,962</b>	<b>5,305</b>	<b>2,120</b>	<b>13,943</b>
<b>At 31 December 2022</b>						
Cost	899	3,070	10,692	9,235	7,334	31,230
Accumulated depreciation	(899)	(2,514)	(4,730)	(3,930)	(5,214)	(17,287)
<b>Net book amount</b>	<b>–</b>	<b>556</b>	<b>5,962</b>	<b>5,305</b>	<b>2,120</b>	<b>13,943</b>
<b>Year ended 31 December 2023</b>						
Opening net book amount	–	556	5,962	5,305	2,120	13,943
Additions	–	203	17,252	1,198	2,897	21,550
Written-off	–	(40)	(166)	(1,932)	(20)	(2,158)
Disposal	–	–	(1,313)	–	(861)	(2,174)
Disposal of subsidiaries	–	(617)	(18,063)	(31)	(4,073)	(22,784)
Depreciation	–	(112)	(1,704)	(1,515)	(605)	(3,936)
Exchange differences	–	11	415	(60)	646	1,012
<b>Closing net book amount</b>	<b>–</b>	<b>1</b>	<b>2,383</b>	<b>2,965</b>	<b>104</b>	<b>5,453</b>
<b>At 31 December 2023</b>						
Cost	886	24	4,713	6,339	1,389	13,351
Accumulated depreciation	(886)	(23)	(2,330)	(3,374)	(1,285)	(7,898)
<b>Net book amount</b>	<b>–</b>	<b>1</b>	<b>2,383</b>	<b>2,965</b>	<b>104</b>	<b>5,453</b>

Excluding those classified in profit or loss from discontinued operation of approximately HK\$923,000 (2022: HK\$1,052,000), depreciation expenses of approximately HK\$439,000 (2022: nil), HK\$2,330,000 (2022: HK\$2,852,000), HK\$59,000 (2022: HK\$65,000) and HK\$185,000 (2022: 176,000) have been charged in cost of sales, administrative expenses, marketing and selling expenses and research and development expenses respectively.

## 11. LEASES

### (i) Amounts recognized in the consolidated balance sheet

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

	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
<b>Right-of-use assets</b>		
Office	<b>14,530</b>	23,457
Apartment	–	2,185
Operating assets of “Bayhood No. 9 Club”	–	16,090
	<b>14,530</b>	41,732
<b>Lease liabilities</b>		
Current	<b>7,280</b>	10,854
Non-current	<b>8,150</b>	13,773
	<b>15,430</b>	24,627

Additions to the right-of-use assets (including acquisition of subsidiaries) during the year ended 31 December 2023 was HK\$4,527,000 (2022: HK\$18,472,000).

**(ii) Amounts recognized in the consolidated income statement**

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

	Notes	2023 HK\$'000	2022 HK\$'000 (Restated) (Note 27)
<b>Continuing Operations:</b>			
<b>Depreciation charge of right-of-use assets</b>			
Office		8,318	9,575
Apartment		2,185	2,280
	6	<u>10,503</u>	<u>11,855</u>
Interest expense (included in finance costs)	5	880	949
Expense relating to short-term leases (included in administrative expenses)	6	2,968	190

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

The Group leased various offices and certain operating assets of “Bayhood No. 9 Club” (up and until 5 October 2023). Rental contracts are generally made for fixed periods of 6 months to 5 years, but may have extension options as described in Note 11(iv) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, such as term, country, currency and security.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognized on a straight-line basis as an expense in consolidated income statement. Short term leases are leases with a lease term of 12 months or less.

**(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. INTANGIBLE ASSETS**

	<b>Licenses and softwares</b>	
	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
As at 1 January	<b>4,527</b>	4,793
Additions	<b>1,274</b>	1,598
Written off	<b>(1,578)</b>	–
Disposal of subsidiaries	<b>(14)</b>	–
Amortization (Note 6)	<b>(1,869)</b>	(1,452)
Exchange differences	<b>(66)</b>	(412)
As at 31 December	<b><u>2,274</u></b>	<u>4,527</u>
As at 31 December		
Cost	<b>4,817</b>	5,950
Accumulated amortization	<b><u>(2,543)</u></b>	<u>(1,423)</u>
Net carrying amount	<b><u>2,274</u></b>	<u>4,527</u>

Amortization expenses of approximately HK\$1,746,000 (2022: HK\$1,364,000) and HK\$123,000 (2022: HK\$88,000) have been charged in administrative expenses and marketing and selling expenses respectively.

### 13. GOODWILL

	2023	2022
	HK\$'000	HK\$'000
Cost and net carrying amount as at 1 January	27,853	30,397
Exchange differences	<u>(650)</u>	<u>(2,544)</u>
Cost and net carrying amount as at 31 December	<u><u>27,203</u></u>	<u><u>27,853</u></u>

#### Impairment testing of goodwill

The above goodwill acquired through business combinations is allocated to the following CGU for impairment testing — Digitized operation services in healthcare industry. The recoverable amount of this CGU as at 31 December 2023 has been determined based on the post-investment valuation arising from the YZN Capital Increase in April 2023 (as detailed in note 26) less the discount rate for lack of marketability. The recoverable amount of this CGU as at 31 December 2022 has been determined by fair value less costs of disposal calculation using discounted cash flow projections based on financial budgets covering a five-year period with the assistance of an independent valuer. The compound annual revenue growth rate is 28.91%. The discount rate applied to the cash flow projections is 22.7%. The discount rate for lack of marketability is 40%. The growth rate used to extrapolate the cash flows beyond the five-year period is 3%, which approximates the long-term average growth rate of the internet healthcare services in the PRC.

There is no impairment required on goodwill as at 31 December 2023 and 2022. A reasonable change in assumptions would not result in impairment, therefore disclosure of sensitivity analysis is not considered necessary.

## 14. INTERESTS IN ASSOCIATES

	As at 31 December	
	2023	2022
	HK\$'000	HK\$'000
<b>Interest in an associate accounted for using the equity method</b>		
– Interest in HB Entertainment Co., Ltd.	211,086	218,982
<b>Interest in an associate measured at fair value through profit or loss</b>		
– Interest in Deep Sea Health Limited	16,947	19,593
	<b>228,033</b>	<b>238,575</b>

Set out below are the associates of the Group as at 31 December 2023 which, in the opinion of the directors, are material to the Group. These associates are private companies and there is no quoted market price available for their shares. There are no contingent liabilities relating to the Group's interests in associates, and there are no contingent liabilities of the associates themselves.

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

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

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

*Summarized financial information*

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

*Summarized balance sheet*

	<b>As at 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Current</b>		
Cash and cash equivalents	<b>23,131</b>	65,980
Other current assets (excluding cash)	<b>47,727</b>	66,620
<b>Total current assets</b>	<b>70,858</b>	132,600
Current financial liabilities (excluding trade payables)	<b>(69,736)</b>	(123,714)
Other current financial liabilities	<b>(35,429)</b>	(70,896)
<b>Total current liabilities</b>	<b>(105,165)</b>	(194,610)
<b>Non-current</b>		
<b>Total non-current assets</b>	<b>197,782</b>	240,055
<b>Total non-current liabilities</b>	<b>(13,180)</b>	(14,250)
<b>Net assets</b>	<b>150,295</b>	163,795
<b>Non-controlling interests</b>	<b>14,439</b>	12,983
<b>Net assets attributable to the equity holders</b>	<b>164,734</b>	176,778

*Summarized statement of comprehensive income*

	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
<b>Revenue</b>	<b>245,352</b>	33,283
<b>Loss before taxation</b>	<b>(7,440)</b>	(18,532)
Taxation	<b>501</b>	842
<b>Loss after taxation</b>	<b>(6,939)</b>	(17,690)
Other comprehensive loss	<b>(3,048)</b>	(9,407)
<b>Total comprehensive loss</b>	<b>(9,987)</b>	(27,097)

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

Movements of interest in HB Entertainment are as follows:

	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
At 1 January	<b>218,982</b>	236,912
Share of results	<b>(1,556)</b>	(4,817)
Share of dividend distribution	<b>(633)</b>	–
Exchange differences	<b>(5,707)</b>	(13,113)
At 31 December	<b>211,086</b>	218,982

### ***Reconciliation of summarized financial information***

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

	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
<b>Summarized financial information</b>		
Opening net assets as at 1 January	<b>176,778</b>	203,875
Loss for the year	<b>(6,939)</b>	(17,690)
Dividend distribution	<b>(2,057)</b>	–
Exchange differences	<b>(3,048)</b>	(9,407)
	<hr/>	<hr/>
Closing net assets as at 31 December	<b>164,734</b>	176,778
	<hr/>	<hr/>
Interest in HB Entertainment	<b>50,794</b>	54,386
Goodwill	<b>160,292</b>	164,596
	<hr/>	<hr/>
Carrying value	<b>211,086</b>	218,982
	<hr/>	<hr/>

### ***Impairment assessment for the interest in HB Entertainment***

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

The recoverable amount as at 31 December 2023 and 2022 was determined by fair value less costs of disposal. Management determined that the average enterprise value-to-revenue ratio based on a pool of comparable listed companies within the same industry.

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

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

	<b>As at 31 December</b>	
	<b>2023</b>	2022
<b>Unobservable inputs adopted in fair value less costs of disposal calculation</b>		
Average enterprise value-to-revenue ratio	<b>3.2</b>	2.6
Discounts for lack of marketability	<b>25%</b>	25%
Significant influence premium	<b>15%</b>	<b>15%</b>

No provision for impairment of interest in HB Entertainment has been recognized for the year ended 31 December 2023 and 2022.

