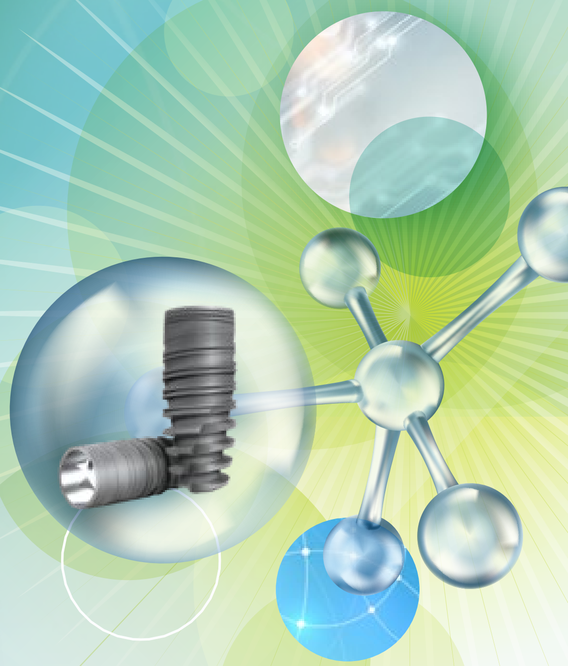
Kaisa Health Group Holdings Limited
佳兆業健康集團控股有限公司
(Incorporated in Bermuda with limited liability 於百慕達註冊成立之有限公司)
(Stock Code 股份代號: 876)



2022
Annual Report
年報

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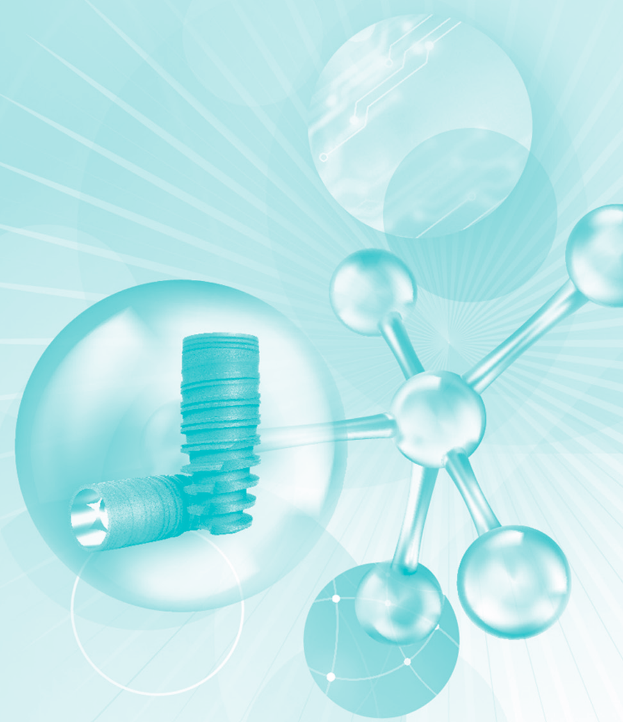


CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Dr. Liu Yanwen
Dr. Lyu Aiping
Ms. Li Zhiying (formerly named as Ms. Li Yonglan)

AUDIT COMMITTEE

Dr. Liu Yanwen *(Chairman)*
Dr. Lyu Aiping
Ms. Li Zhiying (formerly named as Ms. Li Yonglan)

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Yu Kwok Leung

AUTHORISED REPRESENTATIVES

Mr. Luo Jun
Mr. Yu Kwok Leung

INDEPENDENT AUDITOR

Elite Partners CPA Limited
Certified Public Accountants

LEGAL ADVISERS

Hong Kong

Sidley Austin

Bermuda

Conyers Dill & Pearman

PRINCIPAL BANKERS

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

30/F, The Center
99 Queen's Road Central
Central, Hong Kong

SHARE REGISTRARS

Bermuda Principal

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

Hong Kong Branch

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

876

COMPANY WEBSITE

www.kaisahealth.com

CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Kaisa Health Group Holdings Limited, (the "Company"), I hereby present the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2022. During the year, the Group achieved revenue of approximately HK$191.5 million (2021: approximately HK$209.6 million), representing a decrease of 8.65% as compared with last year. Loss attributable to the shareholders of the Company was approximately HK$123.3 million (2021: gain of approximately HK$2.4 million). Loss per share was HK2.45 cents (2021: gain per share of HK0.05 cents). The Board did not recommend the payment of dividend for the year.

BUSINESS REVIEW

Dental Business

The dental business was acquired in May 2015. Revenue and earnings contributed from the dental business continued to grow steadily. As the leading enterprise in the dental business, the Group has a sales and service network covering China's market and has service teams located in various cities of China. It has established in-depth cooperative relationships with over 2,000 units in China, which included Grade 3A general hospitals, stomatological hospitals, stomatological chain institutions and medical aesthetic institutions.

In terms of business performance, under the impact of COVID-19, the European and American clients have adjusted their purchase volumes of dental prosthetics from China's market. According to the NADL (National Association of Dental Laboratories), many dental equipment companies in the US have shut down successively due to factors such as overseas competitions and industry consolidation. Hence, the export orders of the Group decreased when compared with last year. Continuous efforts will be put on marketing and research activities with an aim to achieve higher revenue in the future. The Group will continue to cooperate with technical institutes to secure a more stable supply of labour resources and to implement automation in order to reduce its reliance on labour resources.

Health Care Business

Health Leisure Business

Shili Lianjiang project is engaged in a light tourist health leisure industry. Shili Lianjiang is located in suburban area about 35 kilometres away from core city. The Shili Lianjiang project was in the stage of comprehensive development and construction in 2022.

Rehabilitation Business

In 2022, 3 rehabilitation clinics were in operation located in Lohu, Futian and Nanshan Districts respectively. They are providing services for sports rehabilitation, including postoperative rehabilitation, sports injury rehabilitation, chronic pain, scoliosis, deformity correction and other rehabilitation services. In view of lack of leading enterprises in the industry, the market is currently in the stage of expansion.

CHIEF EXECUTIVE OFFICER'S STATEMENT

BUSINESS DEVELOPMENT STRATEGIES AND PROSPECTS

Dental Business

It is expected that the Dental Business will have huge growth potential and will bring a long-term benefit to the Group. The Group has formulated a series of growth strategy for its dental business, which include expanding its sales network for China and overseas (such as the US) markets, increasing its domestic production capacity in China and developing new high-end dental products with aesthetic attributes.

The Group's competitiveness is not only manifested in the advancement of innovative technologies, but also in its forwardlooking market sensitivity as well as its analysis of and insights into potential clients. The Group's newly launched product, the clear aligner, has outstanding performance in contributing to revenue growth.

Apart from that, the Group's business strategy is to further diversify its dental business so as to further enhance shareholder value. Among which, in view of the strong growth potential of the global dental market, the Company is actively seeking for potential investment opportunities around the world to consolidate upstream and downstream businesses of dental products, so as to enhance the Group's investment in the dental business. The Group will actively set up a layout plan for dental products in the future, and facilitate the transformation from low value-added business to high value-added business.

Health Care Business

Health Leisure Business

The Shili Lianjiang project is still suffering from the COVID-19 pandemic and deferred construction plans. Cashflow is tight and the Group is now actively seeking for external investors to support the project.

Rehabilitation Business

The Group will continue to set up rehabilitation centres in core areas within Shenzhen with the intension to provide rehabilitation services for the public through chain stores. The Group will consider to extend this business to other core cities in the Greater Bay Area after the foundation has well developed. It is expected that the project will have outstanding performance in contributing to the Group's revenue growth. The Group relies on the experience and networks of its management to seize different business and investment opportunities, including but not limited to partnerships and fund investments in the health care industry as well as the elderly care industry, in order to prepare for the Group's long-term business development.

In summary, as steady growth of China economy and the improvements of urban residents' living standard, plus the all-counted development medical and health care industry, huge growth potential of the oral medicine technology market is expected to be unleashed, which will bring opportunities to the Group for achieving long-term sustainable development. To maintain our market leadership and competitiveness, the Group has boosted its financial resources and will strengthen investment in research and development and innovation, to recruit outstanding professional technical talent and continue to introduce high value-added products and services to meet the escalating demand for dental care. The Group will continue to unearth synergies with its existing and potential business partners building on its experienced management team and strong sales network. At the same time, while striving for sustainable organic growth, the Group will actively capture high-tech dental related business and investment opportunities, explore cooperation and investment opportunities in the health care industry to the end of enhancing its scale and profitability. The Group will also enter the medical service sector through operating hospitals and chained rehabilitation centres, which lays a solid foundation for the Group's long-term business development.

CHIEF EXECUTIVE OFFICER'S STATEMENT

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank all our valuable shareholders, respectable customers, dedicated vendors and professional bankers for their support over the year and look forward to a closer cooperation in the coming years.

I would also like to personally thank our management and staff for their hard working and commitment to the Group.

Luo Jun
Chief Executive Officer
Hong Kong, 28 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

During the year, the Group's revenue reached approximately HK$191.5 million (2021: approximately HK$209.6 million), representing a decrease of 8.65% when compared with last year. The loss attributable to the shareholders of the Company for the year ended 31 December 2022 was approximately HK$123.3 million, representing a basic loss per share of HK2.45 cents (2021: gain of approximately HK$2.4 million, representing a basic earnings per share of HK0.05 cents).

FINAL DIVIDEND

The Board did not recommend the payment of any final dividend for the year ended 31 December 2022 (2021: Nil).

There is no arrangement under which a shareholder has waived or agreed to waive any dividend.

BUSINESS REVIEW

Dental Business

The Group has engaged in the dental business, including the sales (both overseas and domestic) and production of dental prosthetics, including crowns and bridges, removable full and partial dentures, implants and full-cast restorations.

Revenue from the dental business was approximately HK$179.9 million as of 31 December 2022, and revenue was approximately HK$200.5 million for the corresponding period in 2021.

The dental business was acquired in May 2015. With regard to the sales distribution of the products of dental business, domestic sales accounted for nearly 100% of annual sales in the year 2022. Comparing with the domestic sales accounting for 99% of annual sales and overseas sales accounting for 1% of annual sales in 2021, the international market of the Group's dental business has diminished, and a marketing service centre is pending to be built up in Shenzhen with sales and development team for Basic Dental Implant Systems Inc. ("Basic Dental").

Investment in research and know-hows is always a focus in the Group's business. Research and development expense of HK$17.4 million was incurred during the year 2022 (2021: HK$17.2 million), reflecting the management's determination and vision to invest in the future technologies in the dental business. On the other hand, grants and awards of HK$2.8 million (2021: HK$4.0 million) were received from the PRC municipal government for acknowledging the Group's continued effort in research and development of skills and know-hows in the dental areas.

The Group continued to expand its team in the Sino-US Implant R&D Centre with 9 new patent applications and 3 certificates for Chinese medical device import have been completed. In addition, Basic Dental's marketing service centre was established in Shenzhen for promoting our dental products and to better serve our customers and expand business in the PRC.

The Group continued to improve the production process of Basic Dental and increase capacity utilisation, in order to meet the huge demand of the marketing team who strives to expand in the global market. Due to the pandemic ease, the implant business is expected to achieve rapid growth in 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW – continued

Healthcare Business

Health Leisure Business

In 2022, the Group's Zhuhai Shili Lianjiang International Health City* (珠海十里蓮江國際健康城) has entered five joint construction projects with the PRC government, with a contract value of RMB22 million, which has delivered the operation of recreational vehicles ("RV") and tent camps. Meanwhile, we have obtained RMB9.1 million of the PRC government's targeted infrastructure support fund, which is specially used for the upgrading of the park's infrastructure, and also actively carried out the industrial operation practice of "agricultural (cultural) tourism + health leisure" at the same time. The Group has launched successively a number of brand festivals and activities, such as rapeseed blossom camping season* (油菜花開露營季), spring ploughing and autumn harvest theme camp* (春耕秋收主題營), rice field wedding* (稻田婚禮), rural music carnival* (田園音樂嘉年華), Shili Daoxiang camping concert* (十里稻香露營音樂會) and RV season* (房車露營季), which gradually forming a beautiful rural lifestyle integrating "agricultural (cultural) tourism + health leisure".

Since COVID-19 pandemic remained severe in 2022, the Group has deferred its original business plan on health leisure development and still suffered an operating loss of approximately HK$32.4 million during the year ended 31 December 2022. The Group now revises its strategy and contemplates to dispose this segment. Based on our latest valuation result on value-in-use compared with carrying amount the health leisure segment, impairment losses of on right-of use assets, property, plant and equipment and property under development in total of approximately HK$73.4 million were recognised for the year ended 31 December 2022.

Rehabilitation Business

Under the impact of the pandemic, sports rehabilitation centres remain widely recognised by the market, mainly attributed to our technologies (i.e. introducing Schroth technology therapy from Germany) and our comprehensive methods of systematic rehabilitation trainings via three-dimensional breathing patterns, physiological logic, muscle strength patterns, and living habits. Meanwhile, the centres have carried out more than 20 special technical trainings throughout the year, and the capabilities of our rehabilitation technical team has been greatly improved. At the same time, our rehabilitation technical team have also innovatively launched our online rehabilitation services in response to the pandemic situation, which has received unanimous praise from patients. At present our clinics are operating in good condition, and the related business volume has shown an increasing trend, resulting improvement in patient satisfaction.

The performance of partnership interest in 珠海金鎰銘股權投資基金合夥企業(有限合夥) (Zhuhai Jinyiming Equity Investment Fund Partnership (L.P.)* has also been adversely affected by the global economy and COVID-19 pandemic. The fair value loss of approximately HK$12.1 million was recorded during the year ended 31 December 2022.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

No important events affecting the Company occurred since 31 December 2022 and up to the date of this report.

** For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECT

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

Dental Business

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

The Group has formulated a number of growth strategies in the dental business, including enlarging its sales network in the PRC and foreign markets (such as the US), expanding its production capacity in the PRC and developing high-end new denture prosthetics products with beauty attributes.

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

Health Care Business

Health Leisure Business

Based on the results of the Group's first operated RV camp joint cooperation project, the PRC government has announced that it will strengthen the promotion in the delivery of the remaining joint cooperation projects of the youth hostel and plant factory. Meanwhile, the Group plans to enter four new joint cooperation projects such as tent hotel, organic restaurant, garden market and powerless park this year, with an estimated support fund of RMB15 million from the PRC government. Along with the improvement of the construction in the project park, besides the original content of the project, we will actively undertake large-scale public activities organised by the PRC government in 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECT – continued

Health Care Business – continued

Health Leisure Business – continued

Meanwhile, as the Group strives to promote the resumption of work and production of the project construction segment, it is expected that the contracted sales of RMB160 million will be generated by the Group and the controlling shareholders in 2023. Driven by the trends of optimisation of consumption in health industry and full implementation of rural revitalisation in China, the project in Zhuhai Shili Lianjiang International Health City Project will at first form a development pattern for industrial integration of "organic agriculture, tourism and vacation, integrated eldercare services with medical care", and formally establish an industrial brand and operation system for the purpose of pastoral life in the Greater Bay Area, providing sustainable and full-cycle industrial development and management the large-scale and replicable health resort town model.