**(b) Deep Sea Health Limited**

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

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

The Group has engaged an independent valuer to determined the fair value of the unlisted investment as at 31 December 2023 and 2022. The valuation of DSH was determined by using the market approach that made reference to price-to-sales multiples of the comparable companies in the same industry.

Key assumptions adopted in the valuation were as follows:

	<b>As at 31 December</b>	
	<b>2023</b>	2022
<b>Unobservable inputs adopted</b>		
Price-to-sales multiples	<b>1.6</b>	2.5
Discounts for lack of marketability	<b>20%</b>	25%

### *Summarized financial information*

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

#### *Summarized balance sheet*

	<b>As at 31 December</b>	
	<b>2023</b>	<b>2022</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Current</b>		
Cash and cash equivalents	<u>1,296</u>	<u>1,328</u>
<b>Total current assets</b>	<u>1,296</u>	<u>1,328</u>
Current financial liabilities	<u>(371)</u>	<u>(332)</u>
<b>Total current liabilities</b>	<u>(371)</u>	<u>(332)</u>
<b>Non-current</b>		
<b>Total non-current assets</b>	<u>145,712</u>	<u>161,279</u>
<b>Total non-current liabilities</b>	<u>–</u>	<u>–</u>
<b>Net assets</b>	<u>146,637</u>	<u>162,275</u>
<b>Non-controlling interests</b>	<u>(69,763)</u>	<u>(76,074)</u>
<b>Net assets attributable to the equity holders</b>	<u><u>76,874</u></u>	<u><u>86,201</u></u>

*Summarized statement of comprehensive income*

	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
<b>Revenue</b>	<u>–</u>	<u>–</u>
<b>Loss before taxation</b>	<b>(13,432)</b>	(14,340)
Taxation	<u>–</u>	<u>–</u>
<b>Loss after taxation</b>	<b>(13,432)</b>	(14,340)
Other comprehensive loss	<u>–</u>	<u>–</u>
<b>Total comprehensive loss</b>	<u><b>(13,432)</b></u>	<u>(14,340)</u>

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

Movements of interest in DSH are as follows:

	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
At 1 January	<b>19,593</b>	24,160
Fair value change through profit or loss	<u><b>(2,646)</b></u>	<u>(4,567)</u>
At 31 December	<u><b>16,947</b></u>	<u>19,593</u>

## 15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2023	2022
	HK\$'000	HK\$'000
<b>Current:</b>		
<b>Put option</b>		
– Deep Sea Health Limited (“DSH”) (Note a)	<u>5,049</u>	–
<b>Non-current</b>		
<b>Investment in unlisted equity securities</b>		
– Beijing Yi Yao Liang Xin (“YYLX”) (Note b)	9,856	14,553
<b>Put option</b>		
– DSH (Note a)	<u>–</u>	<u>2,557</u>
	<u>9,856</u>	<u>17,110</u>

Note:

- (a) On 12 August 2021, the Company has completed an acquisition of 21.88% equity interest in DSH, which became an associate of the Group. In connection with the acquisition, the Company has been granted an option to put the whole of acquired 21.88% equity interests in DSH to the founder and largest shareholder of DSH by 30 December 2022 at its original cost of acquisition (“2022 option”). Pursuant to the supplemental agreement entered into on 28 December 2022, the Company has agreed not to exercise the 2022 option, and has been granted another option to put its equity interests in DSH to the founder and the largest shareholder of DSH by 31 December 2024 at its original cost of acquisition plus a premium of 8% per annum.

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

	As at 31 December	
	2023	2022
<b>Unobservable inputs adopted</b>		
Expected volatility	44.61%	57.63%
Expected dividend	0.00%	0.00%
Exercise probability	55.00%	25.00%
Risk-free interest rate	2.04%	2.27%

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

- (b) In December 2022, the Company has completed an acquisition of 10% equity interest in YYLX, which principally engaged in construction and operation of centralised dispensary centres of traditional Chinese medicines. The consideration of this 10% equity interest was settled by setting-off with a receivable balance from YYLX of approximately HK\$14,553,000. The fair value of YYLX as at 31 December 2022 was estimated to be approximate to the cost of acquisition as at the completion date as the same valuation of YYLX was adopted by the other investors completing acquisition of YYLX equity interests at the same time. The fair value of YYLX as at 31 December 2022 is estimated to be approximate to the fair value at the completion date given the short period in between.

The Group has engaged an independent valuer to determine the fair value of the unlisted investment in YYLX as at 31 December 2023. The valuation of YYLX was determined using the market approach that made reference to price-to-sales multiples to the comparable companies in the same industry. Key assumptions adopted were as follows:

	<b>As at 31 December 2023</b>
<b>Unobservable inputs adopted</b>	
Price-to-sales multiples	3.74
Discounts for lack of marketability	38%

## 16. TRADE AND BILLS RECEIVABLES

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

	<b>As at 31 December</b>	
	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
0–3 months	<b>88,001</b>	82,887
4–6 months	<b>6,642</b>	6,432
7–9 months	<b>341</b>	2,405
10–12 months	<b>–</b>	–
Over 1 year	<b>10,284</b>	13,435
	<b>105,268</b>	105,159
Less: Provision for impairment	<b>(8,832)</b>	(9,372)
	<b>96,436</b>	95,787

### Classification as trade and bills receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and bills receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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

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

	<b>As at 31 December</b>	
	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
At 1 January	<b>9,372</b>	8,515
(Reversal of)/net provision for impairment (Note 8)	<b>(552)</b>	877
Exchange differences	<b>12</b>	(20)
At 31 December	<b><u>8,832</u></b>	<u>9,372</u>

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

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

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

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

	<b>As at 31 December</b>	
	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
HK\$	–	3,186
RMB	<b>96,436</b>	92,601
	<b><u>96,436</u></b>	<u>95,787</u>

## 17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2023	2022
	HK\$'000	HK\$'000
Prepayments	2,207	11,965
Deposits and other receivables	<u>114,066</u>	<u>107,134</u>
	<b>116,273</b>	119,099
Less: Provision for impairment of deposits and other receivables	<u>(10,184)</u>	<u>(15,668)</u>
	<b>106,089</b>	103,431
Less: Non-current portion	<u>(45,798)</u>	<u>(3,846)</u>
	<u><b>60,291</b></u>	<u>99,585</u>

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

	As at 31 December	
	2023	2022
	HK\$'000	HK\$'000
At 1 January	15,668	24,944
(Reversal of)/provision for impairment (Note 6)	(4,017)	10,152
Written off	–	(19,558)
Exchange differences	<u>(1,467)</u>	<u>130</u>
At 31 December	<u><b>10,184</b></u>	<u>15,668</u>

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

	As at 31 December	
	2023	2022
	HK\$'000	HK\$'000
HK\$	1,410	4,100
RMB	<u>104,679</u>	<u>99,331</u>
	<u><b>106,089</b></u>	<u>103,431</u>

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

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

## 18. INVENTORIES

	<b>As at 31 December</b>	
	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
Finished goods	<u><u>4,332</u></u>	<u><u>4,832</u></u>

The cost of inventories sold of approximately HK\$361,610,000 (2022: HK\$796,905,000) was recognized as expense and included in “Cost of sales” in the consolidated income statement for the year ended 31 December 2023.

No provision of impairment of inventories was recognized for the year ended 31 December 2023 (2022: same).

## 19. RESTRICTED CASH

	<b>As at 31 December</b>	
	<b>2023</b>	2022
	<b>HK\$'000</b>	HK\$'000
Pledged bank deposits	<u><u>–</u></u>	<u><u>3,096</u></u>

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

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

## 20. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2023	2022
	HK\$'000	HK\$'000
Cash and bank balances	<u>27,037</u>	<u>38,300</u>
Denominated in:		
HK\$	1,325	2,874
RMB	23,490	31,420
US\$	<u>2,222</u>	<u>4,006</u>
	<u>27,037</u>	<u>38,300</u>
Maximum exposure to credit risk	<u>27,005</u>	<u>38,245</u>

The Group's cash and bank balances of approximately HK\$23,490,000 (2022: HK\$31,405,000) as at 31 December 2023 were denominated in RMB and held in the PRC. The remittance of these funds out of the PRC is subject to the foreign exchange restrictions imposed by the PRC government.

## 21. BANK AND OTHER BORROWINGS

	As at 31 December	
	2023	2022
	HK\$'000	HK\$'000
Current:		
Bank borrowing (Note a)	3,367	5,605
Other borrowings (Note b)	<u>68,864</u>	<u>27,135</u>
	<u>72,231</u>	<u>32,740</u>
Denominated in:		
RMB	71,231	32,740
HK\$	<u>1,000</u>	<u>–</u>
	<u>72,231</u>	<u>32,740</u>

As at 31 December 2023 and 2022, carrying amounts of bank and other borrowings approximated their fair values.

Note a: As at 31 December 2023, bank borrowing is secured (2022: secured), interest bearing at 3.45% (2022: 4.35%) and repayable within 1 year (2022: 1 year). The bank borrowings as at 31 December 2022 amounting to HK\$5,605,000 has been fully repaid during the year ended 31 December 2023.