In the future, the Group will take Zhuhai Shili Lianjiang International Health City as the starting point, to build up the Group's potential in health leisure and medical treatment businesses, and promote the establishment of "agricultural (cultural) tourism + health leisure service system". And integrating the quality resources to create the products in the characteristic health leisure resorts especially serving the customers in the Greater Bay Area, and provide comprehensive and personalised health and holiday services to customers in the Greater Bay Area.

Rehabilitation business

At present the asset-light operation and expansion model of "brand authorisation + technology output" has been developed for sports rehabilitation centres with research effort. Meanwhile, the sports rehabilitation team has also been studying staff-partnership system to create a new model by empowering partners, thereby solving the chronic shortage of talents in the sports rehabilitation industry. It will gradually take over the market in Southern China through business innovation, and expand its sports rehabilitation centres to each community by leveraging on Kaisa Group's resources from real estate and community in various regions. In 2023, it is expected to develop 1-2 community rehabilitation centres.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS AND FINANCIAL REVIEW

Revenue

The sales for the year has decreased slightly because of continuous adverse effect from COVID-19 pandemic. Other revenue has been decreased mainly because of the disposal of financial assets at fair value through profit or loss which amounted to approximately HK$12.6 million in 2021.

Gross Profit and Gross Profit Margin

Gross profit for the year amounted to HK$82.6 million (2021: HK$97.4 million). Gross profit margin for the year decreased to 43.1% (2021: 46.5%). A decrease in the gross profit of the Group of approximately HK$14.8 million mainly because of continuous adverse effect from COVID-19 pandemic. The gross profit for the dental business has decreased from approximately HK$105.1 million to approximately HK$89.4 million for a total of approximately HK$15.7 million. The gross profit margin of the Group was adversely affected by the operation of Shili Lianjiang Project which resulted in a gross loss of HK$7.2 million and rehabilitation business which resulted in a gross profit of approximately HK$0.4 million.

Selling and Distribution Costs

Selling and distribution costs represented the management's effort to enhance the level of marketing activities.

Administrative Expenses

A decrease in administrative expenses of approximately HK$21.7 million as compared with that of the year 2021 which was mainly due to termination of internet medical business in 2021 which reduced cost of approximately HK$10 million, and cost reduction on staff cost in general in total of approximately HK$10 million.

Other Expenses

Other expenses represented the research and development (the "R&D") expenses. The Group spent its investments in research and development to enhance the competitiveness, production capacity, popularity of its products in the future while reducing labour costs. At the same time the Group would also apply for a deduction or exemption of PRC Enterprise Income Tax and grants and subsidies from the government in accordance with the requirements of the state. The related R&D projects include 3D engraving machines, 3D printers, 3D scanners and the development of an invisible orthodontic software.

Income Tax Expenses

An decrease in income tax expenses which was due to the disposal of the Shulan Project for its realised capital gain on investment of approximately HK$100 million which incurred approximately HK$24 million income tax provision in 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS AND FINANCIAL REVIEW – continued

Loan Receivable

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

Cash Position and Cash Flow

The Group had a solid cash position for the year under review, with bank balances and cash amounting to approximately HK$173.5 million as at 31 December 2022 (2021: approximately HK$259.3 million).

Capital Expenditure and Capital Commitments

During the year, the Group invested approximately HK$13.3 million (2021: approximately HK$43.9 million) mainly on the purchase of equipment. As at 31 December 2022, the Group has capital expenditure commitment of approximately HK$178.2 million (2021: approximately HK$181.6 million).

Contingent Liabilities

The Group had no significant contingent liabilities as at 31 December 2022 (2021: Nil).

Treasury Policy

The Group's sales were principally denominated in Renminbi and US dollars while purchases were transacted mainly in US dollars and Renminbi.

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

Liquidity, Capital Structure and Financial Resources

Equity attributable to owners of the Company as at 31 December 2022 amounted to approximately HK$485.3 million (2021: approximately HK$651.1 million).

As at 31 December 2022, the net current assets of the Group amounted to approximately HK$205.1 million (2021: HK$313.8 million). The current and quick ratio were 1.76 and 1.69 respectively (2021: 2.2 and 2.14 respectively).

At 31 December 2022, the amount of HK$723,000 (2021: HK$785,000) represented balance due to Ms. Jiang Sisi, the spouse of Mr. Wu Tianyu (an executive Director). The amount is unsecured, interest-free and repayable on demand.

As at 31 December 2022 and 2021, no gearing ratio was calculated as there was no net debt (defined as other financial liabilities less cash and cash equivalents) by the Group.

Taking the above figures into account, the management is confident that the Group has adequate resources to settle its outstanding debts and finance its daily operational expenditures.

Charge on Assets

There was no charge on assets of the Group as at 31 December 2022 and 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS AND FINANCIAL REVIEW – continued

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

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

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

As at 31 December 2022, the fair value of financial assets at fair value through profit or loss was approximately HK$200.2 million, representing approximately 26.1% of the total assets of the Group. The fair value loss on this financial assets at fair value through profit or loss was approximately HK$12.1 million during the year ended 31 December 2022. The management will quarterly review the performance of partnership investment to determine the investment approach.

Further details were set out in the Company's announcements dated 31 January 2022 and 3 March 2022.

Significant investment on properties under development

In the second half of 2021, Shili Lianjiang Project operated under the Group's subsidiary 珠海十里蓮江農旅健康小鎮開發有限公司 which focus on health leisure business started its operation. Land use rights, construction costs and interest expenses were capitalised during the years ended 31 December 2021 and 2022. Total investment cost as at 31 December 2022 was approximately HK$173 million.

The details of properties under development are as follows:

Subject properties	Land parcel 1	Land parcel 2
Land area	$3{,}986.25m^2$	$40{,}547.78m^2$
Gross floor area	Above ground: $4{,}245.37m^2$ Below ground: $2{,}477.46m^2$	Above ground: $31{,}182.28m^2$ Below ground: $27{,}745.03m^2$
Locations of the land parcels	East side of Provincial Highway S272, north side of Sanwan Road, Lianjiang Village, Lianzhou Town, Doumen District, Zhuhai (珠海市斗門區蓮洲鎮蓮江村省道S272東側、三灣路北側)	East side of Provincial Highway S272, north side of Sanwan Road, Lianjiang Village, Lianzhou Town, Doumen District, Zhuhai (珠海市斗門區蓮洲鎮蓮江村省道S272東側、三灣路北側)
Names of the land parcels	Shili Lianjiang Science Promotion Building (十里蓮江農業科目樓)	Shili Lianjiang Agricultural Innovation Court (十里蓮江農創苑)
Status	Under construction	Under construction
Completion date	1 April 2024	1 April 2024
Usage	Shop/exhibition	Office/shop/residence
Equity ratio	55%	55%
Construction progress	Pile foundation, support and earthwork construction completed	75% of pile foundation works completed (1,305 piles/1,784 piles); Roof of the main structure of block 18 of Paddy Field Hotel has been sealed; Construction of the main structure of block 19 of visitor center has been completed up to 3rd floor

** For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS AND FINANCIAL REVIEW – continued

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

Significant investment on properties under development – continued

As at 31 December 2022, the carrying amount of properties under development was approximately HK$126.9 million, representing approximately 16.2% of the total assets of the Group. Impairment loss of approximately of HK$37.6 million was incurred during the year ended 31 December 2022.

For further details of the properties under development, please refer to note 19 of the Annual Report on page 138.

Saved as disclosed above, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the year 31 December 2022. There was no plan authorised by the Board for other material investments or additional capital assets as at the date of this report.

EMPLOYEES AND REMUNERATION POLICY

The Group employed approximately 940 employees in total as at 31 December 2022 in Hong Kong, the PRC and the U.S. (31 December 2021: approximately 700 in Hong Kong, the PRC and the U.S.). The Group implemented its remuneration policy, bonus and share option schemes based on the performance of the Group and its employees, and the employees also regularly attend trainings organised by the Group. The Group provided benefits such as social insurance to ensure competitiveness.

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

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

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

DIRECTORS AND SENIOR MANAGEMENT PROFILE

The biographical details of the Directors are set out as follows:

CHAIRMAN AND EXECUTIVE DIRECTOR

Mr. Kwok Ying Shing

Mr. Kwok Ying Shing, aged 58, has been appointed as an executive Director, the Chairman of the Board and the Chairman of the nomination committee of the Board (the "Nomination Committee") with effect from 26 February 2019. Mr. Kwok resigned as the chairman and the chairman of the nomination committee and a member of the remuneration committee and remained as an executive Director from 9 April 2020. Mr. Kwok has reappointed as the Chairman and the Chairman of the Nomination Committee since 10 October 2022. Mr. Kwok is a substantial shareholder of Kaisa Group Holdings Ltd. ("Kaisa Group"), a company listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock Code: 1638), and a controlling shareholder of the Company. Mr. Kwok is also the Chairman of Kaisa Capital Investment Holdings Limited, a company listed on the Stock Exchange (Stock Code: 2168), and the Co-Chairman of Sing Tao News Corporation Limited, a company listed on the Stock Exchange (Stock Code: 1105). Mr. Kwok has extensive experience in real estate development, investment and financing management. Mr. Kwok is primarily responsible for our overall corporate strategies, planning and business development.

EXECUTIVE DIRECTORS

Mr. Luo Jun

Mr. Luo Jun, aged 42, has been appointed as an executive Director and the Chairman of the Board since 2 December 2016 and been appointed as the chairman of the Nomination Committee since 19 January 2018. With effect from 26 February 2019, Mr. Luo has ceased to act as the Chairman of the Board and the chairman and member of the Nomination Committee and been appointed as the chief executive officer (the "Chief Executive Officer") of the Company and the Co-Vice Chairman of the Board and remains as an executive Director of the Company. Mr. Luo is also a director of certain subsidiaries of the Company. Mr. Luo has been appointed as a director of Pacific Shuanglin (formerly known as 振興生化股份有限公司 (Zhenxing Biopharmaceutical and Chemical Co. Ltd.* ("Zhenxing Biopharmaceutical"))), a PRC incorporated company listed on the Shenzhen Stock Exchange (Stock Code: 000403) since 2 May 2018 and had acted as the general manager of Zhenxing Biopharmaceutical from 2 May 2018 to 17 December 2018. Mr. Luo obtained his Bachelor Degree in Management from Nanjing University of Finance & Economics and Master Degree of Business Administration from Tongji University. Mr. Luo has extensive experience in operational planning and investment management in health care industry.

Mr. Wu Tianyu

Mr. Wu Tianyu, aged 58, has been appointed as an executive Director and the Chief Executive Officer of the Company since 21 May 2015 and acted as a member of the remuneration committee of the Board (the "Remuneration Committee") since 30 June 2015. With effect from 26 February 2019, Mr. Wu has resigned as the Chief Executive Officer of the Company and been appointed as the Co-Vice Chairman of the Board and remains as an executive Director and a member of the Remuneration Committee of Board. Mr. Wu is also a director of On Growth Global Development Limited and Royal Dental Laboratory Limited and the general manager of Shenzhen Jinyouran Technology Company Limited, all of which are the subsidiaries of the Company. Mr. Wu has been the key operators of the denture business of these companies for more than 20 years, overseeing the production of the denture products and the daily operations. Mr. Wu is the spouse of Ms. Jiang Sisi, the chief operating officer of the Company. Mr. Wu obtained a bachelor degree in Department of Stomatology of the Fourth Military Medical University. Mr. Wu has over 30 years of experience in denture profession.

* *For identification purposes only*

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS – continued

Mr. Zhang Huagang

Mr. Zhang Huagang, aged 60, has been appointed as the Chairman, the Chairman of the Nomination Committee and an executive Director since 9 April 2020. Mr. Zhang has ceased to act as the Chairman and the Chariman of Nomination Committee on 10 October 2022 and remains as an executive Director of the Company. Mr. Zhang has been appointed as a director of 派斯雙林生物製藥股份有限公司 (Pacific Shuanglin Bio-Pharmacy Co., Ltd.* ("Pacific Shuanglin")), a PRC incorporated company listed on the Shenzhen Stock Exchange (Stock Code: 000403) since 20 April 2020. Before joining the Company, Mr. Zhang was one of the founders, a director and president of Gemdale Corporation Co., Ltd. (金地(集團)股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600383) (the "Gemdale Group") during the period from May 1993 to July 2010, leading the Gemdale Group to grow from a small-scaled company in Futian District to a national-branded and listed real estate company in the People's Republic of China (the "PRC"). During his tenure as the president of the Gemdale Group, Mr. Zhang initiated many innovations ideas linking the real estate industry and finance industry in the PRC. Mr. Zhang founded the Gemdale/UBS China Real Estate Dollar Fund* (金地/UBS中國房地產美元基金), and led the Gemdale Group to enter into a numerous of equity investment cooperation with financial institutions, such as ING and Ping An Trust. During the period from August 2010 to April 2016, Mr. Zhang acted as the chief executive officer of China Tide Holdings Company Limited* (中國天地控股有限公司), led and developed an award-winning pension community project, which was recognised as one of the most innovative benchmarked project within the industry. Since May 2016, Mr. Zhang has been the chief executive officer of Beijing Zhongtianyixin Corporate Management Services Limited* (北京中天頤信企業管理服務有限公司) and the chairman of Beijing Kangyi Health Management Limited* (北京康頤健康管理有限公司). Further, since April 2017, Mr. Zhang has been acting as the chief executive officer and an executive director of Shanghai Zendai Property Limited* (上海證大地產有限公司), a company listed on the Stock Exchange (stock code: 755) and the chairman of Shanghai Xiyue Pension Services Co., Ltd.* (上海禧悦養老服務有限公司). Mr. Zhang graduated from Huazhong University of Science and Technology with a bachelor's degree in industrial automation in 1982 and obtained a master in business administration degree from the School of Management of State University of New York at Buffalo in 1989.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Liu Yanwen

Dr. Liu Yanwen, aged 57, has been appointed as an independent non-executive Director and the chairman of the audit committee of the Board (the "Audit Committee") since 11 January 2017. Dr. Liu has been the independent non-executive director of 吉林化纖股份有限公司 (Jilin Hua Xian Co., Ltd.*), a PRC incorporated company listed on the Shenzhen Stock Exchange (Stock Code: 000420) during the period from 20 May 2016 to 12 May 2020. Dr. Liu obtained his Doctorate degree in Technical Economics and Management from Dalian University of Technology in 2009 and is currently the associate professor in the Faculty of Management and Economics of the Dalian University of Technology.

** For identification purposes only*

DIRECTORS AND SENIOR MANAGEMENT PROFILE

INDEPENDENT NON-EXECUTIVE DIRECTORS – continued

Dr. Lyu Aiping

Dr. Lyu Aiping, aged 59, has been appointed as an independent non-executive Director since 5 March 2018. Dr. Lyu is currently the Chair Professor and Dean of School of Chinese Medicine of Hong Kong Baptist University. Dr. Lyu is also a member of the Chinese Medicine Development Committee in Hong Kong, and a member of the Chinese Pharmacopoeia Commission. Dr. Lyu obtained his Bachelor Degree from Jiangxi University of Traditional Chinese Medicine his Master and Ph.D. degrees in China Academy of Traditional Chinese Medicine. Dr. Lyu is focusing on the translational research in Chinese medicine and the development of new drugs based on Chinese medicine and has extensive experience in strategic planning and research for Chinese medicine development and the standardisation of Chinese medicine.

Ms. Li Zhiying (formerly named as Ms. Li Yonglan)

Ms. Li Zhiying (formerly named as Ms. Li Yonglan), aged 43, has been appointed as an independent non-executive Director since 6 March 2021. Ms. Li is currently the deputy chief lawyer of the investment banking and legal affairs department of the Beijing Jingshi (Shenzhen) Law Firm since April 2020. From December 2008 to March 2020, Ms. Li worked as a lawyer in the Zhong Yin Law Firm in Beijing. From January 2006 to November 2008, Ms. Li served as the chief consultant of the online legal platform, China Civil and Commercial Law. From August 2003 to December 2005, Ms. Li was a legal assistant of Beijing Lixing Law Firm. Ms. Li was appointed as an independent non-executive director of Aerospace CH UAV Co., Ltd (航天彩虹無人機股份有限公司), a listed company in the Shenzhen Stock Exchange (Stock code: 002389), since 27 April 2022. Ms. Li obtained a bachelor's degree in Laws from The China Agricultural University in June 2003.

SENIOR MANAGEMENT

Ms. Jiang Sisi

Ms. Jiang Sisi, aged 42, is the Chief Operating Officer of the Company. Ms. Jiang has been a key management personnel and operator of On Growth Global Development Limited for more than 6 years and the director of certain subsidiaries of the Company. Ms. Jiang is the spouse of Mr. Wu Tianyu, an executive Director of the Company. Ms. Jiang obtained her Master Degree in Business Administration in the University of Wales. Ms. Jiang is responsible for the overall sales, marketing and administration and has demonstrated her strong marketing and management expertise by successfully building up various customer networks in the PRC and overseas.

Mr. Yu Kwok Leung

Mr. Yu Kwok Leung, aged 47, has been appointed as the company secretary, an authorised representative and process agent of the Company ("Company Secretary") since 10 December 2018. Mr. Yu has also acted as the company secretary of Kaisa Group since 3 May 2018 and the company secretary of Kaisa Prosperity Holdings Limited (formerly known as Kaisa Property Holdings Limited), a company listed on the Stock Exchange (Stock Code: 2168) since 12 March 2019. Mr. Yu joined the Kaisa Group as the financial controller in April 2016 and is responsible for financial reporting, company secretarial duties and corporate finance activities of the Kaisa Group. Prior to that, Mr. Yu was the financial controller of a listed company in Hong Kong and as a senior audit manager in one of the international accounting firms. Mr. Yu obtained his bachelor degree of business administration in accountancy from the Hong Kong Polytechnic University. Mr. Yu is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Yu has many years of experience in accounting and finance.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of Listing Rule, the changes in information of Directors of the Company are set out below:

Director	Details of Changes
Mr. Zhang Huagang, executive Director	With effect from 10 October 2022, resigned as the Chairman of the Board and the chairman of the nomination committee of the Company and remained as an executive Director
Mr. Kwok Ying Shing, executive Director	With effect from 10 October 2022, appointed as the Chairman of the Board and the chairman of the nomination committee of the Company

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report of the Group for the year ended 31 December 2022.

CORPORATE GOVERNANCE PRACTICES

The Board considers effective corporate governance a key component in the Group's sustained development and believes that good corporate governance practices are increasingly important for maintaining and promoting shareholder value and investor confidence. The Board sets appropriate policies and implements corporate governance practices appropriate to the conduct and growth of the Group's business.

During the year ended 31 December 2022, the Group has complied with the code provisions set out in Part 2 of the Corporate Governance Code (the "Code") as contained in Appendix 14 to the Listing Rules, except for the following deviation:

Code Provision D.2.5 of the Code stipulated that the issuer should have an internal audit function. Issuers without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function in the Corporate Governance Report. The Group has engaged an independent international audit firm to conduct internal control review annually and does not have an internal audit function. The Group will review the need to have an internal audit function on an annual basis. For further details on the Group's risk management and internal control please refer to page 29 of the Annual Report.

The Company periodically reviews its corporate governance practices to ensure that they comply with the statutory and regulatory standards and align with the latest developments.

A. BOARD OF DIRECTORS

(1) Responsibilities

The overall management of the Group's business is vested in the Board, which assumes the responsibility for leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising its affairs and overseeing the implementation of plans to enhance shareholder value. Every Director carries out his/her duty in good faith and in compliance with the standards of applicable laws and regulations, and takes decisions objectively in the interests of the Group and the shareholders.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The Independent Non-executive Directors may take independent professional advice at the Company's expense in carrying out their functions, upon making request to the Board.

(2) Board Composition

The Board comprises the following Directors during the year ended 31 December 2022 and up to the date of this report:

Executive Directors

Mr. Kwok Ying Shing *(Chairman)* (appointed as the Chairman on 10 October 2022)
Mr. Luo Jun *(Co-Vice Chairman and Chief Executive Officer)*
Mr. Wu Tianyu *(Co-Vice Chairman)*
Mr. Zhang Huagang (ceased to act as the Chairman on 10 October 2022)

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS – continued

(2) Board Composition – continued

Independent Non-executive Directors

Dr. Liu Yanwen
Dr. Lyu Aiping
Ms. Li Zhiying (formerly named as Ms. Li Yonglan)

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time. The biographical details of the Directors as well as the relationships among them, if any, are set out under the section headed "Directors and Senior Management Profile" on pages 14 to 17 of this report.

Save as otherwise disclosed, the Board members, and in particular, the Chairman and the chief executive, have no financial, business, family or other material or relevant relationships with each other.

The Board has maintained the necessary balance of skills and experience appropriate for the business requirements and objectives of the Group.

The Board has at all times met the requirements of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board, with at least one of whom possessing appropriate professional qualifications, or accounting or related financial management expertise. The Company has received written annual confirmation from all of its independent non-executive Directors in respect of their independence pursuant to the requirements of the Listing Rules. The Company considers that all of them are independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive Directors bring a wide range of business and financial expertise, experience and independent judgement to the Board and they are invited to serve on the Board committees of the Company. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

The Board has established mechanisms to ensure independent views and input are available to the Board. The Board has reviewed the implementation and effectiveness of such mechanisms on an annual basis as follows:

<u>Independent non-executive Directors</u>

- independence of independent non-executive Directors of the Company is evaluated against the requirements set out in Rule 3.13 of the Listing Rules.

- annual confirmation from independent non-executive Directors regarding any changes to circumstances which may impair their independence.

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS – continued

(2) Board Composition – continued

Nomination and Appointment

– adopting the board diversity policy when nominating members of the Board.

Board and Committees' Structure

– reviewing the composition of the Board, and the Audit, Remuneration and Nomination Committees for compliance with the CG Code.

– reviewing the relationship among members of the Board, if any.

(3) Chairman and Chief Executive Officer

The Chairman, Mr. Kwok Ying Shing, is responsible for the formulation of overall corporate direction and business development strategy of the Group. He is also responsible for ensuring that good corporate governance practices and procedures are established, implemented and enforced.

The Chief Executive Officer, Mr. Luo Jun, is responsible for the day-to-day management of the Group and the implementation of the approved strategies.

(4) Appointment and Re-Election of Directors

According to code provision B.2.2 of the CG Code, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the bye-laws 86(2) of the bye-laws of the Company, the Board shall have power from time to time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board or, subject to authorisation by the members in general meeting, as an addition to the existing Board but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the shareholders in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

During the year, Mr. Wu Tianyu and Mr. Zhang Huagang were re-elected as executive Directors and Dr. Lyu Aiping was re-elected as an independent non-executive Director at the annual general meeting on 15 June 2022.

Nomination Committee

The Company has established the Nomination Committee with written terms of reference to consider for the appointment of new Director(s) of the Company and other related matters. During the year ended 31 December 2022, the Nomination Committee comprised one executive Director, Mr. Kwok Ying Shing (Chairman) and two independent non-executive Directors, namely Dr. Liu Yanwen and Dr. Lyu Aiping. On 10 October 2022, Mr. Zhang Huagang resigned as the Chairman of the Nomination Committee, and Mr. Kwok Ying Shing was appointed as the Chairman of the Nomination Committee.

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS – continued

(4) Appointment and Re-Election of Directors – continued

Nomination Committee – continued

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures and policy for nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessment of the independence of the independent non-executive Directors.

The nomination committee have adopted a Board Diversity Policy which sets out the approach to achieve diversity on the Board. The Board target to achieve gender diversity with a male-female ratio of 4:3 within 5 years. The Board will review the board composition on annual basis. As a summary of the Board Diversity Policy which includes, the nomination, appointment and succession planning of Board member shall be considered from a number of factors, including but not limited to gender, age, cultural and educational background, professional experience and length of service. At present, the Board is composed of 6 male Board members and 1 female Board member, with a male-female ratio of 6:1. The Board has considered female candidates but the age and experience are still insufficient to become the Board members. The Company will continue to achieve Board diversity with consideration of its own business model and specific need, and to monitor and develop new objectives for implementing and achieving improved diversity of the Board as and when it considers appropriate with regard to the specific needs of the Company and the market from time to time.

Please refer to page 49 of the ESG report for the gender ratio of the Group. As the Group has achieved male-female gender diversity at the workforce, the Group does not consider there are challenging factors in doing so.

As set out in the Nomination Committee's Terms of Reference, the Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, character, personal ethics and integrity and time commitments of such individuals as well as the Company's needs and market conditions. An external recruitment agency may be engaged to carry out the selection process when necessary.

The Nomination Committee did not hold any meeting during the year ended 31 December 2022. A written resolution has been passed and approved instead. The Nomination Committee performed the following work during the year:

(a) reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company, and select and recommend candidates for directorship during the year;

(b) determined the policy for the nomination of directors and the policy concerning diversity of Board members ; and

(c) assessed the independence of the independent non-executive Directors.

During the year, the Company continued to monitor the board composition having regard to an objective criteria, including the needs of the Group's business and diversity.

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS – continued

(5) Induction and Continuing Development for Directors

Each newly appointed Director shall receive an induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Directors are continuously updated with legal and regulatory developments, and the business and market changes to ensure that they have a proper understanding of the Company's business and operations and are fully aware of their duties and responsibilities under statute and common law, the Listing Rules and the Company's business and governance policies, to facilitate the discharge of their responsibilities. Professional briefings and development to directors will be arranged whenever necessary.

(6) Directors' Training

Pursuant to code provision C.1.4 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors have been given relevant guideline materials to ensure that they are apprised of the latest changes in the commercial, legal and regulatory requirements in relation to the Company's businesses, and to refresh their knowledge and skills on the roles, functions and duties of a listed company director.

A summary of training received by the Directors for the year ended 31 December 2022 according to the records provided by the Directors is as follows:-

Name of the Directors	**Participated in Continuous Professional Development***
Executive Directors	
Mr. Kwok Ying Shing	✓
Mr. Luo Jun	✓
Mr. Wu Tianyu	✓
Mr. Zhang Huagang	✓
Independent non-executive Directors	
Dr. Liu Yanwen	✓
Dr. Lyu Aiping	✓
Ms. Li Zhiying (formerly named as Ms. Li Yonglan)	✓

* by attending training/seminar/conference arranged by the Company or other external parties or reading relevant materials.

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS – continued

(7) Board Meetings

Board Practices and Conduct of Meetings

Board meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The Chairman, the Chief Executive Officer and the Company Secretary normally attend regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible for taking and keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests between any member of the Group and a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. Pursuant to the Company's bye-laws, Directors are required to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Directors' Attendance Records

During the year ended 31 December 2022, 4 Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS – continued

(7) Board Meetings – continued

The attendance records of each Director/Committee member at the meetings of the Board, the Nomination Committee, the Remuneration Committee, the Audit Committee and the General Meetings during the year ended 31 December 2022 are set out below:

	Number of meetings attended/ Number of meetings held during the Directors' tenure of office				
	Board meetings	Remuneration Committee meetings	Nomination Committee meetings	Audit Committee meetings	General meetings
Executive Directors:					
Mr. Kwok Ying Shing	4/4	N/A	N/A (Note c)	N/A	0/1
Mr. Luo Jun	4/4	N/A	N/A	N/A	1/1
Mr. Wu Tianyu	4/4	N/A (Note b)	N/A	N/A	0/1
Mr. Zhang Huagang	4/4	N/A	N/A	N/A	1/1
Independent Non-Executive Directors:					
Dr. Liu Yanwen	4/4	N/A (Note b)	N/A (Note c)	4/4	1/1
Dr. Lyu Aiping	4/4	N/A (Note b)	N/A (Note c)	4/4	1/1
Ms. Li Zhiying (formerly named as Ms. Li Yonglan) (note a)	4/4	N/A	N/A	4/4	1/1

Notes:

(a) Ms. Li Zhiying (formerly named as Ms Li Yonglan) was officially renamed certified by the PRC authority on 21 April 2022.

(b) Please details, refer to the section headed "Remuneration Committee" on page 26 of this report.

(c) Please details, refer to the section headed "Nomination Committee" on page 21 of this report.

CORPORATE GOVERNANCE REPORT

A. BOARD OF DIRECTORS – continued

(8) Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' dealings in the Company's securities. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2022.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of inside information of the Company or its securities. No incidence of non-compliance of the Employees Written Guidelines by the employees was noted by the Company during the year ended 31 December 2022.

COMPANY SECRETARY

The Company Secretary advised and served to all of the Directors during the year. The Company Secretary reported to the Chairman on corporate governance matters, and is responsible for ensuring that procedures of the Board were followed, and for facilitating communications among directors as well as with shareholders and management.

The Company Secretary's biography is set out in the section headed "Directors and Senior Management Profile" of this report. In compliance with Rule 3.29 of the Listing Rules, the Company Secretary has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2022.

B. DELEGATION BY THE BOARD

The Board reserves for its decisions all major matters of the Group, including but not limited to the approval and monitoring of all policy matters, overall strategies and development, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, budgets, appointment of Directors and other significant financial and operational matters.

The day-to-day management, administration and operations of the Group are delegated to the senior management. The delegated functions and work tasks are periodically reviewed. The Board will give directions to the senior management as to their powers of management, and circumstances where they should report back. Approval has to be obtained from the Board prior to any decision making on significant transactions or entering into any significant commitments on behalf of the Company.