Note b: Other borrowings are unsecured and repayable within 1 year. Approximately HK\$18,759,000 (2022: HK\$4,746,000) is bearing at a weighted average rate of 6.00% (2022: 9.71%) per annum. The remaining other borrowings of approximately HK\$50,105,000 (2022: HK\$22,389,000) are interest-free.

The Group has unconditional rights to extend the maturity date of certain other borrowings amounting to approximately HK\$43,092,000 (2022: HK\$22,389,000) for one more year.

## 22. TRADE PAYABLES

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

	2023 HK\$'000	2022 HK\$'000
0–3 months	101,068	93,903
3–6 months	5,423	–
Over 6 months	1,624	279
	<u>108,115</u>	<u>94,182</u>

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

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

The carrying amounts of trade payables approximate their fair values.

## 23. CONTRACT LIABILITIES, OTHER PAYABLES AND ACCRUED LIABILITIES

	As at 31 December	
	2023	2022
	HK\$'000	HK\$'000
Current liabilities:		
Other payables and accrued liabilities (Note i)	74,757	78,265
Contract liabilities (Note ii)	4,918	8,922
	<u>79,675</u>	<u>87,187</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.

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

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

	As at 31 December	
	2023	2022
	HK\$'000	HK\$'000
HK\$	6,883	5,402
RMB	72,792	81,785
	<u>79,675</u>	<u>87,187</u>

## 24. SHARE CAPITAL

	Ordinary shares of HK\$0.02 each		Preference shares of HK\$0.01 each		
	No. of shares		No. of shares		
	'000	HK\$'000	'000	HK\$'000	HK\$'000
<b>Authorized:</b>					
At 31 December 2023 and 2022 (Note a)	<u>150,000,000</u>	<u>3,000,000</u>	<u>240,760</u>	<u>2,408</u>	<u>3,002,408</u>
<b>Issued and fully paid:</b>					
At 1 January 2023 and 31 December 2023	<u>13,585,339</u>	<u>271,707</u>	-	-	<u>271,707</u>
At 1 January 2022	13,498,107	269,962	-	-	269,962
Issuance of vested share award	62,500	1,250	-	-	1,250
Acquisition of subsidiaries	24,732	495	-	-	495
At 31 December 2022	<u>13,585,339</u>	<u>271,707</u>	-	-	<u>271,707</u>

Note:

(a) Authorized share capital

The total number of authorized shares includes ordinary shares and preference shares. 150,000,000,000 (2022: 150,000,000,000) shares are ordinary shares with par value of HK\$0.02 (2022: HK\$0.02) per share. 240,760,000 (2022: 240,760,000) shares are preference shares with par value of HK\$0.01 per share (2022: HK\$0.01). All issued shares are fully paid.

### Share Option

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

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

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

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

During the year ended 31 December 2023, no share options were granted, exercised, cancelled or lapsed, and there was no outstanding option under the New Share Option Scheme as at 31 December 2023 (2022: Nil).

### **Share award scheme**

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

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

During the year ended 31 December 2023, 15,000,000 shares (2022: 77,500,000 shares) were granted to selected participants pursuant to the Share Award Scheme. No shares (2022: 15,000,000 shares) were lapsed because the vesting conditions had not been fulfilled. No share were vested and issued during the year ended 31 December 2023 (2022: 62,500,000 shares, which par value amounted to HK\$1,250,000, were vested and issued, subject to a lock-up period of one year (25% of vested shares), two years (25% of vested shares), three years (25% vested shares) and four years (25% of vested shares) respectively).

For the year ended 31 December 2023, share-based compensation expense recognized in the consolidated income statement for share awards was approximately HK\$2,845,000 (2022: HK\$17,541,000). Included in the share-based compensation expenses recognized in the

consolidated income statement for the year ended 31 December 2022 was an amount of approximately HK\$14,487,000 resulting from (i) issuance of 24,732,032 new shares of the Company at HK\$0.56 per share to the founding shareholders of Pingtan Xinban Clinic Company Limited (“PTXB”) in August 2022; and (ii) a commitment by the Group to inject an equivalent of RMB39,000,000 to PTXB, in accordance with achievement of certain pre-determined performance targets pursuant to the terms in relation to the acquisition of PTXB in April 2021.

The fair value of the awarded shares granted during the year ended 31 December 2023 of HK\$0.140 (2022: HK\$0.142) per share was calculated based on the closing price of the Shares at the date of grant.

## 25. RESERVES

	Share premium HK\$'000 (Note ii)	Merger reserve HK\$'000 (Note i)	Capital redemption reserve HK\$'000 (Note iii)	Currency translation reserve HK\$'000 (Note iv)	Shares held for share award scheme HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2022	1,213,484	860,640	1,206	(36,270)	–	11,254	(1,664,923)	385,391
Loss for the year	–	–	–	–	–	–	(269,980)	(269,980)
Share-based compensation	–	–	–	–	–	14,620	–	14,620
Issuance of shares for vested share awards	–	–	–	–	(1,250)	–	–	(1,250)
Acquisition of subsidiaries	13,244	–	–	–	–	(13,739)	–	(495)
Currency translation differences								
– Group	–	–	–	1,320	–	–	–	1,320
– Associate	–	–	–	(13,113)	–	–	–	(13,113)
Balance at 31 December 2022	<u>1,226,728</u>	<u>860,640</u>	<u>1,206</u>	<u>(48,063)</u>	<u>(1,250)</u>	<u>12,135</u>	<u>(1,934,903)</u>	<u>116,493</u>
	Share premium HK\$'000 (Note ii)	Merger reserve HK\$'000 (Note i)	Capital redemption reserve HK\$'000 (Note iii)	Currency translation reserve HK\$'000 (Note iv)	Shares held for share award scheme HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2023	1,226,728	860,640	1,206	(48,063)	(1,250)	12,135	(1,934,903)	116,493
Loss for the year	–	–	–	–	–	–	(97,087)	(97,087)
Share-based compensation	–	–	–	–	–	2,251	–	2,251
Issuance/Unlocking of shares for vested share awards	1,907	–	–	–	312	(2,219)	–	–
Currency translation differences								
– Group	–	–	–	2,536	–	–	–	2,536
– Associate	–	–	–	(5,707)	–	–	–	(5,707)
Balance at 31 December 2023	<u>1,228,635</u>	<u>860,640</u>	<u>1,206</u>	<u>(51,234)</u>	<u>(938)</u>	<u>12,167</u>	<u>(2,031,990)</u>	<u>18,486</u>

Notes:

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

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

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

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

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

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

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

In November 2023, the relevant parties have entered into the YZN Capital Increase Supplemental Agreement, pursuant to which a further group reorganization would be carried such that Yizhinuo Technology (Suzhou) Co., Ltd. (“Suzhou YZN”) would become the holding company of YZN, the OPCO and other subsidiaries within the YZN Group (“Suzhou YZN Reorganization”).

As of 31 December 2023, the YZN Group has already received the first instalment of YZN Capital Increase amounting to RMB24 million (equivalent to approximately HK\$26,031,000) which is recorded as the Group's long-term financial liabilities. All of the above-mentioned steps have been completed as at 31 December 2023 except for the completion of Suzhou YZN Reorganization and the receipt of the second instalment of YZN Capital Increase amounting to RMB16 million, both of which were subsequently completed in January 2024.

## **27. DISCONTINUED OPERATION**

As detailed in the Company's announcements dated 15 May 2015 and 28 December 2020, Haikou Jiu hao Hotel Management Company Limited Beijing Branch ("Haikou Beijing Branch"), an indirect wholly-owned subsidiary of the Company, has entered into a set of club lease agreements (the "Club Lease Agreement") with Beijing Bayhood No. 9 Business Hotel Company Limited (the "Lessor") pursuant to which the assets relevant to the operations of "Beijing Bayhood No. 9 Club" were leased to Haikou Beijing Branch for a term of twenty years starting from 6 October 2015. The total lease term of twenty years was divided into six rental periods. The first rental period of five years has ended on 5 October 2020. The remaining lease term of fifteen years starting from 6 October 2020 were to be divided into five rental periods of three years each. Haikou Beijing Branch has an option to early terminate the Club Lease Agreement by giving advance notice to the Lessor prior to the expiry of each rental period.

On 3 April 2023, Haikou Beijing Branch has delivered an advance notice to the Lessor to early terminate the Club Lease Agreement after the expiry of the second rental period by 5 October 2023. Since the early termination of the Club Lease Agreement by 5 October 2023, the Group has no longer engaged in the operation of "Bayhood No. 9 Club".

As the operation of "Healthcare and Wellness Services – Beijing Bayhood No. 9 Club" is considered as a separate major line of business, they are accounted for as discontinued operations.

Analysis of the result of discontinued operations in relation to Healthcare and Wellness Services – Beijing Bayhood No. 9 Club is as follows:

	<b>During the period from 1 January 2023 to 5 October 2023 HK\$'000</b>	During the year ended 31 December 2022 HK\$'000
Revenue	92,271	110,670
Cost of sale	<u>(49,243)</u>	<u>(67,067)</u>
Gross profit	43,028	43,603
Other income and other (losses)/gains, net	(6,068)	200
Administrative expenses	(42,746)	(42,788)
Net reversal of impairment of financial assets	<u>–</u>	<u>359</u>
	(5,786)	1,374
Finance costs, net	<u>(1)</u>	<u>(271)</u>
(Loss)/profit before tax from discontinued operations	(5,787)	1,103
Tax	<u>–</u>	<u>–</u>
(Loss)/profit for the year from discontinued operations	<u><u>(5,787)</u></u>	<u><u>1,103</u></u>

## 28. RELATED PARTY TRANSACTIONS

### (a) Related party transactions

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

Name of party	Nature of transaction	31 December	31 December
		2023	2022
		HK\$'000	HK\$'000
Tencent Cloud Computing (Beijing) Company Limited (Note a)	Service fees	978	–
華誼兄弟電影有限公司 (“Huayi Brothers Film Co., Ltd”)* (Note b)	Film investment income	–	23,136
		<u>978</u>	<u>23,136</u>

\* English name is made for identification purpose only.

Note a: Tencent Cloud Computing (Beijing) Company Limited is a wholly-owned subsidiary of Tencent Holdings Limited which is a substantial shareholder of the Company.

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

### (b) Related party balances

	31 December	31 December	
	2023	2022	
		HK\$'000	HK\$'000
Trade receivables			
– Huayi Brothers Film Co., Ltd	<u>669</u>	<u>6,351</u>	
Other borrowings (unsecured and non-interest bearing)			
– Mr. YUEN Hoi Po, an executive director and CEO of the Company	19,207	16,792	
– Ms. Dong Yu, a director and CEO of a subsidiary of the Company	<u>2,207</u>	–	
	<u>21,414</u>	<u>16,792</u>	

## **29. EVENT AFTER THE BALANCE SHEET DATE**

In March 2024, the Company has completed the issuance of 10% convertible bonds due March 2026 of an aggregate principal amount of HK\$120,000,000. At any time after the issue date and up to and inclusive of the maturity date, the holder of the convertible bonds has right to convert in whole or in part, of the outstanding principal amount into fully paid ordinary shares of the Company. For details of the convertible bonds, please refer to the Company’s announcement dated 7 March 2024. The relevant financial impact of the issuance of convertible bonds will be reflected in the consolidated financial statements of the Group for the year ending 31 December 2024.

## **CEO’S STATEMENT**

I am pleased to present the annual results of Huayi Tencent Entertainment Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31 December 2023.

With the arrival of the post-pandemic era, there has been a notable shift in consumer attitudes and preferences towards healthcare models. The convenience offered by internet pharmaceutical and healthcare services has gained popularity among consumers, leading to a rapid increase in online healthcare service users. Additionally, the PRC government has been actively promoting digital transformation, accelerating industry development. In 2023, the State Council issued the “Plan for the Overall Layout of Building a Digital China”, aiming to expedite the construction of a digital China and achieve integrated advancement by 2025. As the “14th Five-Year Plan” is gradually implemented and relevant policies are introduced, the internet healthcare market is experiencing a new wave of opportunities. According to the research report “Research Report on Market Analysis and Investment Risk Trend Forecast in the Chinese Digital Healthcare Industry 2022–2027”, published by the China Commercial Industry Research Institute, the global digital healthcare market is expected to reach US\$286.35 billion in 2023 and US\$365.67 billion in 2024, indicating significant potential in this emerging market.

The Group has capitalized on market opportunities and persistently strengthened and improved the positioning of its internet pharmaceutical and healthcare business, making steady progress. The Group has two core businesses: Echartnow, the digitized operation service in the healthcare industry, which has experienced rapid expansion with 56% growth in revenue in 2023; and Meerkat Health, the smart healthcare services platform, whose business structure has been refined and optimized so as to enhance cost-effectiveness. At the same time, the Group has divested itself from the operation of the non-core business, Bayhood No. 9 Club, in order to further optimize cash flow and profitability.

During the year, Echartnow has achieved several significant milestones in its business development. It has made further advancements on the foundation of the industry-wide healthcare service ecosystem by developing the “Cistanche Digitized Operation and Management Platform”. This platform provides digital transformation services to pharmaceutical companies and their associated service providers, enabling seamless information flow and supporting the establishment of industry standards. In alignment with national policies on healthcare reform and the digitization of healthcare resources,

Echartnow continues to expand its business scope. Echartnow has collaborated with Tencent to drive the research and application of AI technology in the healthcare industry, resulting in the launch of the ECN Yuanzhi Digital Human AI Solution. Furthermore, Echartnow has been actively expanding its collaborations with strategic partners and doctors. The number of contracted pharmaceutical companies and the coverage of doctors have steadily increased, demonstrating widespread recognition and solidifying its position as a market leader. Additionally, Echartnow has received investment endorsement from a state-owned enterprise, further validating its exceptional performance and market acceptance. Looking ahead, Echartnow will accelerate the utilization of AI technology and implement multidimensional work systems and standardized processes to maintain its leading position in the industry and strengthen its business defenses and competitive advantages.

In addition to the ongoing expansion of its core business, the Group is actively diversifying its financing channels to establish a solid foundation for future development. In March 2024, the Group entered into an agreement for the subscription of HK\$120 million convertible bonds with Hony Capital, a prominent investment management group in the PRC. The proceeds raised from this subscription of convertible bonds will be utilized as the Group's working capital to support the growth of its core business. With assets under management exceeding RMB 120 billion, Hony Capital covers various sectors, including digital technology, cultural technology, and consumer services. The Group looks forward to a deeper collaboration with Hony Capital in the fields of health technology and cultural entertainment.

May I also take this opportunity to, on behalf of the Board, express gratitude to the shareholders, investors and business partners for the trust and support all along, and to all our staff who have been working tirelessly and unitedly, laying a solid foundation for the development of the Group.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The “14th Five-Year Plan” proposes a key focus on promoting the market for smart healthcare and digitization of healthcare resources. It suggests the cultivation of a new model known as “Internet Plus Healthcare”, which benefits from changes in the healthcare model following the pandemic, the expanding scope of telemedicine, and the continuous introduction and refinement of healthcare policies. As a result, China's internet healthcare market is experiencing rapid development, with a sustained increase in demand. According to a report by Frost & Sullivan, the Chinese internet healthcare market has shown rapid growth since 2020 and is projected to reach RMB 200 billion by 2026, indicating significant potential in this emerging market.

In 2023, the Group maintained its focus on expanding its internet pharmaceutical and healthcare services in the PRC. It placed particular emphasis on two core businesses: “Echartnow”, the digitized operation service in the healthcare industry (formerly known as online prescription, circulation and marketing of pharmaceutical products), and “Meerkat Health”, a smart healthcare services platform. Simultaneously, non-core businesses were divested to reduce costs and improve efficiency, with the goal of further optimizing cash flow and profitability. During the year, “Echartnow” achieved significant milestones in business development, capitalizing on healthcare reforms and the digitization

of healthcare resources driven by national policies. This expansion of the digitized operation service in the healthcare industry enabled the Group to consolidate its market position, expand its market share, and seize opportunities within the industry.

For the year ended 31 December 2023, the Group's total revenue from continuing operations amounted to HK\$1,344,031,000 (2022: HK\$1,581,391,000), reflecting a decrease of 15% compared to 2022. One of the primary reasons for this decline is that the "Entertainment and Media" segment currently has no plans to invest in new entertainment and media projects, leading to a significant reduction in revenue of approximately 99.5% to around HK\$682,000 (2022: HK\$150,964,000).

During the year, one of the primary sources of revenue for the Group was "Echartnow", the digitized operation service in the healthcare industry. It recorded a significant 56% increase in revenue to approximately HK\$943,936,000 (2022: HK\$606,218,000), accounting for 70% of the Group's total annual revenue (2022: 38%). The digitized operation services offered to pharmaceutical companies by Echartnow, including a digitized management system, online marketing and promotion services, clinical research services, and the Cistanche SaaS Platform, is now a proven success model with growth sustainability. The number of pharmaceutical companies that have signed contracts with Echartnow has increased to 245, representing a substantial 53% growth (2022: 160). This reflects the widespread recognition and acceptance of the services provided by Echartnow among pharmaceutical clients. On the other hand, in order to raise gross profit margin and reduce operating losses, the management of "Meerkat Health" has intentionally cut down medical services business and those healthcare consumption revenue streams with low gross profit margins and focused on exploring new products/services with higher gross profit margin. Consequently, the revenue from the "Meerkat Health" business decreased by 52% to approximately HK\$399,413,000 (2022: HK\$824,209,000). However, there was a significant 75% increase in gross profit, amounting to HK\$28,529,000 (2022: HK\$16,282,000).

For the "Entertainment and Media" segment, the Group did not invest in any new film or television drama projects in 2023. However, the segment's performance improved, shifting from a loss to a profit, with a recorded segment profit of HK\$3,550,000 (2022: segment loss of HK\$122,882,000). In addition, the Group holds a 30.77% stake in HB Entertainment from South Korea, which launched two television dramas, "Battle for Happiness" and "My Man Is Cupid", during the year. This led to a substantial increase in HB Entertainment's revenue compared to the previous year, reaching approximately HK\$245,352,000 (2022: HK\$33,283,000). Consequently, the Group's share of its loss narrowed down by 68% to approximately HK\$1,556,000 (2022: a share of loss HK\$ 4,817,000).

The Group has also taken steps to gradually divest from non-core businesses to optimize resource allocation. It ceased its operations of the healthcare and wellness service, "Bayhood No. 9 Club", on 5 October 2023. As a result, the Group no longer engages in the operations of "Bayhood No. 9 Club". The recorded revenue for the year amounted to approximately HK\$92,271,000 (2022: HK\$110,670,000). Furthermore, the discontinued operations incurred a loss of HK\$5,787,000 during the year (2022: a profit of HK\$1,103,000).