The senior management has an obligation to supply the Board and its Committees adequate, complete and reliable information in a timely manner to enable them to make informed decisions. The Board and each Director have separate and independent access to the senior management.

In addition, the Board has established three Committees, namely the Nomination Committee, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Group's affairs. All these Committees are established with defined written terms of reference which are published on the Company's website at www.kaisahealth.com and on the Stock Exchange's website at www.hkexnews.hk.

CORPORATE GOVERNANCE REPORT

C. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of the directors and senior management of the Group. Details of the remuneration of each Director for the year ended 31 December 2022 are set out in note 9 to the consolidated financial statements.

Remuneration Committee

The Company has established a Remuneration Committee with written terms of reference to consider for the remuneration for Directors and senior management of the Company and other related matters. During the year ended 31 December 2022, the Remuneration Committee comprised one executive Director, Mr. Wu Tianyu, as a member of the Remuneration Committee, and two independent non-executive Directors, namely Dr. Lyu Aiping (chairman of the Remuneration Committee) and Dr. Liu Yanwen.

The primary functions of the Remuneration Committee include making recommendations to the Board on the remuneration policy and structure and determining the remuneration packages of Directors and senior management. It is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Human Resources Department is responsible for collection and administration of human resources data and making recommendations to the Remuneration Committee for consideration.

The Remuneration Committee did not hold meetings during the year ended 31 December 2022. A written resolution has been passed and approved instead. The Remuneration Committee performed the following work during the year:

(a) To review generally the remuneration policy (including for executive Directors) and structure of the Group to make recommendations to the Board on the remuneration packages of individual executive directors and senior management;

(b) To assess the performance of the executive Directors and the senior management;

(c) To determine the remuneration packages, approving the terms of executive directors' service contracts, as well as the annual bonuses of the executive Directors and the senior management;

(d) To review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules; and

(e) To consider and implement other matters, as defined or assigned by the Board or otherwise required by the Listing Rules from time to time.

CORPORATE GOVERNANCE REPORT

D. ACCOUNTABILITY AND AUDIT

(1) Directors' Responsibilities for Financial Reporting

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, announcements on inside information and other disclosures required under the Listing Rules and other regulatory requirements. The Directors acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2022.

The senior management provides explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Group put to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

(2) Internal Controls

The Board has overall responsibility for the internal control system of the Company. The Board is also responsible for maintaining an adequate internal control system, including determining the policies on corporate governance to safeguard the interests of the shareholders and the assets of the Company and, with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The Board has conducted an annual review of the effectiveness of the internal control system, covering all material controls, including financial, operational and compliance controls of the Group by the independent international audit firm for the year ended 31 December 2022, and has reviewed the report and the findings by the independent international audit firm. The senior management reviews and evaluates the control process and monitors any risk factors on a regular basis and reports to the Board and the Audit Committee on any findings and measures to address the variances and identified risks.

(3) Audit Committee

The Audit Committee was established with written terms of reference in accordance with Appendix 14 to the Listing Rules. During the year ended 31 December 2022, the Audit Committee comprised three independent non-executive Directors, namely Dr. Liu Yanwen, chairman of the Audit Committee, Dr. Lyu Aiping and Ms. Li Zhiying (formerly named as Ms. Li Yonglan).

The main duties of the Audit Committee include review of the financial information of the Group, review of the relationship with and the terms of appointment of the independent auditor, and review of the Group's financial reporting system, internal control system, risk management system and associated procedures.

CORPORATE GOVERNANCE REPORT

D. ACCOUNTABILITY AND AUDIT – continued

(3) Audit Committee – continued

The Audit Committee held 4 meetings during the year ended 31 December 2022. The attendance records are set out under the section headed "Directors' Attendance Records" of this report. The Audit Committee performed the following work during the year:

(a) reviewed the Group's unaudited annual financial statements for the year ended 31 December 2021, the annual audited financial statements with the independent auditor for the year ended 31 December 2021, and reviewed the unaudited interim financial statements for the six months ended 30 June 2022, including the accounting principles and accounting standards adopted with recommendations made to the Board for approval;

(b) reviewed the changes in accounting standards and assessed their potential impacts on the Group's financial statements;

(c) reviewed the Group's risk management and internal control system and related matters; and

(d) considered and made recommendations on the appointment of Grant Thornton Hong Kong Limited and Elite Partners CPA Limited as the independent auditor of the Group during the year, and the terms of engagement.

(4) Independent Auditor and Auditor's Remuneration

The report from independent auditor of the Group about their responsibilities on the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 81 to 85.

The independent auditor of the Company has been changed from Grant Thornton Hong Kong Limited to Elite Partners CPA Limited with effect from 11 July 2022. Save as disclosed, there has been no other changes in auditors of the Company for the preceding three years.

The remuneration paid to the Company's independent auditor, Grant Thornton Hong Kong Limited and Elite Partners CPA Limited, in respect of audit services and non-audit services for the year ended 31 December 2022 is set out below:

Grant Thornton Hong Kong Limited (1 January 2022-30 June 2022)

Services rendered	Remuneration paid/Payable
Audit services	HK$510,000
Non-audit services (including tax filing services and due diligence services for the Group's subsidiaries)	HK$60,000

Elite Partners CPA Limited (11 July 2022-31 December 2022)

Services rendered	Remuneration paid/Payable
Audit services	HK$1,200,000
Non-audit services (including tax filing services and due diligence services for the Group's subsidiaries)	HK$506,000

CORPORATE GOVERNANCE REPORT

E. RISK MANAGEMENT AND INTERNAL CONTROL

Code provisions D.2.1 to D.2.4 of the CG Code stated (a) the requirements of the Board to conduct a review of the effectiveness of issuer's and its subsidiaries' risk management and internal control systems; (b) the issuer should disclose a narrative statement on how they have complied with the risk management and internal control code provisions during the reporting period.

With respect to code provision D.2.4, the Company has the process used to identify, evaluate and manage significant risks through reviewing internal resources of the Group as given from Finance Department and provide suggestions to the Board for Company's development plan. Risk management committee has been formed for this purpose with members of executive Directors, independent non-executive Directors, Head of Finance Department, Head of Compliance Department to discuss the progress of each development project and proposal of new projects. The risk management committee will review the project effectiveness. It is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide reasonable and not absolute assurance against material misstatement or loss.

With respect to code provision D.2.5 of CG Code, the issuer should have an internal audit function. The Group does not have this internal audit function. Alternatively the Group engaged an independent international audit firm to conduct internal control review to provide independent assurance to the Board and senior management on the adequacy and effectiveness of internal controls for the Group. The annual work plan of internal control review covered all material controls, including financial, operational and compliance controls, and major activities and processes of the Group's material business and service units. If necessary, the internal control review exercise would cover other review and investigative work as may be required. The internal control review results were submitted to the Board and senior management. Internal control review issues are tracked and followed up for proper implementation, with progress reported to the Board, executive and senior management periodically.

The Company has developed and adopted risk management procedures and guidelines with defined authority according to staff positions and responsibilities coordinated by the Finance and Human Resources Department of the Group for implementation by key business processes and office functions. The Board, together with the Audit Committee, should collect the information from the risk management system, include discussions of risk and oversight of the management of those risks into the agenda of Board meetings. The Directors, through the audit committee of the Company, reviewed the adequacy and effectiveness of the risk management and internal control systems of the Group, at least annually, for the year ended 31 December 2022.

Based on the results of internal control review exercises, the Group is satisfied that (a) the significant risks faced by the Group that threaten the achievement of its business objectives is identified and evaluated; (b) the internal control system are considered effective and adequate during the year; and (c) there is no unresolved significant areas of concerns noted by the Board. When material internal control defects exists, meetings for discussion will be held to resolve the defects, and regular review will be made to monitor the progress.

Moreover, with respect to the procedures and internal controls for the handling and dissemination of inside information, the Group has the following procedures and policies:

CORPORATE GOVERNANCE REPORT

E. RISK MANAGEMENT AND INTERNAL CONTROL – continued

Policies on dissemination of inside information

1. The Board is responsible for approving the policy on disclosure of inside information which aims at providing guiding principles, practices and procedures to assist employees and officers of the Group in (a) relaying inside information to the Board to enable it to make timely decisions on disclosure, if necessary; and (b) communicating with the Group's stakeholders, in ways which are in compliance with the Securities and Futures Ordinance (the "SFO") and the Listing Rules, and any revision thereof. The Board decides whether or not a transaction, development or event constitutes inside information and disclosure of which shall be made immediately, and when a trading halt is required. Chairman of the Board shall be the authorised spokesperson for the Board and the Company unless resolved otherwise by the Board.

2. Regular reports are prepared by employees for a variety of functional reasons, which help identify material information. The regular reports include:

   a. regular management reports provided by the Company's divisions/departments and operating subsidiaries to the Board, which include updates and analyses of the ongoing development and performance of the projects and initiatives being undertaken; and

   b. monthly management accounts provided to the Board upon request, which include variance analyses of the Group's financial and operational performance.

3. An employee who becomes aware of a matter, development or event that he/she considers to be material or inside information shall report it promptly in writing to his/her division/department head who will assess the sensitivity of the relevant information and, if considered appropriate, escalate and report it to the Board and/or the Company Secretary.

4. Upon being notified, the Board and/or the Company Secretary shall assess the materiality of the relevant information, determine the appropriate course of actions and, if considered appropriate, consult the Chairman who may convene a Board meeting to consider and decide whether or not the information constitutes inside information and disclosure of which shall be made immediately.

5. When considering a disclosure, the Board shall decide on the scope of information to be released and the timing of the release.

6. A record of the meeting and discussions of Board concerning the assessment of the information shall be kept.

7. Inside information and other information which is required to be disclosed pursuant to the Company's statutory disclosure obligations will be announced via the electronic publication system operated by the Stock Exchange before any press releases regarding the matter is published on the Group's website.

8. Inside information to be disclosed must be accurate and complete in all material aspects and not be misleading or deceptive. The Board must take reasonable steps to verify the accuracy and completeness of the relevant information before it is publicly disclosed.

CORPORATE GOVERNANCE REPORT

E. RISK MANAGEMENT AND INTERNAL CONTROL – continued

Policies on dissemination of inside information – continued

9. Heads of the relevant divisions/departments that identified and handled the inside information shall provide the Board with the precise details to enable them to prepare the related announcement or press release, if necessary, and confirm the accuracy and completeness of the information before it is publicly disclosed.

Internal control and policies on handling inside information

1. All officers of the Group must take reasonable care to safeguard the confidentiality of all inside information in their possession or control. Access to inside information shall be restricted, as far as practicable, to the highest level of management and on a need-to-know basis. The responsible senior executive shall (a) maintain a list of personnel who have access to the withheld inside information; and (b) closely monitor and regularly report to the Board and/or the Company Secretary on the development or progress of the relevant matter. The Board and/or the Company Secretary shall, before the inside information is disclosed, closely monitor the activity of the Company's securities, and prepare a "holding" announcement to be released when there is growing rumour of the undisclosed information.

2. All officers of the Group who possesses unpublished inside information must:

   – refrain from discussing that information with, or divulging that information to, any persons who are not authorised by the Board to receive that information; and

   – ensure that any documents or other written material in his/her possession in relation to that information are properly and securely stored and are not disclosed to any unauthorised persons.

3. Officers of the Group must not deal in the Company's securities when they are in possession of unpublished inside information. Details of dealing restrictions imposed on Directors and relevant employees are set out in the Model Code and the Employees Written Guidelines.

4. Any external parties who may become privy to unpublished inside information shall be informed that they must not divulge such information to any unauthorised persons, other than in the normal course of business, without the Company's prior written consent. Unless an obligation of confidentiality is implicit in the relationship with an external party, such parties who have access to unpublished inside information shall (a) confirm their commitment to non-disclosure of the received information in the form of a written confidentiality agreement or in a standard clause within the contract signed with any entities within the Group; and (b) undertake not to deal in the Company's securities whilst they are in possession of the unpublished inside information until such information has been publicly disclosed.

Payment of dividends

The Board will regularly review the performance of the Group on semi-annually basis in order to declare payments of dividend if it is appropriate.

CORPORATE GOVERNANCE REPORT

F. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognises the importance of transparency and timely disclosure of corporate information, which enable shareholders and investors to make the best investment decision.

Annual general meetings provide an opportunity for communication between the Board and the shareholders. The Chairman of the Board as well as the Chairmen of the Nomination Committee, the Remuneration Committee and the Audit Committee or, in their absence, other members of the respective Committees normally attend shareholders' meetings of the Company to answer shareholders' questions. During the year ended 31 December 2022, the Company held the annual general meeting on 15 June 2022.

For further details of the Group's communication policy with shareholders, please refer to the section headed "Right to Put Enquiries to the Board and Communication with the Company".

With the two way interaction with shareholders in the annual general meeting during the year, and the channel for shareholders to deposit enquiries to the Company, the Group considered the implementation of the shareholders' communication policy to be effective.

G. SHAREHOLDERS' RIGHTS

(1) Voting by Shareholders

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors. Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the Chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The poll voting results will be published on the websites of the Stock Exchange and the Company after the meeting.

(2) Convening of Special General Meetings and Requisition by Shareholders

Shareholders shall have the right to request the Board to convene a special general meeting. Shareholders holding in aggregate of not less than one-tenth (10%) of the paid up capital of the Company may send a written request to the Board or the Company Secretary to requisition a special general meeting for the transaction of any business specified in such requisition. The written requisition, duly signed by the shareholders concerned, must state the purpose of the meeting and must be deposited at the registered office of the Company.

The Company will take appropriate actions and make necessary arrangements and the shareholders concerned will be responsible for any expenses incurred in giving effect thereto in accordance with the requirements under Section 74 of the Companies Act 1981 of Bermuda (the "Companies Act") once a valid requisition is received.

CORPORATE GOVERNANCE REPORT

G. SHAREHOLDERS' RIGHTS – continued

(3) Procedures for Making Proposals at General Meetings by Shareholders

The following shareholders are entitled to put forward a proposal (which may properly be put to the meeting) for consideration at a general meeting of the Company:

(a) any members representing not less than one-twentieth (5%) of the total voting rights of the Company on the date of the requisition; or

(b) not less than 100 members holding shares in the Company.

The requisition specifying the proposal, duly signed by the shareholders concerned, together with a statement with respect to the matter referred to in the proposal must be deposited at the registered office of the Company to Mr. Luo Jun, the Chief Executive Officer, at 30/F, The Center, 99 Queen's Road Central, Central, Hong Kong. The Company will take appropriate action and make necessary arrangements and the shareholders concerned will be responsible for any expenses incurred in giving effect thereto in accordance with the requirements under Sections 79 and 80 of the Companies Act once valid documents are received.

As regards to proposing a person other than the retiring Director for election as a Director in a general meeting, please refer to the procedures available on the website of the Company.