In summary, the Group’s businesses, Echartnow and Meerkat Health, both decreased their loss amounts by approximately half during the year. Furthermore, the “Entertainment and Media” segment turned its losses into profits. As a result, the Group’s loss for the year significantly narrowed down to HK\$125,354,000 (2022: HK\$316,598,000), representing a reduction in losses of over 60% year-on-year.

## **BUSINESS REVIEW AND PROSPECTS**

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

Echartnow is dedicated to applying cutting-edge artificial intelligence technology in the healthcare industry, providing enterprises with full development cycle digitized operation solutions. Seizing the online transformation trend in the pharmaceutical industry, Echartnow has successfully established a presence across the industry value chain, including pharmaceutical companies, retail pharmacies, healthcare professionals and patients, by integrating online and offline platforms. This has led to the creation of an industry-wide healthcare service ecosystem. With a strategic positioning as a partner in digitized operations for the healthcare industry, Echartnow will focus on developing the digitized operation business. During the year, Echartnow has achieved multiple business milestones, further enhancing its competitive advantage and solidifying its position as an industry frontrunner.

In April 2023, the Company, Echartnow, Zhangjiagang Yitang Equity Investment Partnership (Limited Partnership) (“**Zhangjiagang Yitang**”) and others entered into the Capital Increase Agreements, pursuant to which Zhangjiagang Yitang agreed to make a cash contribution in total of RMB40,000,000 to acquire a 6.25% equity stake in Echartnow. Zhangjiagang Yitang is a state-owned sole proprietorship company in Zhangjiagang, Jiangsu Province. This investment, supported by a state-owned enterprise, will propel Echartnow’s further expansion in the digitized healthcare operation market in the PRC. It will leverage the synergies of state-owned shareholders, national policies, business resources, and network capabilities to solidify Echartnow’s position as a market leader. All capital increase and related restructuring matters within the Echartnow Group have been completed.

In addition, in May 2023, Echartnow entered into a two-year strategic cooperation agreement (the “**Strategic Cooperation Agreement**”) with Tencent Cloud Computing (Beijing) Company Limited (“**Tencent Cloud**”), a subsidiary of Tencent Holdings Limited (Stock Code: 00700), pursuant to which the two parties promote digitalization of the healthcare industry in a concerted effort, in order to provide technical services, product development and tailor-made operation solutions for healthcare enterprises. According to the agreement, both parties will engage in business cooperation across multiple domains, including the procurement and joint development of products such as digital human, medical science popularization, pharmaceutical knowledge databases, AI, and audiovisual content. They will also collaborate on the integration and utilization of their respective resources, as well as joint branding activities. Echartnow will also join forces with Tencent Cloud to drive the research and application of AI technology in the healthcare industry, particularly focusing on small-sample learning and AI-generated content (AIGC). Together, they

aim to expand the AI product market and have developed a comprehensive solution, ECN Yuanzhi Digital Human AI Solution (“**ECN Yuanzhi Digital Human**”), based on the characteristics of the industry and differentiated needs of enterprises. As a solution for building AIGC application scenarios, ECN Yuanzhi Digital Human is designed to address industry pain points, improve and optimize the productivity of doctors, and bring new opportunities for the production and application of high-quality medical education and science content by and for hospitals/doctors. With the collection of audio and video materials of doctors in just a few minutes, ECN Yuanzhi Digital Human is able to build an AI digital avatar and generate an AI digital avatar video rapidly, thus significantly enhancing the efficiency of popular science content production. With ECN Yuanzhi Digital Human, customers in the healthcare industry can create virtual images for doctors and quickly generate videos using technology and texts, thus help saving time for doctors. Since its launch, ECN Yuanzhi Digital Human has been highly acclaimed by customers in the healthcare industry.

### ***Business Review***

During the year, Echartnow has introduced several products, including the independently developed “Cistanche Open Platform” for digitized operation and management, along with the integration of AI capabilities. These initiatives aim to facilitate effective connections among doctors, patients, retail pharmacies, and pharmaceutical companies, creating a comprehensive, closed-loop private domain operation. Operating on the “private domain traffic” model, Echartnow offers customized “digitized operation solutions” to various stakeholders within the healthcare industry.

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

Through the TOB strategy of “pharmaceutical companies driving the whole industry chain”, Echartnow uses the above closed-loop scenario-based healthcare service platform technology to empower pharmaceutical companies and build the digitized operation of the whole industry chain of the healthcare industry based on Echartnow’s digitized ecosystem. The business model of Echartnow gradually takes shape in three stages:

- First stage: Echartnow aims to assist pharmaceutical companies in achieving the initial phase of digital transformation by integrating offline and online platforms through the provision of scenario-based digitized operation solutions. During this stage, Echartnow primarily generates revenue by providing pharmaceutical companies with digital marketing systems, market promotion services, clinical research services, and O2O digital operational services. Additionally, Echartnow charges pharmaceutical companies information service fees, technical service fees, and promotion service fees.
- Second stage: Building upon the foundation of the first stage, Echartnow expands further by introducing the “Cistanche Digitized Operation and Management Platform” (“**Cistanche Open Platform**”). This platform has been verified by Echartnow and has proven to be highly effective. Through the platform, Echartnow provides pharmaceutical companies with comprehensive digital transformation services across the whole industry chain. It connects various stakeholders within the pharmaceutical industry, enabling seamless information flow and offering pharmaceutical companies end-to-end traceability and visualized decision support and information assets. Additionally, Echartnow gradually establishes industry standards to solidify its core competitive advantages. In addition to the revenue generated in the first stage, other significant sources of income include providing SaaS products to pharmaceutical companies and their agents/service providers, as well as revenue from the Cistanche Open Platform.
- Third stage: Building upon the foundations of the first and second stages, Echartnow focuses on continuous technological investments to enhance the efficiency of all stakeholders within the industry. By leveraging AI capabilities, Echartnow aims to increase the productivity of each role, thereby facilitating the rapid development of the entire healthcare industry. The Echartnow ecosystem is poised to become a fundamental cornerstone for industry advancement. In addition to the revenue generated in the first and second stages, the primary source of income in the third stage includes providing empowering services to the whole pharmaceutical industry chain and charging corresponding empowering service fees based on efficiency enhancements.

In 2023, as Echartnow continues to deepen the development of an industry-wide healthcare service ecosystem that effectively connects pharmaceutical companies, doctors, specialized pharmacies, and patients, its core TOB business expansion shows significant progress. This marks the transition of Echartnow from the first-stage business model to the second-stage business model. It is worth noting that in the fourth quarter of 2023, Echartnow served over 30 merchants with its Cistanche Open Platform, with the transaction volume of Cistanche Open Platform merchants exceeding RMB100 million. Echartnow generated over RMB1.2 million in revenue from information service fees through the Cistanche Open Platform. The influence of Echartnow in the digitized healthcare industry continues to expand, providing a solid foundation for achieving its goals of advancing the informatization, digitization, and intellectualization of the healthcare industry.

As of 31 December 2023, Echartnow has signed cooperation agreements with multiple large-scale pharmaceutical companies in the PRC, including Qilu Pharmaceutical, Jiangsu Hengrui Pharmaceuticals, CSPC Pharmaceutical Group, and Anhui Pharmaceutical, among other renowned companies. The number of contracted pharmaceutical companies continues to grow and has reached 245, a 53% increase compared to the end of 2022. Meanwhile, the Echartnow platform has successfully covered 40,070 doctors, representing a significant 55% growth compared to the end of 2022. All doctors have completed real-name registration, uploaded qualification documents, and successfully passed the authentication process.

Major operational data of the Echartnow platform:

	<b>As of 31 December 2023</b>	As of 31 December 2022
<b>Total number of contracted pharmaceutical companies</b>	<b>245</b>	160
<b>Total number of registered doctors</b>	<b>40,070</b>	25,819
<b>Total number of online pharmacies</b>	<b>3,445</b>	3,402
<b>Number of registered patients (in thousands)</b>	<b>482</b>	473
<b>Number of drug types (in thousands of SKUs)</b>	<b>198</b>	192

For the year ended 31 December 2023, the revenue of Echartnow was HK\$943,936,000 (2022: HK\$606,218,000), representing a significant increase of 56% as compared to the prior year; gross profit was HK\$384,218,000 (2022: HK\$335,657,000), representing an increase of 14% as compared to the prior year.

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

1. *Digitized management system*

Through the digitized management system of Echartnow, pharmaceutical companies can further establish an integrated operation-wide data management system that covers post-marketing research, business management, operation management, sales management, customer management, supplier management and so on. The digitized data management system provides digital transformation solutions with in-depth penetration and wide coverage, offering companies an ecological tool base, realizing data asset deposition and transformation, and empowering the data-driven and intelligent digitized operation base.

2. *Marketing service*

Through Echartnow, pharmaceutical companies and large-scale drug distributors can efficiently implement digitized operations online, fostering the adoption and iteration of digitized concepts among groups of doctors with high potential, quality, and skill levels. This approach can contribute to the long-term development of their businesses. Companies can also utilize Echartnow's medical conference system for various types of meetings, such as large-scale academic conferences, online departmental meetings, MDT meetings, expert lectures, AB expert meetings, international academic seminars, new drug launches, and annual academic conferences. A comprehensive range of services is also provided, covering information collection, poster production, live broadcast creation, offline services, push streaming services, video editing, video playback and more.

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

3. *Clinical research service*

Echartnow offers pharmaceutical companies online support for conducting medical research on drug clinical effectiveness and other areas. Echartnow enables pharmaceutical companies to begin online medical research on topics such as the clinical effects of drugs, filling the gaps in research information relating to new functions of the drugs and assisting doctors in making strides in scientific knowledge. Echartnow also provides pharmaceutical companies full life-cycle support for new products after launch, including real-world studies, patient recruitment for drug clinical trials, and pharmacoeconomic evaluations.

#### 4. *Cistanche Open Platform service*

Echartnow has been actively expanding its business and strategically positioning itself based on its existing healthcare service ecosystem. Since the second half of 2022, it has extended its services to provide specialized SaaS products to pharmaceutical companies and their agents/service providers. In June 2023, the self-developed “Cistanche Open Platform” was launched and put into operation on a limited scale. Through the “Cistanche Open Platform,” which Echartnow has built for agents/service providers in the pharmaceutical industry chain, online pathways for different agents/service providers are effectively connected, while ensuring data segregation and role-based access control. On the one hand, Echartnow enables real-time monitoring of project execution and settlement for agents/service providers. On the other hand, the agent/service provider system of pharmaceutical companies benefits from the standardized and systematized project execution pathway offered by the “Cistanche Open Platform,” enabling the achievement of standardized project goals and enhancing the quality and efficiency of project implementation.

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

#### ***Prospects***

The “Cistanche Open Platform” has gradually transformed into a mature and comprehensive product system, successfully entering the market. Its core value lies in establishing industry standards encompassing content, pricing, data, and process, creating a standardized framework. This signifies a significant milestone for Echartnow and its transition to the second stage of development, deepening its competitive advantage and business barriers in the field of healthcare digitization. The platform empowers the entire healthcare industry with digital capabilities, driving its digital transformation and fostering synergistic and sustainable development among industry participants.

Drawing on the “Several Provisions of Shanghai Pudong New Area on Promoting Standardized and Innovative Development in Residential District Governance,” which encourages collaborative efforts among companies in Pudong New Area to establish standard innovation alliances and jointly develop corporate standards, as well as highlighting the significance of the biopharmaceutical industry, Echartnow, under the guidance of the Shanghai Municipal Administration for Market Regulation and Pudong New Area Administration for Market Regulation, has formed a partnership with 17 founding members, including prominent domestic pharmaceutical companies, Xi’an Jiaotong-Liverpool University Entrepreneur College, and RSM China. On 25 January 2024, they officially established the “Shanghai Biopharmaceutical Digital Operation Standard Innovation Consortium” (the “**Consortium**”) in Shanghai’s Pudong New Area.

The primary objective of the Consortium is to drive standardized innovation and practical implementation in the digital operation of the biopharmaceutical industry. By constructing a platform that supports standardized practices, the Consortium aims to facilitate the digital transformation of the biopharmaceutical sector, thereby expediting the commercialization process of innovative drugs.

Looking ahead, Echartnow will continuously advance the expansion of its existing business and accelerate the utilization of artificial intelligence technology to enhance the value and quality of customer production. Simultaneously, Echartnow will persistently strengthen its core barriers and undertake the following crucial initiatives:

- Establishing a certification pathway and standards for doctor review to ensure the reliability and professionalism of their qualifications.
- Constructing a comprehensive service evaluation system that encompasses assessments between doctors and operators, doctors and patients, and doctors with each other, guaranteeing high-quality medical services and customer satisfaction.
- Building a standard system for digitized operation services, including aspects such as pricing, content standards (digital assets), and compliance processes, to provide standardized and efficient operational services.
- Collaborating with universities to establish the “Echartnow Research Institute” and leading the application for the establishment of a nonprofit organization called “Building a Healthcare Village in China”, aiming to promote the development of medical research and social welfare initiatives.

Through sustainable positioning and development, Echartnow will empower itself to deliver superior services, rapidly enhance customer productivity, and maintain a competitive advantage in the healthcare industry, thereby laying a vital cornerstone for future success.

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

In the second half of 2023, the country emphasized the principle of pursuing progress while maintaining stability and coordinating development and security. Special attention was given to ensuring stable economic growth, employment, and prices. As market demand gradually recovered and production supply continued to increase, overall stability was observed in employment and prices, leading to steady growth in residents’ income. The economy showed signs of recovery and improvement. According to data from the National Bureau of Statistics of China, in 2023, the average per capita healthcare expenditure of the country’s residents reached RMB 2,460, representing a growth of 16.0% and accounting for 9.2% of per capita consumption expenditure. The Group keeps pace with the changing times and actively responds to market demands by strategically expanding into new business sectors. As the epidemic receded and the living standards of citizens improved, citizens’ health awareness has increased, creating unprecedented opportunities in the healthcare consumer market. The “active health” trend is driving growth in

various healthcare consumer scenarios and product categories, including medical devices, pharmaceuticals, traditional nourishing supplements, nutritional healthcare products, and healthcare services.

### ***Business Review***

According to the national economic development situation and future trends, and aligned with the Group's long-term development strategy, Meerkat Health has adjusted its business and internal organizational structure since 2023. In order to reduce expenses, Meerkat Health has divested from its vaccination and body check businesses, which have higher costs and uncertain prospects. This move aims to streamline operations, enhance enterprise value, and improve overall efficiency. In early 2024, Meerkat Health further scaled down its business operations by discontinuing its private e-commerce activities and implementing a comprehensive reduction in the workforce associated with that sector, resulting in significant cost savings. Following the optimization of these business adjustments, Meerkat Health will concentrate on developing its healthcare consumption business, aiming to achieve improved operational efficiency and overall corporate growth.

The healthcare consumption business serves as the underlying core business and primary revenue source for Meerkat Health. Established in 2021, the pharmaceutical wholesale and retail operations have undergone over two years of development. Leveraging digital capabilities, Meerkat Health has built an industry-leading smart supply chain system, facilitating swift, secure, and efficient delivery of medical and healthcare products and services to downstream users in the outpatient market, including pharmaceutical companies, drug distributors, pharmacies, and grassroots medical institutions. Meerkat Health's mission is to ensure affordable access to a wide range of high-quality and comprehensive medications, promoting "good medicine for all" and driving overall efficiency improvement in the healthcare ecosystem. Meerkat Health has achieved nearly omnichannel coverage of almost 10,000 categories of drugs, medical equipment, dietary supplements, nourishing products, and other health-related products. Sales channels have been established in regions such as East China and South China, with downstream customers distributed across provinces such as Anhui, Jiangsu, Zhejiang, Guangdong, and Hubei. Through online marketplaces like YSB, 1 Drug Mall, and YBM100, Meerkat Health has provided sales services to over 100,000 end customers, establishing a solid foundation for its long-term development.

As of 31 December 2023, Meerkat Health's revenue amounted to HK\$399,413,000 (2022: HK\$824,209,000), reflecting a 52% decline from the previous year. This decrease can be attributed primarily to the adjustments made in the healthcare consumption business and a decrease in the proportion of lower-margin operations. Meerkat Health has strategically focused its resources on expanding high-margin and high-potential ventures, resulting in a significant increase in gross profit margin from 2.0% in 2022 to 7.1%. Gross profit has also seen a substantial rise of 75% to HK\$28,529,000 (2022: HK\$16,282,000).

## *Prospects*

The Central Economic Work Conference in 2023 proposed the goal of better coordinating consumption and investment to stimulate potential consumption and expand beneficial investment, thereby creating a virtuous cycle of mutual promotion between the two. The conference emphasized the importance of developing new forms of consumption, such as digital consumption, green consumption, and healthcare consumption. It also highlighted the need to actively cultivate new areas of consumption growth, such as smart homes, cultural and entertainment tourism, sports events, and domestically produced trendy products. These initiatives are expected to drive investment in related industries and consumer scenarios. Therefore, Meerkat Health's active involvement in the healthcare consumption business aligns with the current trends in national economic development.

The business restructuring of Meerkat Health was completed in early 2024. As a result, Meerkat Health will be able to operate more efficiently, leading to anticipated reductions in future costs and expenses. This will enhance Meerkat Health's cost-effectiveness and generate increased business revenue and value.

### **(3) Entertainment and Media**

During 2023, the Group made no new investments in film and television drama projects. Instead, the company concentrated its efforts on maximizing the potential of existing film and television drama projects and investments.

During the year, the associate HB Entertainment (primarily involved in production and investment in film and television drama projects and provision of artist management and agency services in South Korea), in which the Group held a 30.77% equity stake, produced and released two television dramas, "Battle for Happiness" and "My Man Is Cupid".

"Battle for Happiness" premiered on 31 May 2023 on the Korean ENA TV channel. It was directed by Kim Yoon-cheol, renowned for "My Lovely Sam Soon", and written by the novelist Joo Young-ha. The cast included well-known actors such as Lee El from "My Liberation Notes", Jin Seo-yeon from "One the Woman," Cha Ye-ryun from "Gold Mask", Park Hyo-joo from "The Good Detective 2," and Woo Jung-won from "Under the Queen's Umbrella". According to Nielsen data, the nationwide average viewership rating was 1.77%, with the highest nationwide viewership reaching 2.770%. "My Man Is Cupid" premiered exclusively on Amazon Prime Video on 1 December 2023. It was directed by Nam Tae-jin, known for "Switch", and written by Heo Seong-hee, known for "One More Happy Ending". The drama starred Jang Dong-yoon and Nana, and it received favorable viewership ratings and reviews.