(4) Right to Put Enquiries to the Board and Communication with the Company

Apart from communicating with the Company through general meetings, Shareholders may send their enquiries and concerns, proposals at the upcoming general meetings, and their views on other matters affecting the Company to the Board by addressing them to the company secretary of the Company at 30/F, The Center, 99 Queen's Road Central, Central, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the Chief Executive Officer of the Company.

H. AMENDMENTS TO CONSTITUTIONAL DOCUMENTS

The Company proposes to amend its existing bye-laws (the "Existing Bye-laws") to, among others, (i) comply with the Core Shareholder Protection Standards as set out in Appendix 3 of the Listing Rules; and (ii) incorporate housekeeping amendments (collectively, the "Proposed Amendments").

In view of the Proposed Amendments, the Board proposes to adopt the amended and restated bye-laws of the Company (the "New Bye-laws"), which shall consolidate all the Proposed Amendments and all previous amendments made, in substitution for and to the exclusion of the Existing Bye-laws.

The Proposed Amendments and the adoption of the New Bye-laws are subject to the approval of the shareholders of the Company by way of a special resolution to be proposed at the forthcoming 2023 annual general meeting.

Details of the Proposed Amendments and the New Bye-laws will be set out in the circular to be despatched to the shareholders of the Company in due course together with a notice of the annual general meeting.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

The objective of this Environmental, Social and Governance ("ESG") Report is to highlight the Group's ESG performance for the purpose of assisting all stakeholders in understanding the Group's ESG concepts and practices in achieving sustainable development for the future.

Unless otherwise stated, this ESG Report covers the environmental performance of Shenzhen Jinyouran Technology Company Limited* (深圳市金悠然科技有限公司), Dongguan Jinyouran Technology Company Limited* (東莞市金悠然科技有限公司), Jinyouran Technology Company Limited, Hegang* (鶴崗市金悠然科技有限公司) and our headquarter offices in Shenzhen and Hong Kong while the social and governance performance covers all the operations of the Group. The subsidiaries included are the largest scale operation of the Group, which covers more than 90% of the total revenue of the Group.

Reporting Standards

The Report has been prepared in accordance with the requirements set out in the "Environmental, Social and Governance Reporting Guide" contained in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HKEx"). The Board reviewed, confirmed and approved the Report on 28 March 2023.

** For identification purpose only*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT – continued

Reporting principles

During the process of preparation of the Report, the Group summarised the Group's performance in corporate and social responsibilities based on the reporting principles of "Materiality", "Quantitative", "Balance" and "Consistency". Please refer to the table below for the Group's understanding of and response to such reporting principles.

Reporting principles	Implications	The Group's Response
Materiality	The Report should contain issues that reflect material ESG impact or substantially affect stakeholders.	Engaged stakeholders through various communication channels to better understand their concerns relating to sustainability issues that affect them. A materiality assessment was conducted to determine material ESG issues with results approved by the Board.
Quantitative	The Report should disclose key performance indicators in ways that can be measured, so that the effectiveness of ESG policies and management systems can be evaluated and validated.	Quantitative information is provided with narrative and comparative figures
Balance	The Report should provide an unbiased picture of our performance. The Report should avoid selections, omissions, or presentation formats that may inappropriately influence a decision or judgment by the Report reader.	The Group aims to keep the ESG report balanced and make fair disclosures on critical aspects. The Report discussed the Group's achievements and challenges in the aspect of sustainable development.
Consistency	The Report should use consistent disclosure methodologies to allow for meaningful comparisons of ESG data over time. The issuer should disclose the changes in methodologies (if any) or any other relevant factors affecting meaningful comparison in the ESG Report.	The Group has reported in accordance with the "ESG Reporting Guide". Consistent methodologies were adopted in the Report.

Stakeholders' Feedback

As the Group strives for excellence, stakeholders' feedback is appreciated, especially on topics listed as of the highest importance in the materiality assessment and its ESG approach and performance. Please give your suggestions or share your views with us at Email address: info@kaisahealth.com.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. THE BOARD'S STATEMENT

On behalf of Kaisa Health Group ("Kaisa Health", "the Group" or the "Group"), We are pleased to release the "Environmental, Social and Governance Report" for the year ended 31 December 2022, to report to various stakeholders on the Group's performance in sustainable development, environmental protection, operational responsibility, employee care and community investment. Still affected by COVID-19 and the slowdown in the global economy in 2022, the Group's Dental Business and Health Care Business experienced potential uncertainties, challenges and opportunities.

The Board aims to incorporate sustainable development into its Dental Business and Health Care Business, and understands its overall responsibility for overseeing the Group's ESG strategy. The Board will assess and determine the Group's ESG-related risks and opportunities, ensuring that appropriate and effective risk management and internal control systems are in place, and formulating the Group's ESG management policies, strategies, priorities and objectives. It will objectively consider the concerns and expectations of different stakeholders when making decisions. The development goals of sustainable governance include minimizing environmental damage when manufacturing new products and facilitating rehabilitation and healthcare development. While promoting steady business growth, the Group regards social and environmental responsibility as one of the core values of the business operation.

As COVID-19 has made the public focus more on physical and mental health, the living standards of urban residents improved, and the medical and health industry developed comprehensively, the oral medicine technology market and rehabilitation business will bring long-term sustainable development opportunities and potential to the Group. The Group is determined to become an eco-friendly enterprise with the goal of creating long-term value for various stakeholders in society. From procurement and sales to services and after-sales services, Kaisa Health is committed to maintaining the Group's high standards for service and operation, and closely communicating and collaborating with the Group's customers, technical institutions and business partners, thereby establishing a long-term partnership of mutual benefit and seizing the cooperation opportunities in high-tech dental-related business and health care business. The Group will actively manage its operations' environmental and social impacts and strive to fulfil its environmental and social responsibilities. To improve the sustainability and transparency of the Group, the Board and various departments regularly review and update current policies, including policies related to the environment, product responsibility, safety and quality, human resources system, anti-corruption, supply chain management, etc. It also provides a safe and healthy working environment for the employees and pays attention to their health, so as to create a green and sustainable future for society and the next generation.

Finally, in years to come, the Group will strengthen investment in research and development innovation, recruit outstanding professional technical talent, continue to introduce high value-added products and services to meet the escalating demand for dental care and to promote rehabilitation and health care. At the same time, Kaisa Health will continue to fulfil its environmental protection, corporate and social responsibilities, communicate closely with the stakeholders, and create value for the shareholders and stakeholders.

Mr. Luo Jun *(Chief Executive Officer)*
28 March 2023

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. SUSTAINABLE DEVELOPMENT PHILOSOPHY AND GOVERNANCE

Development Goals of Sustainable Governance

While promoting stable business growth, the Group considers the environmental, social and governance responsibilities of corporates as one of the core values in its business operations. It will actively manage the impact of our operations on the environment and society, strive to perform our environmental and social responsibilities, enhance the Group's sustainability and transparency, as well as create a green sustainable future for the next generation.

Sustainable Governance Strategies

In order to implement the Group's sustainable development philosophy, it has set up a top-down environmental, social and governance ("ESG") structure. The Board is responsible for formulating ESG strategies, evaluating and determining the Group's ESG risks, as well as ensuring the effectiveness of risk management and internal control. The staff of various departments within the Group (including the Human Resources Department, Administration Department, Procurement Department and Finance Department) is responsible for conducting ESG work and report assessment.

The Group is committed to fulfilling various aspects of corporate social responsibility, including energy saving, reduction of greenhouse gas, provision of training and development opportunities for staff, environmental compliance and provision of a safe and healthy work environment.

Board Involvement

The Board strives to incorporate sustainable development into the Group's business development and has assumed full responsibility in the following areas:

- assessing and determining the Group's ESG-related risks and opportunities;
- ensuring that the Group has equipped with an appropriate and effective risk management and internal control system;
- formulating the Group's ESG management policies, strategies, priorities and goals;
- reviewing ESG's work progress and performance on a regular basis; and
- approving the disclosure of information in the Group's ESG Report.

The Board regularly evaluates, identifies and manages sustainable development risks and strives to create long-term value for stakeholders by discovering potential opportunities through compliance with regulatory requirements and industry practices. In addition, the Board also regularly reviews the implementation of various ESG objectives and adjusts these objectives when appropriate and practicable, to ensure that corporate development's impact on the environment and society will be minimised.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. SUSTAINABLE DEVELOPMENT PHILOSOPHY AND GOVERNANCE – continued

Stakeholder Engagement

The Group actively engages with stakeholders to identify ESG issues that need to be addressed. Stakeholder engagement is the process by which an organization involves parties who may be affected by the decision it makes or can influence the implementation of its decisions. The Management had performed the following:

- generated a full and complete list of stakeholders by consulting various departments within the Group;
- relied on the ongoing communication channels and day-to-day interactions and dedicated meetings (whenever deemed necessary) to engage these stakeholders; and
- reduced the list of stakeholders into a workable size, and complete the Stakeholder Influence – Dependency Matrix to work out a list of key stakeholders.

The following table shows the expectations and requirements of the key stakeholders as identified by the Group.

Stakeholders	Expectations and Concerns	Communication channels
Government/regulatory organizations	• Compliance with laws and regulations • Fulfilment of tax obligations	• Announcements and other regulatory reports
Shareholders and investors	• Return on investments • Corporate governance • Sustainable development • Compliance with laws and regulations	• Information disclosed on the HKEX website and corporate website • Annual general meeting and other shareholders' meetings
Employees	• Employees' compensation and benefits • Career development • Occupational safety and health	• Employee performance evaluation • On-the-job training • Internal email • Regular meetings
Suppliers	• Fulfilment of promises • Creditworthiness • Long-term co-operation	• Supplier selection assessment • Performance assessment • Supplier meetings
Customers	• High-quality products and services • Protection of customer rights and personal data	• Corporate website • Emails and phone communications
Community/Public	• Compliance with laws and regulations • Involvement in communities • Environmental protection awareness	• Industry events • Corporate social responsibility activities

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. SUSTAINABLE DEVELOPMENT PHILOSOPHY AND GOVERNANCE – continued

Materiality Assessment

During the reporting period, the Group evaluated a number of environmental, social and operating items, and assessed their importance to stakeholders and the Group through various channels. This assessment helps to ensure that the Group's business objectives and development direction satisfy the stakeholders' expectations and requirements.

Step 1: Identify potential ESG issues

Taking into account the requirements of "ESG Reporting Guide" and the latest sustainability trends in the industry to identify relevant material issues. Twenty-one ESG issues were identified where they mattered most to the Group's businesses and stakeholders:

Step 2: Materiality assessment

To determine the materiality of the ESG issues, the view of the Group's senior management as well as our key stakeholders was sought. The relevance/importance of each of the ESG issues was assessed and scored according to their views on a scale of 0 to 10 (0 is irrelevant and 10 is crucial).

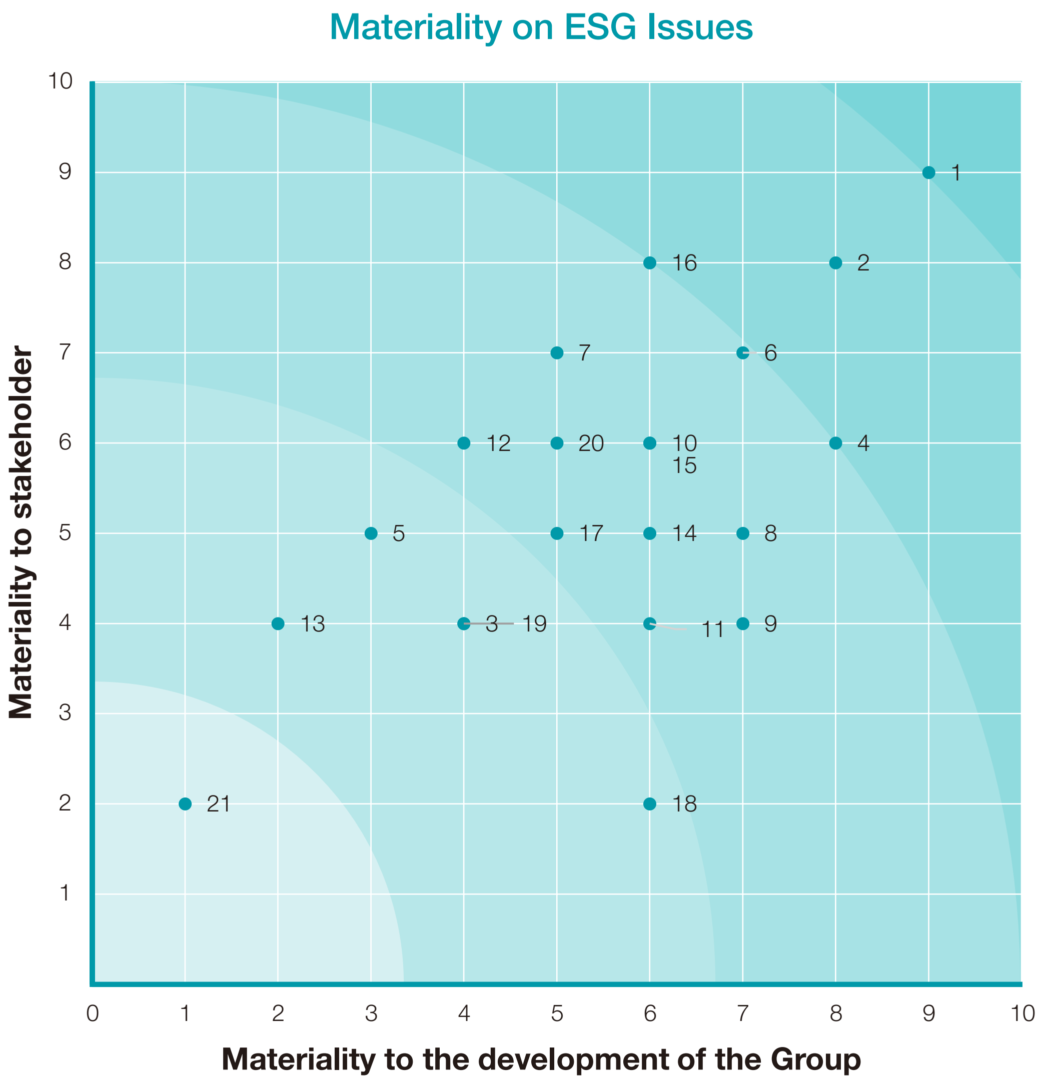
Step 3: Priority

Based on the materiality assessment result, the Group prioritized the issues in two dimensions, namely, "Importance to stakeholders" and "Importance to our operation" and prepared the materiality matrix as below. The ESG issues that fall within the top right-hand quadrant are of the greatest importance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. SUSTAINABLE DEVELOPMENT PHILOSOPHY AND GOVERNANCE – continued

Materiality Assessment – continued



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. SUSTAINABLE DEVELOPMENT PHILOSOPHY AND GOVERNANCE – continued

Materiality Assessment – continued

Aspects	Major concerns	
Environment	1.	Air emission
	2.	Greenhouse gas emission
	3.	Wastes production
	4.	Natural resources consumption
	5.	Use of packaging materials
	6.	Impact to the environment
	7.	Climate change
Employment	8.	Labour practices
	9.	Employee remuneration and benefits
	10.	Occupational safety and health
	11.	Employee development and training
Supply Chain Management	12.	Green procurement
	13.	Engagement with suppliers
	14.	Environmental and social risk management of supply chain
Product Responsibility	15.	Product/service quality and safety
	16.	Customer privacy and data security
	17.	Marketing and promotion
	18.	Intellectual property rights
Anti-corruption	19.	Business ethics & anti-corruption
	20.	Internal grievance mechanism
Community	21.	Participation in philanthropy

According to the materiality matrix, Kaisa Health's key issues focus on areas such as air pollution, greenhouse gas emissions, energy consumption and community engagement. While giving consideration to our environmental and social responsibilities, the Group will pay more attention to the above areas. In order to effectively respond to stakeholders' concerns, it will focus on strengthening discussion on material issues, fully consider opinions of all stakeholders, and practically optimize our long-term development strategy.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. ENVIRONMENTAL ASPECTS

Kaisa Health places great importance on the negative impacts that the Company may have caused on the natural environment during its operation. By implementing a series of management guidelines, the Group actively integrates environmental protection concepts into core businesses to effectively use natural resources, reduce pollution on the environment, and ultimately minimize our impact on the environment.