During the year, the "Entertainment and Media" business generated revenues of HK\$682,000 (2022: HK\$150,964,000), with a segment profit of HK\$3,550,000 (2022: segment loss of HK\$122,882,000). The Group is now primarily focused on expanding its internet pharmaceutical

and healthcare services business and has temporarily halted new investments in film and television drama projects. Instead, the Group is concentrating its efforts on revitalizing existing film and television drama projects and investments.

### **Discontinued Operation — Healthcare and Wellness Services “Bayhood No. 9 Club”**

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

The Group operated “Bayhood No. 9 Club” on a lease basis. In April 2023, the Group gave the lessor an advance notice to terminate the lease agreement relating to “Bayhood No. 9 Club” early upon the expiry of the second lease term (i.e. 5 October 2023). As a result, upon the early termination of the relevant lease agreement on 5 October 2023, the Group ceased to be engaged in the operation of “Bayhood No. 9 Club” thereafter.

During the year, the loss from the discontinued operation mentioned above amounted to HK\$5,787,000 (2022: profit of HK\$1,103,000).

## **ENVIRONMENTAL & SOCIAL RESPONSIBILITIES**

### **(a) Environmental responsibilities**

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

### **(b) Social responsibilities**

The Group adheres to a “people-centric” talent strategy, attaches importance to the recruitment and cultivation of talents, and is committed to building core competitiveness with excellent staff teams. The Group complied with the laws and regulations relating to human resources management where its operations are located, and have established human resources management systems.

Safety drills are conducted on a regular basis to enhance safety awareness among employees and their ability to cope with dangers; regular trainings are provided to employees and clear promotion channels are put in place to help them realise individual potential and achieve long-term career development; various employee activities are organised to enhance their physical and mental health. We also create a safe and comfortable office environment, attach importance to employees' occupational health and safety, offer generous salary and holiday benefits, as well as safeguard the legitimate rights and interests of our employees, thus achieving growth along with employee development.

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

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

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

As a responsible corporate citizen, the Group keeps close communication with all of its stakeholders, so as to maintain collaborative relations based on mutual benefit and trust, to stay updated on demands and expectations of relevant stakeholders, and to keep improving its mechanism for stakeholder engagement, aiming to deliver synergistic growths in social and economic benefits. As a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group strictly complies with the disclosure requirements of the Stock Exchange. As one of the platforms that we use to communicate with the stakeholders, the ESG report attached to the 2023 Annual Report of the Company will deliver a comprehensive view on what the Group has accomplished in the establishment of ESG systems, as well as its performance during 2023.

## FINANCIAL REVIEW

The Group is organised into the following main operating segments:

1. Digitized operation services in healthcare industry (formerly known as “Online prescription, circulation and marketing of pharmaceutical products”) (“Echartnow”)
2. Smart healthcare services platform (“Meerkat Health”)
3. Entertainment and Media

Following the termination of the Club Lease Agreement as detailed in Note 27 to this annual results announcement, the operation of “Healthcare and wellness services” is discontinued, and was accounted for as discontinued operations.

The key financial figures of the Group for the year ended 31 December 2023 are summarized as follows:

	<b>2023</b>	2022	Change
	<b>HK\$'000</b>	HK\$'000	%
		(Restated)	
		(Note 27)	
<b>Continuing Operations</b>			
<b>Revenue:</b>			
– Digitized operation services in healthcare industry	<b>943,936</b>	606,218	+56%
– Smart healthcare services platform	<b>399,413</b>	824,209	–52%
– Entertainment and media	<b>682</b>	150,964	–99.5%
	<b><u>1,344,031</u></b>	<u>1,581,391</u>	–15%
<b>Gross profit:</b>			
– Digitized operation services in healthcare industry	<b>384,218</b>	335,657	+14%
– Smart healthcare services platform	<b>28,529</b>	16,282	+75%
– Entertainment and media	<b>682</b>	1,107	–38%
	<b><u>413,429</u></b>	<u>353,046</u>	+17%
<b>Segment result:</b>			
– Digitized operation services in healthcare industry	<b>(29,546)</b>	(57,809)	–49%
– Smart healthcare services platform	<b>(45,355)</b>	(86,337)	–47%
– Entertainment and media	<b>3,550</b>	(122,882)	N/A
	<b><u>(71,351)</u></b>	<u>(267,028)</u>	–73%

	<b>2023</b>	2022	Change
	<b>HK\$'000</b>	HK\$'000	%
		(Restated)	
		(Note 27)	
<b>Loss for the year from continuing operations</b>	<b><u>(119,567)</u></b>	<u>(317,701)</u>	-62%
<b>Loss for the year from continuing operations attributable to equity owners of the Company</b>	<b><u>(91,300)</u></b>	<u>(271,083)</u>	-66%
<b><u>Non-HKFRS Adjustments:</u></b>			
Adjusted loss for the year from continuing operations	<b><u>(106,466)</u></b>	<u>(296,722)</u>	-64%
<b><u>Discontinued Operation</u></b>			
<b>(Loss)/profit for the year from discontinued operation</b>	<b><u>(5,787)</u></b>	<u>1,103</u>	N/A

## — Revenue

Revenue for the year ended 31 December 2023 amounted to approximately HK\$1,344,031,000 (2022: HK\$1,581,391,000), being a 15% decrease comparing to the prior year. This is the result of change in revenue mix among different segments during the year as further explained below.

The major source of the Group's revenue is that from "Digitized Operation Services in Healthcare Industry" (i.e. the Echartnow operation), accounting for 70% (2022: 38%) of the Group's revenue for the year, which boosted significantly by 56% to approximately HK\$943,936,000 (2022: HK\$606,218,000). The digitized operation services offered to pharmaceutical companies by Echartnow, including digitized management system, online marketing and promotion services, clinical research services and the Cistanche SaaS platform, is now a proven success model with growth sustainability. The number of pharmaceutical companies that have signed contracts with the Echartnow has sharply increased by 53% to 245 (2022: 160), with a number of large pharmaceutical companies in the PRC including Qilu Pharmaceutical, Jiangsu Hengrui Pharmaceuticals, CSPC Pharmaceutical Group etc. Also, there was sustainable organic growth in revenue from existing customer base as the digitized operation services offered by Echartnow is proven to be effective and efficient over time.

Revenue from the "Smart Healthcare Services Platform" segment (i.e., Meerkat Health operation) decreased by 52% to approximately HK\$399,413,000 (2022: HK\$824,209,000), which accounted for approximately 30% (2022: 52%) of the Group's revenue, during the year. In order to raise gross profit margin and reduce operating losses, management of Meerkat Health has intentionally cut down the medical service operations and those healthcare consumption revenue streams with low gross profit margin and focused on exploring new products/services with higher gross profit.

As a result, Meerkat Health's revenue from healthcare consumption has been significantly reduced, while Meerkat Health enjoyed a much higher gross profit margin in terms of both absolute amount and margin percentage.

Revenue from the "Entertainment and Media" segment decreased significantly by 99.5% to approximately HK\$682,000 (2022: HK\$150,964,000). The Group is now focusing on the development of Echartnow and Meerkat Health businesses, and currently has no plan to invest in new entertainment and media projects or operations. The revenue from the "Entertainment and Media" segment during the year was minimal additional revenues generated from those previously completed projects. On the other hand, revenue for the prior year was mainly attributed to the global theatrical release and distribution of "Moonfall", a tentpole movie invested by the Group.

#### — **Cost of Sales and Gross Profit**

Cost of sales for the year ended 31 December 2023 amounted to approximately HK\$930,602,000 (2022: HK\$1,228,345,000), being a 24% decrease comparing to the prior year. Gross profit for the year ended 31 December 2023 amounted to approximately HK\$413,429,000 (2022: HK\$353,046,000), being a 17% increase comparing to the prior year, with gross profit margin increased to 31% (2022: 22%). The net year-to-year change of gross profit and gross profit margin is due to the following:

- (1) As explained above, revenue of Echartnow operation increased by 56% during the year, leading to a corresponding growth in gross profit to approximately HK\$384,218,000 (2022: HK\$335,657,000).
- (2) There was a much-improved gross profit margin of 7.1% (2022: 2.0%) from the Meerkat Health operation as explained above.

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

Other income and other gains/(losses), net, decreased from a net loss of approximately HK\$8,753,000 for the year ended 31 December 2022 to a net loss of approximately HK\$7,439,000 for the year ended 31 December 2023. The decrease in net loss was mainly attributed to the decrease in exchange loss arising from revaluation of RMB/KRW to HKD from approximately HK\$8,639,000 for the year ended 31 December 2022 to approximately HK\$1,508,000 for the year ended 31 December 2023.