Emissions

Greenhouse gas emissions and other air pollutants

The Group's air emissions are mainly due to the use of motor vehicles and the use of emergency generators. The Group has established and strictly implemented the Guidelines on Vehicle Use Management so as to provide clear guidelines for vehicle use of employees. Employees are encouraged to plan travelling routes reasonably, turn off idling engines after reaching the destinations and refrain from the use of air-conditioning when the vehicles are idle. It also conducts regular inspections and maintenance on the structure and equipment of the vehicles to promote energy saving and reduce pollution. Moreover, in response to the power curtailment measures of the Shenzhen Municipal Government, the Group used emergency generators to generate electricity during the year to reduce the impact of the power curtailment policy on the Group's daily operations.

Wastes management

The Group has established and strictly implemented the Guideline on Solid Waste Management (《固體廢物管理規範》) so as to provide clear guidelines to employees on the categorization and handling of hazardous recyclable waste, hazardous non-recyclable waste, non-hazardous recyclable waste and non-hazardous non-recyclable waste. In order to draw the employees' awareness towards waste reduction, the Group assigned designated personnel to supervise the implementation of waste reduction controls and conduct 6S management in the plant, namely Sort, Straighten, Sweep, Clean, Self-discipline and Safety. Due to the business nature, the Group will not directly generate a large amount of hazardous waste.

Non-hazardous recyclable waste and non-hazardous non-recyclable waste are generally living wastes, which would be collected by recycling companies and relevant government department. Employees are required to indicate hazardous waste clearly for identifications, if any. Measures are carried out by the Group to prevent sunlight, rainwater and to control dust from leakage. All hazardous waste, if any, should be handled by suppliers and qualified hazardous waste handling companies with segregated storage.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. ENVIRONMENTAL ASPECTS – CONTINUED

Emissions – continued

Emissions statistics

	Unit	2022	2021
Air emissions			
Nitrogen oxides	kg	**4.2**	14.2
Sulphur oxides	kg	**0.1**	15.8
Respiratory suspended particles	kg	**0.3**	17.1
Greenhouse gas emissions			
Scope 1 – petrol consumption	Tonne	**20.4**	55.4
Scope 2 – electricity consumption	Tonne	**738.7**	1,248.6
Total emissions	Tonne	**759.1**	1,304
Emission intensity	Tonne/m^2 of project area	**0.13**	0.2
Wastes			
Hazardous wastes	Tonne	**N/A**	N/A
Non-hazardous waste	Tonne	**5.5**	64.4
Non-hazardous waste intensity	Tonne/m^2 of project area	**0.001**	0.01

Compliance with laws and regulations

During the reporting period, the Group strictly abides by laws and regulations in PRC related to environment, including but not limited to the following:

- the Law on Prevention and Control of Pollution from Environmental Noise;
- the Law on Environmental Protection;
- the Law on the Prevention and Control of Solid Waste Pollution;
- the Law on the Prevention and Control of Air Pollution;
- the 13th Five-Year Plan for Controlling Greenhouse Gas Emissions;
- Law on Prevention and Control of Environmental Pollution by Solid Wastes; and
- Regulations of Guangdong Province on the Prevention.

4. ENVIRONMENTAL ASPECTS – CONTINUED

Use of Resources

Increasing efficiency in resource use is also an environmental protection issue to which the Group has attached great importance. In order to fulfil its corporate environmental obligations, the Group actively raises energy efficiency in its daily operation. Meanwhile, we also review and assess the efficiency and effectiveness of our environmental protection plans to save energy consumption and facilitate us in maintaining a good balance between environmental protection and business growth.

The Group has established the Guideline on Conserving Energy and Reducing Consumption and proactively implemented the following energy-saving and resource consumption measures. The major resources consumed and corresponding conservative measures are as follows:

Resources	Energy-saving and resource consumption measures
Electricity	• Select energy-saving products when purchasing new electric appliances • Switch off unused electric appliances, lights and machinery • Turn on the air-conditioner only when the temperature is above 26°C
Raw materials and ancillary materials for production	• Establish policies and procedures to control the material procurement, inspection, storage, stock in and out process • Set material consumption quotas and continuously improve the utilization rates to reduce material losses
Water	• Reuse water in industrial aspects • Prevent water leakage by reinforcing the maintenance work of water facilities • Revamp the production process by the adoption of non-water consumption method • Immediately stop and report any wasteful water practices
Paper	• Introduce paperless office • Use both sides of the paper if necessary

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. ENVIRONMENTAL ASPECTS – CONTINUED

Use of Resources – continued

The consumption data recorded for the year ended 31 December 2022 is as below:

Resources	Unit	Consumption
Energy consumption		
Electricity	kWh	1,210,823
Petrol	kWh	101,496
Total energy comsuption	kWh	1,312,319
Total energy comsuption intensity	kWh/m^2 of project area	219.1
Water	m^3	11,866
Water comsumption intensity	m^3/m^2 of project area	2.0

Water and sewage treatment

Guidelines on Wastewater Discharge Management are established to monitor wastewater discharge from the factory and office areas. Sewage contains chemicals substances stored separately. Designated personnel are assigned to conduct regular inspections of the maintenance of the pipes to prevent water leakage. During the year, the Group does not have any issue in sourcing water that is fits for the purpose.

Packaging materials

The packaging materials used by the Group are primarily plastic wrapping films and carton boxes. Despite the use of packaging materials for the Group's products, the Group makes every effort to minimise the wastage of resources.

Packaging materials	Unit	Consumption
Paper materials and carton box	Tonne	1.6
Plastic bags and plastic materials	Tonne	2.9
Total packing materials used	Tonne	4.5
Total packaging material consumption intensity	kg/million of revenue	23.6

4. ENVIRONMENTAL ASPECTS – CONTINUED

Use of Resources – continued

Emission Reduction Targets

In order to reduce the impact of the Group's business on the environment, the Group has set the following targets for the use of resources, including greenhouse gases, waste, energy and water resources. The Group will review and evaluate its resource usage targets and actual consumption annually.

Types of Resources	Emission Reduction Targets set at FY 2021	Achievement in FY2022
Greenhouse gases	Reduce carbon dioxide equivalent emissions by 10% within 5 years	– CO_2 equipment emissions decrease about 38%
Non-hazardous waste	Reduce non-hazardous waste by 10% within 5 years	– Non-hazardous wastes drops approximately 90%
Energy	Reduce total electricity consumption by 10% within 5 years	– Energy consumption drops 2.2%
Water consumption	Reduce total water consumption by 10% within 5 years	– Water consumption drops 2.2%

The Environment and Natural Resources

The Group's operations do not involve the use of a large amount of non-renewable energy, forest resources, or impacts on biodiversity. Therefore, its operations do not significantly impact the environment and natural resources.

To better understand the environmental impacts caused by the Group, it has established and implemented the Procedures on Environmental Factors Identification and Environmental Impacts Assessment to identify, assess and manage the work processes which may have an impact on the environment. All departments must identify the potential environmental impacts caused by their respective daily operations and document them in the Evaluation Form of Identification of Environmental Factors and Environmental Impacts. It covers areas such as wastewater, waste gas, solid waste, noise, pollutants and energy consumption that affect surrounding residents. The quality inspection department will assess the evaluation results and establish management goals to reduce environmental impact. Moreover, regarding the discharge of sewage, in accordance with the Law of the People's Republic of China on Prevention and Control of Water Pollution.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. ENVIRONMENTAL ASPECTS – CONTINUED

Climate Change

The Group understands that extreme weather conditions, such as rainstorms, floods or heat flows that may cause damage to the Group's property or significantly impact our business activities, are becoming more common and intense and could affect our operations. The Group's Employee Handbook provides all employees with clear and comprehensive guidance on dealing with typhoons and rainstorm warnings. To mitigate the impacts of climate change, the Group will take the following measures to prepare the Group's employees for extreme weather conditions:

- Review and update the Typhoon Policy within the Employee Handbook annually; and
- Monitor and review significant climate-related risks and opportunities annually;

The processes used to identify, evaluate and manage significant risks (including significant climate-related issues) by the Group are summarised as follows:

Risk Identification	• Identifies risks that may potentially affect the Group's business and operations, including those along the supply chain.
Risk Assessment	• Assesses the risks identified by using the assessment criteria developed by the management; and • Considers the impact and consequence on the business and the likelihood of their occurrence.
Risk Response	• Prioritises the risks by comparing the results of the risk assessment; and • Determines the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.
Risk Monitoring and Reporting	• Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control processes are in place; • Revises the risk management strategies and internal control processes in case of any significant change of situation; and • Reports the results of risk monitoring to the management and the Board regularly.

Moreover, the Group will also consider the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") to strengthen governance processes and incorporate climate-related risks and opportunities into the Group's future risk assessments.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5. SOCIAL ASPECTS

In order to maintain competitiveness in the industry in the long run, it is essential for Kaisa Health to build a loyal and competent work environment for its employees. At the same time, upholding the giving-back concept, the Group commits to supporting its employees and shows compassion to society.

Employment

The employment contract specifies the terms, including compensation and dismissal, working hours, rest periods and other benefits and welfare for staff. The staff handbook highlights important information on policies on compensation, employee benefits, rights on termination, business conduct and leave benefits. Employee Management Policies (《僱員管理政策》) are implemented to regulate the procedures of dismissal of employees. To create a harmonious atmosphere and encourage team spirit, the Group organized sports day and employee travelling, providing chances for the employees to get acquainted.

Anti-discrimination and equal opportunity

The Group espouses a strong commitment to nondiscrimination and equal opportunities for all, regardless of age, gender, race, disability or marital status, in order to foster greater employee satisfaction. It seeks to diversify its staff in terms of gender and age to create a balanced professional environment. Moreover, the Group actively encourages diversity among its workforce and warmly welcomes people of any background, thus effectively bringing the principle of fairness into practice.

Fair Treatment Policy is established to promote employee equality, regardless of our ethnic Group, gender, religious affiliation, or other protected status or classification. Our Anti-Discrimination Requirements ensure employees are free from discrimination in areas such as recruitment, compensation, training, promotion and termination due to race, social class, nationality, age, religion, physical ability, disability, gender, sexual orientation or political affiliation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5. SOCIAL ASPECTS – CONTINUED

Employment – continued

Anti-discrimination and equal opportunity – continued

According to the Internal Communication Management Requirements (《內部溝通管理規定》), the Group established upstream communications channels for employees to share their opinions and views. With the people-oriented culture, the Group encourages employees to speak up. All opinions and complaints submitted by the employees will be reviewed and handled by the management in a transparent and fair manner within 7 working days.

Promotion

The Group motivates our employees with career development opportunities and competitive compensation. The Group formulated the Regulation of Promotion Management (晉升管理規定) to ensure that the promotion process is carried out in a fair and open manner for all employees.

Working hours, rest periods, benefits and welfare

Employees' working hours, rest periods, benefits and welfare, including social security benefits, mandatory provident fund, and labour pension, must comply with employment or labour laws and regulations. Selected benefit programs, including medical coverage, are also provided. The Group also implements a reward scheme for employees and holds gatherings regularly to increase the sense of belongings to the company.

As of 31 December 2022, the Group had 941 staff, with the overall staff turnover rate of approximately 31.1%. The details of our workforce and staff turnover rate of the Group is shown as below:

	No. of staff	Staff turnover rate
Gender		
Male	491	31.7%
Female	450	30.4%
Age group		
18-30	626	38.0%
31-40	241	18.6%
41-50	53	17.0%
51 or above	21	31.1%
Region		
Guangdong Province, PRC	885	30.1%
Heilongjiang Province, PRC	46	71.7%
Hong Kong	8	5.3%
United States	2	100%
Employment type		
Full time	941	31.1%
Part time	/	/

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5. SOCIAL ASPECTS – CONTINUED

Employment – continued

Compliance with laws and regulations

During the year ended 31 December 2022, employment contracts are signed with all employees to ensure the employment practices comply with relevant employment laws and regulations, including but not limited to the following:

- Labour Law of the People's Republic of China
- Labour Contract Law of People's Republic of China
- Employment Ordinance of the HKSAR
- Minimum Wage Ordinance of the HKSAR
- Mandatory Provident Fund Scheme Ordinance of the HKSAR

Health and Safety

Kaisa Health highly values the occupational health and safety of employees with an aim to provide a safe and healthy workplace for our employees. The Group understand that some of our employees are exposed to safety risk due to their work nature. This includes working at height and using hazardous chemicals. Our Employee Safety Manual stipulates the basic safety regulations and requires employees of different positions to follow specific safety rules to prevent potential accidents.

In addition to work safety enhancement, the Group also put significant efforts into raising employees' awareness towards emergency incidents. Under the guidance of the Group's Policy on Prevention of Fire Accident (《防火檢查巡查制度》) and Fire Drill Plan (《消防滅火及逃生演習方案計劃》), a series of training and activities such as fire drills are conducted regularly to educate our employees in the event of a fire, as well as to ensure compliance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5. SOCIAL ASPECTS – CONTINUED

Health and Safety – continued

Safety training is conducted for employees regularly to promote strong safety awareness. Safety training is organised in accordance with the Policies on Production Safety Education and Training and Work Injury Prevention Measures. Guideline on Work Injury also set out the procedures for handling compensation claims and reporting work injury cases. After every incident, an investigation is carried out, and recommendations or corrective actions are taken if necessary. Management will continue to maintain constant communication with field operations. Going forward, the Group will reinforce the effort and maintain zero accidents and zero injury rate during operations.