## — Marketing and Selling Expenses

Marketing and selling expenses for the year ended 31 December 2023 amounted to approximately HK\$419,683,000 (2022: HK\$499,453,000), being a 16% decrease comparing to the prior year. The decrease in marketing and selling expenses during the year was mainly attributed to net result of the following mixed effect:

- (i) Staff costs and marketing expenses were incurred for the promotion of the Echartnow platform and other relevant expenses were also incurred for enhancing the registration of doctors and pharmacies in the Echartnow platform. Benefited from the growth of revenue and gross profit as previously discussed, Echartnow has further increased the investment in such marketing and selling expenses to approximately HK\$352,249,000 (2022: HK\$320,657,000) during the year. This has resulted in the 55% growth in the number of registered doctors on Echartnow platform to 40,070 (2022: 25,819) as of 31 December 2023;
- (ii) As explained above, there was a business scale-down in Meerkat Health operation so as to raise gross profit margin and reduce operating losses. Accordingly, the market promotion expense, especially incurred for the medical services business, has been significantly reduced. In addition, the warehouse and logistic expense incurred for the health consumption business also reduced in line with the drop in the relevant revenue; and
- (iii) the Group's share of marketing expenses, promotion & advertising expenses, and distribution fees, mainly for the theatrical release of Hollywood tentpole movie "Moonfall", during the year ended 31 December 2022 was approximately HK\$107,816,000. No such expense has been incurred during the year ended 31 December 2023.

## — Research and Development Expenses

Research and development expenses for the year ended 31 December 2023 amounted to approximately HK\$29,491,000 (2022: HK\$35,751,000). The amount mainly comprised staff costs and employee benefit expenses in relation to research and development function. While the investment in research and development function of Echartnow was still expanding by 29%, the research and development expense incurred for Meerkat Health operation has been reduced by 43% due to the scale-down of medical service business, leading to a 18% decrease in research and development expenses during the year ended 31 December 2023.

## — Administrative Expenses

Administrative expenses for the year ended 31 December 2023 amounted to approximately HK\$75,860,000 (2022: HK\$109,513,000), being a 31% decrease comparing to the prior year. The decrease in administrative expenses during the year was mainly attributed to the following:

- (1) Share-based compensation expenses incurred for the acquisition of Echartnow operation and establishment of Meerkat Health operation decreased significantly by 84% to approximately HK\$2,845,000 (2022: \$17,541,000) during the year; and

- (2) Meerkat Health has implemented cost-saving initiatives during the year, aiming at tightening general operating expenses and thus reducing overall operating losses. Administrative expenses of Meerkat Health operation has been reduced by 43% to approximately HK\$17,910,000 (2022: HK\$31,570,000).

— **Finance Costs, net**

Finance costs, net for the year ended 31 December 2023 amounted to approximately HK\$3,605,000 (2022: HK\$1,497,000). The increase net finance costs during the year mainly attributed to i) increase in interest for bank and other borrowings, which was in line with the increase in the outstanding amount of other borrowings; and ii) the incurrence of notional interest on long-term financial liabilities of approximately HK\$1,318,000 during the year following the receipt of capital injection (which may need to be repaid with interest under certain circumstances) from a new shareholder of the Echartnow operation.

— **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\$1,556,000 (2022: a loss of approximately HK\$4,817,000). Financial performance of HB Entertainment has been improved in 2023 as there were two new TV drama, namely "Battle of Happiness" and "My Man is Cupid", produced and broadcasted during the year.

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

The Group's loss from continuing operations for the year ended 31 December 2023 amounted to HK\$119,567,000 compared that of HK\$317,701,000 for the preceding financial year. The Group's adjusted loss from continuing operations for the year ended 31 December 2023 amounted to HK\$106,466,000, representing an decrease in loss of HK\$190,256,000 or 64% as compared with that of HK\$296,722,000 for the preceding financial year. Adjusted loss from continuing operations is based on the loss from continuing operations for the corresponding year after excluding non-operating profit or loss items such as share-based compensation expenses, change in fair value of financial assets/interest in an associate at fair value through profit or loss, loss on modification of financial assets and notional interest on long-term financial liabilities. The decrease in adjusted loss from continuing operations was mainly attributable to:

- (1) Increase in revenue and gross profit, especially from the Echartnow operation;
- (2) Reduction of administrative expenses (excluding share-based compensation expenses) and marketing and selling expenses resulting from the cost-saving initiative and business scale-down of Meerkat Health operation; and

- (3) Segment result of “Entertainment and Media” operation turned around from a segment loss of approximately HK\$122,882,000 for the year ended 31 December 2022 to a segment profit of approximately HK\$3,550,000 for the year ended 31 December 2023, as the Group has not engaged in any new entertainment and media project/operation during the year.

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 from continuing operations 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 from continuing operations for the years ended 31 December 2023 and 2022 set out in the table below represents adjustments to the most direct and comparable financial indicator calculated and presented in accordance with HKFRSs (i.e. loss for the year from continuing operations):

	<b>2023</b>	2022
	<b>HK\$’000</b>	HK\$’000
		(Restated) (Note 27)
Loss for the year from continuing operations	<b>(119,567)</b>	(317,701)
Add:		
– Shared-based compensation expenses	<b>2,845</b>	17,541
– Fair value loss on financial assets at fair value through profit or loss, net of tax	<b>2,205</b>	(1,129)
– Fair value loss on interest in an associate measured at fair value through profit or loss	<b>2,646</b>	4,567
– Loss on modification of financial assets	<b>4,087</b>	–
– Notional interest on long-term financial liabilities	<b>1,318</b>	–
Adjusted loss for the year from continuing operations	<b><u>(106,466)</u></b>	<b><u>(296,722)</u></b>

## **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 31 December 2023, the Group held cash and cash equivalents of approximately HK\$27,037,000 (2022: HK\$38,300,000), being a 29% decrease comparing to the balance as at 31 December 2022.

The Group is at net current liability position of HK\$74,156,000 as at 31 December 2023 (2022: net current asset position of HK\$16,637,000). The current ratio, representing the total current assets to the total current liabilities, decreased from 1.07 as at 31 December 2022 to 0.72 as at 31 December 2023.

The gearing ratio, representing the net debt (total borrowings and lease liabilities less cash and cash equivalents) to total equity, is 27.21% as at 31 December 2023 (2022: 5.45%). The Group's total bank and other borrowings as at 31 December 2023 amounted to approximately HK\$72,231,000 (2022: HK\$32,740,000), HK\$1,000,000 of which was denominated in Hong Kong dollars and the remaining was denominated in Chinese Renminbi.

In March 2024, the Company has completed the issuance of 10% convertible bonds due 2026 of an aggregate principal amount of HK\$120,000,000. Should the proceed from the issuance of the convertible bonds be received as of 31 December 2022, the pro forma net current asset and current ratio of the Group would be approximately HK\$45,844,000 and 1.17 respectively.

### **Foreign Currency Exchange Exposure**

The Group has operations and investments in the PRC, Korea and Hong Kong, and is mainly exposed to foreign exchange risk arising from Chinese Renminbi and Korean Won currency exposures, primarily with respect to the Hong Kong dollars. During the year, fluctuation in Chinese Renminbi and Korean Won against Hong Kong dollars resulted in the net exchange loss of approximately HK\$1,508,000 (2022: HK\$8,639,000). The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure from Chinese Renminbi and Korean Won but manages through constant monitoring to limit as much as possible its net exposures.

### **Capital Structure**

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

During the year ended 31 December 2023, the Company has not issued any new ordinary shares. During the year ended 31 December 2022, the Company has issued 62,500,000 and 24,732,032 new ordinary shares of HK\$0.02 each for vesting of share awards and settlement of share considerations for acquisition of subsidiaries, respectively.

Total bank and other borrowings as at 31 December 2023 amounted to approximately HK\$72,231,000 (2022: HK\$32,740,000). Further details of the bank and other borrowings are set out in Note 21 to this annual results announcement.

## **CHARGE OF ASSETS AND CONTINGENT LIABILITIES**

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

## **HUMAN RESOURCES**

As at 31 December 2023 the Group employed a total of 233 (2022: 306) full-time employees in Hong Kong and 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.

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

There was no significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2023. For details of the further supplemental agreement to the Capital Increase and Acquisition Agreement regarding the YZN Group entered into during the year, please refer to note 26 to this annual results announcement.

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

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

## **COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES**

The Board of the Company is committed to achieving high standards of corporate governance and adherence to the governance principles and practices. The Board or its delegated Board Committees has regularly reviewed and monitored its implementation and effectiveness. Throughout the year ended 31 December 2023, the Company has applied the principles and complied with the code provisions in Part 2 of the Corporate Governance Code (the “CG Code”) set out in Appendix C1 to the Listing Rules on the Stock Exchange with the exception of the following deviation:

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

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

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

## **AUDIT COMMITTEE**

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

The Audit Committee of the Company has reviewed the Group’s annual results for the year ended 31 December 2023 and provided advice and comments thereon before presenting it to the Board for approval. The figures in respect of this results announcement of the Group’s results for the year ended 31 December 2023 have been agreed by the Company’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s draft consolidated financial statements of the year. The work performed by PricewaterhouseCoopers in this results announcement did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this results announcement.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES**

The Company has adopted a code of conduct regarding securities transactions by Directors (the “Code of Conduct”) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix C3 to the Listing Rules. Having made specific enquiry, all Directors have fully complied with the required standard set out in the Model Code throughout year 2023.

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

## **PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This annual results announcement is published on the websites of the Company ([www.huayitencent.com](http://www.huayitencent.com)) and Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)). The annual report of the Company for 2023 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, 26 March 2024

*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: Mr. YUEN Kin, Mr. CHU Yuguo, Ms. WANG Song Song, Ms. PAN Min*