Occupational health and safety statistics

	2022	2021	2020
Number of lost days due to work injury	**81.5**	0	0
Number of work-related fatal accidents	**0**	0	0
Accident rate of work-related fatal accidents	**0**	0	0

In order to look after the physical health of the employees, a dust filtration system is installed in the factory and personal protective devices are provided for the employees. Decibel standards are also being set up and noise isolation devices are in place to protect the employees' hearing health from the noises generated during production. Moreover, the Group have established the Policy on Medical Examination (《員工體檢制度》) according to the requirements of. All employees are provided with a pre-job medical examination to ensure that they are competent in their duties. Employees who work in hazardous operations are also provided with medical examinations on an annual basis.

Compliance with laws and regulations

During the reporting period, the Group complied with the laws or regulations relating to the provision of a safe working environment or the protection of employees against occupational hazards, including but not limited to the following:

PRC	• Production Safety Law • Regulation on Work-Related Injury • Insurances of Law of the People's Republic of China • Fire Control Law of the People's Republic of China • Law of the People's Republic of China on the Prevention and Control of Occupational Diseases
Hong Kong	• Employment Ordinance • Occupational Safety and Health Ordinance

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5. SOCIAL ASPECTS – CONTINUED

Development and Training

Kaisa Health has always been concerned about the growth of employees; therefore, it is committed to devoting sufficient resources to training and helping maintain the competitiveness of employees. To ensure all the employees have received training, our Policy of Human Resource Management stipulates that every department must prepare an annual staff training plan based on their operation needs.

During the reporting period, employee trainings, covering areas such as pre-job training, compliance and law and regulation courses, management skills improvement, quality control management and technical skills training have been orgainsed.

	Percentage of Employees Receiving Training	Average Training Hours
Gender		
Male	93%	6.8
Female	100%	6.3
Job position		
Senior management	100%	5.0
Management	100%	12.1
General staff and labour	88.5%	5.7

Labour Standards

The Group is committed to upholding the labour rights of staff and has established a compliant mechanism for staff to report any labour violations. The Policy on Prohibition of Child Labour and Human Resource Management Policy prohibits the employment of staff members under legal working. During recruitment, identity cards and health certificates are verified before the job interview to prevent hiring persons under 16. The Group's policy is to disqualify the person from employment if they are found to be hired against the requirements of the Labour Contract Law.

Employees are paid according to the overtime wage rate when overtime work is required. Suppose there are any violations of the laws and regulations related to labour standards. In that case, the Group will penalize the responsible personnel based on the severity of each incident, analyze the causes of such problems, and then review, update and adjust such problems in the existing system or management methods. During the year ended 31 December 2022, no labour disputes between the company and its staff have been recorded.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5. SOCIAL ASPECTS – CONTINUED

Labour Standards – continued

Compliance with laws and regulations

The Group has strictly complied with the laws and regulations related to protecting the lawful rights of employees as well as strictly prohibiting the employment of persons under the age of 18, which mainly includes the following:

- Labour Law
- Labour Contract Law
- Law on Protection of Minors
- Provisions on the Prohibition of Using Child Labour

Supply Chain Management

The stable development of the Group's business relies on the support of suppliers and business partners, as it attaches high importance to supply chain management to maintain our service quality and business integrity. The Group has formulated the supplier selection criteria and procurement procedures to select suppliers that can uphold the highest quality in order to minimise product deficiencies and impacts on the environment and society.

All suppliers are requested to sign the Supplier's/Subcontractor's Letter of Undertaking on Social Responsibility Management (《供應商／分包商社會責任管理承諾書》) ("Letter of Undertaking") which set out our requirements on suppliers in respect of environmental protection and labour standards.

Suppliers are also required to complete a Questionnaire on Environmental Factors of Related Parties to identify the environmental impacts brought by their operations and their relevant actions. Performance reviews are conducted to ensure the quality of their products or services. Suppliers who are not up to standard would be subject to re-evaluation before making further business dealings.

Product and services with the least negative environmental impact, such as recycling and environmentally friendly materials, are preferable during the supplier selection process. Suppliers with the ISO14001 environmental management system certification, ISO9001 quality management certification, occupational health and safety management system certification, and other industry qualifications are prioritised.

During the reporting period, the Group worked with 72 suppliers in China and 1 supplier in North America.

Product Responsibility

With an aim to provide customers with high-quality and internationally recognised products, the Group has implemented a series of quality control measures to ensure all the products sold to customers are safe and up to standard.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5. SOCIAL ASPECTS – CONTINUED

Product Responsibility – continued

Advertising and product labelling

The Group has established the Policy of Advertising Management (《廣告管理規定》) to ensure the relevant government departments approve advertisement documents in accordance with the requirements of the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) before publishing. The Group's Label Management Regulations (《標籤管理規定》) states the requirements for the design, use, keeping, distribution and destruction of product labels. The research and Development ("R&D") department is responsible to designs all the labels of new products according to relevant requirements and submit to the Quality Control ("QC")department for inspection.

Customers' satisfaction and feedback

The Group's Customer Satisfaction and Feedback Management Procedures (《客戶滿意及回饋管理程式》) stipulates the procedures for the follow-up and handling of problems encountered by customers when using the products. Customer satisfaction surveys are also conducted annually to improve products and service quality. Guideline on Handling Client Complaints (《客戶投訴處理規定》) has been established in compliance with the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》), which ensure all customers' complaints are handled properly and timely. During the reporting period, the Group received zero complaints about its products.

Product quality management

It is the obligation of the Group to ensure the quality of our products and protect the interests of consumers. The quality control department conducts quality inspections throughout the whole production process and before finished goods are dispatched.

All these quality inspection control measures are clearly defined in our Quality Inspection Standards for Raw Materials (《原材料品質檢查標準》), Procedures for Production Process Management (《生產過程管理程序》), Procedures for Production and Inspection Process (《過程和產品的監視和測量控制程序》) and Standards for Finished Products (《成品檢驗標準》). The Procedures for Handling Defect Products (《不合格品管理程序》) also specifies the process of handling defective products.

The Group has established Product Recall Procedures (《醫療器械召回管理程序》) to ensure all the recalled products are handled in a timely manner. During the reporting period, no products were recalled for health and safety reasons and no complaints in relation to our products and service have been received.

Confidentiality

The Group requires that all customers' information must be kept confidential. There are also specific guidelines on access rights setting, and procedures for using, keeping and destroying different types of customer information to prevent customer data leakage. In addition, each employee is required to sign a confidentiality agreement to safeguard company's confidential information. The department heads are responsible for reviewing reports from employees and implement confidentiality measures.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5. SOCIAL ASPECTS – CONTINUED

Product Responsibility – continued

Confidentiality – continued

In accordance with the Regulations on Privacy Management of Customers' Information (《客戶資訊保密管理規定》, the Group takes all necessary steps to ensure the data of its employees, customers, and suppliers is stored securely and kept confidential. The Group is strictly committed to complying with the Personal Data (Privacy) Ordinance, and adheres to the relevant regulations in the collection, disclosure, usage, retention and storage of data, to ensure the integrity and safety of data. The information of customers is only collected based on necessity. We regularly review our data management and provide relevant training to our employees.

Intellectual Property

The popularity and reputation of trademarks are used to promote products and stimulate production, so as to improve the economic and social benefits of the Group continuously. The Group has also formulated the "Trademark Management System" (《商標管理制度》) to ensure the timeliness and correct use of domestic and international trademark registrations. The Group also considers using new project trademarks during project development, and applies for trademark registration. In addition, non-disclosure agreements and non-competition agreements have been signed with employees and suppliers to protect themselves against intellectual property infringement.

Compliance with laws and regulations

During the year ended 31 December 2022, the Group complied with laws and regulations that significantly impact the Group concerning health and safety, labelling and privacy matters relating to products. This included, but was not limited to:

- Law of the People's Republic of China on the Protection of Consumer Rights and Interests
- Product Quality Law of the People's Republic of China
- Advertising Law of the People's Republic of China
- Trademark Law of the People's Republic of China,
- Implementation Rules of the Law of the People's Republic of China on Trademark; and
- the Administrative Measures for Printing of Trademarks.

Anti-Corruption

The Group is aware that any events of corruption will bring irreparable damage to the Group; therefore, the Group upholds a high standard of business integrity throughout its operations. A system with good moral integrity and an anti-corruption mechanism is seen to be the cornerstone of the sustainable and healthy development of the Group.

Whistleblowing procedure

The Group has formulated Anti-Corruption Policy and Integrity Agreement that specifies the requirements for preventing, detecting and reporting fraud, such as deception, bribery, extortion, corruption, embezzlement, misappropriation, false representation, collusion, and money laundering. Employees are strongly encouraged to promptly report suspicious activity to their direct supervisor, senior management, or the Audit Committee while preserving anonymity through suggestion boxes and e-mails. The Company shall take due care in responding to all reports of suspected cases of fraud and conduct thorough investigations with the utmost confidentiality. Corrective actions and disciplinary action (including dismissal in certain instances) shall be imposed expeditiously if required. All suspicious transactions detected from the investigations shall be timely reported to the relevant authority by the senior management or the Audit Committee. The whistle-blower would be protected and rewarded.

5. SOCIAL ASPECTS – CONTINUED

Anti-Corruption – continued

Anti-money laundering

The Group strictly implements a series of policies and procedures to prevent and detect money laundering and terrorist financing. The following measures have been taken to prevent and detect money laundering and terrorist financing:

- reports any suspicious transactions to the relevant government department;
- only maintain essential information of employees, customers and suppliers;
- payments are only made by cheque, bank transfer; and
- provide professional training relating to current legislation and practices to employees.

Anti-corruption Trainings

The Group has organised online anti-corruption training materials for directors and employees to enhance their awareness of integrity and self-discipline, and eliminate violations of regulations and disciplines at the ideological level. During the year, 13 of our managers and representatives across various departments have attended the anti-corruption training. The training is organised and presented by our legal department. During the year 2022, no legal cases associated with corrupt practices were brought against the Group and our employees.

Compliance with laws and regulations

During the year ended 31 December 2022, the Group complied with the laws and regulations relating to dishonest and corrupt activities, including but not limited to the following:

PRC	• Interim Provisions on Banning Commercial Bribery • Criminal law • Anti-Unfair Competition Law
Hong Kong	• Independent Commission Against Corruption Ordinance • Prevention of Bribery Ordinance of Hong Kong • Anti-Money Laundering and Counter-Terrorist Financing Ordinance

Community Investment

Kaisa Health realises that its responsibility is not only to contribute to society and the economy, but also to understand the needs of the communities in which it operates, to build a healthy and vibrant community for the public. The Group actively fulfils its social responsibilities as a corporate citizen. The Group has a focus area on community health promotion, and has contributed human resources and manpower to the focus area by encouraging employees to participate in health promotion and charity activities during work and in their spare time. Our volunteer team has contributed 26 hours to promoting public healthcare in PRC. In the future, the Group will continue seeking opportunities to cooperate with local charities and organise different activities to contribute to society.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. HKEx ESG REPORTING GUIDE CONTENT INDEX

Subject Areas, Aspects, General Disclosures and Overview of Key Performance Indicators (KPIs)		Status	Section
A. Environment			
Aspect A1: Emissions			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to exhaust and greenhouse gas emissions, discharges into water and soil, generation of hazardous and non-hazardous wastes, etc.		Disclosed	4. Environmental Aspect
KPI A1.1	Types of emissions and respective emission data.	Disclosed	4. Environmental Aspect
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, if appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	4. Environmental Aspect
KPI A1.3	Hazardous wastes generated in total (in tonnes) and, if appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	4. Environmental Aspect
KPI A1.4	Non-hazardous wastes generated in total (in tonnes) and, if appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	4. Environmental Aspect
KPI A1.5	Description of the emissions targets and the steps taken to achieve them.	Disclosed	4. Environmental Aspect
KPI A1.4	Description of treatment of hazardous and non-hazardous wastes, and description of the waste reduction targets and the steps taken to achieve them.	Disclosed	4. Environmental Aspect

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. HKEx ESG REPORTING GUIDE CONTENT INDEX – CONTINUED

Subject Areas, Aspects, General Disclosures and Overview of Key Performance Indicators (KPIs)		Status	Section
Aspect A2: Use of Resources			
General Disclosure Policies on efficient use of resources, including energy, water and other raw materials. Notes: The resources can be used for production, storage, transportation, buildings, electronic devices etc.		Disclosed	4. Environmental Aspect
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in ’000s) and intensity (e.g. per unit of production volume, per facility).	Disclosed	4. Environmental Aspect
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Disclosed	4. Environmental Aspect
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Disclosed	4. Environmental Aspect
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Disclosed	4. Environmental Aspect
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Disclosed	4. Environmental Aspect
Aspect A3: Environmental and Natural Resources			
General disclosure Policies on minimising the issuer’s significant impact on environmental and natural resources		Disclosed	4. Environmental Aspect
KPI A3.1	Description of the significant impacts of activities on environmental and natural resources and the actions taken to manage them.	Disclosed	4. Environmental Aspect
Aspect A4: Climate Change			
General Disclosure Policies on identifying and responding to the material climate-related matters that have or may have an impact on the issuer.		Disclosed	4. Environmental Aspect
KPI A4.1	Description of material climate-related matters that have or may have an impact on the issuer, and the countermeasures.	Disclosed	4. Environmental Aspect

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. HKEx ESG REPORTING GUIDE CONTENT INDEX – CONTINUED

Subject Areas, Aspects, General Disclosures and Overview of Key Performance Indicators (KPIs)		Status	Section
B. The Society			
Employment and Labour Practices			
Aspect B1: Employment			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		Disclosed	5. Social Aspect
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Disclosed	5. Social Aspect
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Disclosed	5. Social Aspect
Aspect B2: Health and Safety			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		Disclosed	5. Social Aspect
KPI B2.1	Number and rate of work-related fatalities.	Disclosed	5. Social Aspect
KPI B2.2	Lost days due to work injury.	Disclosed	5. Social Aspect
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Disclosed	5. Social Aspect
Aspect B3: Development and Training			
General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work Description of training activities.		Disclosed	5. Social Aspect
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Disclosed	5. Social Aspect
KPI B3.2	The average training hours completed per employee by gender and employee category.	Disclosed	5. Social Aspect

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. HKEx ESG REPORTING GUIDE CONTENT INDEX – CONTINUED

Subject Areas, Aspects, General Disclosures and Overview of Key Performance Indicators (KPIs)		Status	Section
Aspect B4: Labour Standards			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing use of child labour or forced labour.		Disclosed	5. Social Aspect
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Disclosed	5. Social Aspect
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Disclosed	5. Social Aspect
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure Policies on managing the environmental and social risks of the supply chain.		Disclosed	5. Social Aspect
KPI B5.1	Number of suppliers by geographical region.	Disclosed	5. Social Aspect
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Disclosed	5. Social Aspect
KPI B5.3	Description of the practices for identifying environmental and social risks at each stage of the supply chain, and the relevant implementation and monitoring method.	Disclosed	5. Social Aspect
KPI B5.4	Description of the practices that facilitate the use of environmentally friendly products and services when selecting suppliers, and the relevant implementation and monitoring method.	Disclosed	5. Social Aspect

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. HKEx ESG REPORTING GUIDE CONTENT INDEX – CONTINUED

Subject Areas, Aspects, General Disclosures and Overview of Key Performance Indicators (KPIs)		Status	Section
Aspect B6: Product Responsibility			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters in relation to products and services provided and methods of redress.		Disclosed	5. Social Aspect
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Disclosed	5. Social Aspect
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Disclosed	5. Social Aspect
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Disclosed	5. Social Aspect
KPI B6.4	Description of quality assurance process and recall procedures.	Disclosed	5. Social Aspect
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Disclosed	5. Social Aspect
Aspect B7: Anti-corruption			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		Disclosed	5. Social Aspect
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Disclosed	5. Social Aspect
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Disclosed	5. Social Aspect
KPI B7.3	Description of the anti-corruption training provided to the directors and employees.	Disclosed	5. Social Aspect

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. HKEx ESG REPORTING GUIDE CONTENT INDEX – CONTINUED

Subject Areas, Aspects, General Disclosures and Overview of Key Performance Indicators (KPIs)		Status	Section
The Society			
Aspect B8: Community Investment			
General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		Disclosed	5. Social Aspect
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Disclosed	5. Social Aspect
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Disclosed	5. Social Aspect

DIRECTORS' REPORT

The Directors are pleased to present their annual report and the audited consolidated financial statements for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 39 to the consolidated financial statements.

SEGMENTAL INFORMATION

An analysis of the Group's revenue and results by principal activities for the year ended 31 December 2022 is set out in note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 86 to 87.

The board of Directors does not recommend the payment of any dividend for the year ended 31 December 2022.

BUSINESS REVIEW

The business review of the Group for the year is set out in the section headed "Management Discussion and Analysis" on pages 6 to 13 of this report.

Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 18 to 33.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS THAT HAVE A SIGNIFICANT IMPACT ON THE COMPANY

The Group recognises the importance of compliance with rules and regulations and the impact of non-compliance with such rules and regulations on the business. The Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators effectively through effective communications. During the year ended 31 December 2022, the Group has complied, to the best of its knowledge, with all relevant rules and regulations that have a significant impact on the Company.

The Company strives to achieve corporate sustainability through providing quality services for its customers and collaborating with its suppliers. To enhance customer satisfaction and promote a customer oriented culture within the Company, the Company adopted 'Customer First' as one of its core values. The Company values the feedback from customers and proactively collaborate with its suppliers and contractors to deliver quality sustainable products and services. The Company has developed certain requirements in its standard tender documents. These requirements include regulatory compliance, anti-corruption and other business ethics.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 172 of this report.

DIRECTORS' REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

The following list is a summary of certain principal risks and uncertainties facing the Group:

- changes in the PRC's economic conditions in general;
- changes in government regulations;
- the ability to generate sufficient liquidity internally and obtain external financing;
- the ability to recruit and train competent employees;
- the ability to adapt to new markets where we have no prior experience and in particular, whether we can adapt to the administrative, regulatory and tax environments in such markets; and
- the ability to improve the Group's administrative, technical, operational and financial infrastructure.

However, the above is not an exhaustive list. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the shares of the Company.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to operate its business in compliance with applicable environmental protection laws and regulations and has implemented relevant environmental protection measures in compliance with the required standards under applicable PRC laws and regulations.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognises that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners. The Company provides a fair and safe workplace, promotes diversity to its staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

The Group understands that it is important to maintain good relationship with customers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand so that the Group can respond proactively. The Group has also established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner.

The Group is also dedicated to developing good relationship with suppliers and contractors as long-term business partners to ensure stability of the Group's business. The Group reinforces business partnerships with suppliers and contractors by ongoing communication in a proactive and effective manner so as to ensure quality and timely delivery.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers was approximately 12% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 5% of the Group's total sales.

During the year, the aggregate purchases attributable to the Group's five largest suppliers was approximately 14% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 6% of the Group's total purchases. Each of the five largest customers or suppliers of the Group combined is less than 20%.

None of the directors, their close associates or any shareholders (which to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the share capital of the five largest customers or suppliers of the Group.

SHARE CAPITAL AND SHARE OPTION

Details of movements in the issued share capital of the Company during the year ended 31 December 2022 are set out in note 31 to the consolidated financial statements.

Details of movements in the Company's share options during the year ended 31 December 2022 are set out in note 32 to the consolidated financial statements.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2022.

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme in operation for the year ended 31 December 2022 are set out in note 3.15 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2022, there is no reserves available for distribution to shareholders of the Company. The reserves of the Company only comprises of contributed surplus amounted to HK$24.9 million which is insufficient to cover the accumulated losses of the Company of HK$764.0 million.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS' REPORT

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

Details of movements in property, plant and equipment and right-of-use assets of the Group during the year ended 31 December 2022 are set out in note 14 to the consolidated financial statements.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Kwok Ying Shing *(Chairman)* (appointed as the Chairman on 10 October 2022)
Mr. Luo Jun *(Co-Vice Chairman and Chief Executive Officer)*
Mr. Wu Tianyu *(Co-Vice Chairman)*
Mr. Zhang Huagang (ceased to be the Chairman on 10 October 2022)

Independent non-executive Directors

Dr. Liu Yanwen
Dr. Lyu Aiping
Ms. Li Zhiying (former named as Ms. Li Yonglan)

In accordance with the bye-law 87 of the bye-laws of the Company and in compliance with code provision B.2.2 of the CG Code, Mr. Kwok Ying Shing, Mr. Luo Jun, Dr. Liu Yanwen and Ms. Li Zhiying shall retire from office by rotation and being eligible, will offer themselves for re-election at the forthcoming annual general meeting ("AGM").

DIRECTORS' SERVICE CONTRACTS

Mr. Kwok Ying Shing, being an executive Director, the Chairman and entered into service contract with the Company for an initial term of three years commencing on 26 February 2019, which can be terminated by either party giving not less than three months' notice in writing. The service contract was automatically renewed if no notice is given for both Mr. Kwok and the Company.

Mr. Luo Jun, being an executive Director, the Co-Vice Chairman and the Chief Executive Director, entered into service contract with the Company for an initial term of three years commencing on 2 December 2016, which can be terminated by either party giving not less than three months' notice in writing. Mr. Luo has entered into a supplemental letter with the Company dated 26 February 2019 to amend and supplement the terms of the existing service contract. The service contract has been renewed for a term of three years on 2 December 2019 with additional clause for automatic renewal of this contract if no notice is given for both Mr. Luo and the Company.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS – continued

Mr. Wu Tianyu, being an executive Director and the Co-Vice Chairman, entered into service contract with the Company for an initial term of three years commencing on 21 May 2015, which can be terminated by either party giving not less than three months' notice in writing. The service contract was automatically renewed if no notice is given for both Mr. Wu and the Company. Mr. Wu has entered into a supplemental letter with the Company dated 26 February 2019 to amend and supplement the terms of the existing service contract.

Mr. Zhang Huagang, being an executive Director, entered into service contract with the Company for an initial term of three years commencing on 9 April 2020, which can be terminated by either party giving not less than three months's notice in writing. The service contract was automatically renewed if no notice is given for both Mr. Zhang Huagang and the Company.

Dr. Liu Yanwen, being an independent non-executive Director, entered into a letter of appointment with the Company for a term of two years commencing from 11 January 2017, which can be terminated by either party giving not less than one month advance notice in writing. The letter of appointment has been renewed for a term of two years commencing from 11 January 2019, 11 January 2021 and 11 January 2023 respectively.

Dr. Lyu Aiping, being an independent non-executive Director, entered into a letter of appointment with the Company respectively for a term of two years commencing from 5 March 2018, which can be terminated by either party giving not less than one month advance notice in writing. The letter of appointment has been renewed for a term of two years commencing from 5 March 2020 and 5 March 2022 respectively.

Ms. Li Zhiying (formerly named as Ms. Li Yonglan), being an independent non-executive Director, entered into a letter of appointment with the Company respectively for a term of two years commencing from 6 March 2021, which can be terminated by either party giving not less than one month advance notice in writing. The letter of appointment has been renewed for a term of two years commencing from 6 March 2023.

Save as disclosed above, none of the Directors has entered into a service contract and/or letter of appointment with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share options disclosures in note 32 to the consolidated financial statements, at no time during the year was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangement to enable the Directors or their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES OR SHORT POSITION IN SHARES AND UNDERLYING SHARES AND DEBENTURES

At 31 December 2022, the interests and short positions of the Directors and the chief executives in the shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code and the SFO, were as follows:

(a) Long position in the shares of the Company

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

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

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

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

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES OR SHORT POSITION IN SHARES AND UNDERLYING SHARES AND DEBENTURES – continued

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

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

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES OR SHORT POSITION IN SHARES AND UNDERLYING SHARES AND DEBENTURES – continued

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

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

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

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

Save as disclosed above, as at 31 December 2022, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Directors are of the view that none of the Directors has competed, or is likely to compete, either directly or indirectly, with the businesses of the Group, nor have they caused any harm to any interests owned by the Company during the year ended 31 December 2022.

INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2022, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued shares of the Company.

Name of shareholder	Long position/ short position	Nature of interests	Number of issued ordinary shares held	Approximate percentage of the issued ordinary share capital of the Company
Kaisa Group Holdings Ltd. (Note 1)	Long position	Beneficial owner	2,167,600,491	42.99%
Ying Hua Holdings Limited (Note 2)	Long position	Beneficial owner	308,000,000	6.11%
Mr. Kwok Ying Shing (Note 2)	Long position	Interest of controlled corporation	308,000,000	6.11%
Mr. Huang Xiao Gang (Note 3)	Long position	Beneficial owner	472,470,256	9.37%
Gao Lang Limited (Note 3)	Long position	Interest of controlled corporation	452,760,256	8.98%
ABG II-RYD Limited (Note 4)	Long position	Beneficial owner	270,300,000	5.36%
Ally Bridge Group Capital Partners II, L.P. (Note 4)	Long position	Interest of controlled corporation	270,300,000	5.36%
ABG Capital Partners II GP, L.P. (Note 4)	Long position	Interest of controlled corporation	270,300,000	5.36%
ABG Capital Partners II GP Limited (Note 4)	Long position	Interest of controlled corporation	270,300,000	5.36%
Mr. Yu Fan (Note 4)	Long position	Interest of controlled corporation	270,300,000	5.36%

DIRECTORS' REPORT

INTEREST AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY – continued

Note:

1. According to the information available to the Company, Kaisa Group is a company incorporated in Cayman Islands and is listed on the Main Board of the Stock Exchange (Stock Code: 1638).

2. According to the information available to the Company, Ying Hua Holdings Limited is a company incorporated in the BVI and is wholly owned by Mr. Kwok Ying Shing who is also an executive director and a substantial shareholder of Kaisa Group (note 1).

3. According to the information available to the Company, Gao Lang Limited is a company incorporated in the BVI and is wholly owned by Mr. Huang Xiao Gang.

4. According to the information available to the Company, ABG II-RYD Limited is wholly owned by Ally Bridge Group Capital Partners II, L.P.. Ally Bridge Group Capital Partners II, L.P.'s general partner is ABG Capital Partners II GP, L.P. and Ally Bridge Group Capital Partners II, L.P. is also 0.54% owned by ABG Capital Partners II GP, L.P.. ABG Capital Partners II GP, L.P. is 50% owned by Mr. Yu Fan and 50% owned by ABG Capital Partners II GP Limited which is wholly owned by Mr. Yu Fan.

Save as disclosed above, as at 31 December 2022, the Directors and chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had any other interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

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

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

1. Eligible participants of the Scheme include any full-time or part-time employees, consultants or potential employees, consultants, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company or any of its subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, will contribute or has contributed to the Company and/or any of its subsidiaries.

DIRECTORS' REPORT

SHARE OPTION SCHEME – continued

2. The maximum number of Shares in respect of which options under this Scheme or options under the other schemes may be granted must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the Scheme i.e. 382,620,703 shares, representing 10% of the total issued share capital of the Company as at the date of adoption of the scheme, and 7.59% of the total issued share capital of the Company as at the date of this report and such limit may be increased from time to time to 10% of the shares in issue as at the date of such shareholder's approval.

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

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

4. Any grant of share options to any connected person, such grant shall be subject to the approval by all the independent non-executive Directors of the Company (and in the event that the Board offers to grant Options to an independent non-executive Director of the Company, the vote of such independent non-executive Director shall not be counted for the purposes of approving such grant).

5. Any grant of share options to a substantial shareholder or an independent non-executive Director of the Company, or any of their associates, which would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person within the 12-month period up to the date of grant of options representing in aggregate in excess of 0.1% of the Shares in issue and having an aggregate value (based on closing price of the Company's Shares at the date of the grant) in excess of HK$5 million, is subject to prior approval by shareholders in a general meeting.

6. The offer for the grant of options (the "Offer") must be taken up within 14 days from the date of Offer, with a payment of HK$1.00 as consideration by the grantee.

7. The exercise price of the share option will be determined at the highest of (i) the average closing prices of Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the Offer; (ii) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the Offer; and (iii) the nominal value of the Shares. The rules of the Scheme provide that the Board may specify any minimum period for which an option must be held before it can be exercised, as well as the vesting period and the period within which the option may be exercised by the grantee under the Scheme.

8. The period within which the Shares must be taken up under the option, which must not be more than 10 years from the date of grant of the option.

9. The Scheme will, unless otherwise cancelled or amended, remain in force for 10 years commencing on the date of approval of the Scheme, being 8 June 2015, and ending on 7 June 2025 (both dates inclusive).

DIRECTORS' REPORT

SHARE OPTION SCHEME – continued

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

1. the total number of Shares in respect of which options may be granted under the Scheme shall not exceed 10% of the total number of Shares in issue as at the date of passing this resolution (the "Refreshed Limit") i.e. 5,042,139,374 Shares;

2. options previously granted under the Scheme (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Scheme) will not be counted for the purpose of calculating the Refreshed Limit;

3. the Directors be and are hereby unconditionally authorised to offer or grant options pursuant to the Scheme to subscribe for Shares up to the Refreshed Limit and to exercise all the powers of the Company to allot, issue and deal with the Shares upon the exercise of such options; and

4. such increase in the Refreshed Limit shall in no event result in the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company exceed 30% of the Shares in issue from time to time.

Total Number of Shares Available for Issue under the Scheme

Under the Scheme, and as refreshed by the Refreshed Limit, the maximum total number of options available for grant under the Scheme mandate at the beginning of the financial year 2022 is 504,213,937, representing approximately 10% of the issued Share capital of the Company, and at the end of the financial year 2022 is 504,213,937, representing approximately 10% of the issued Share capital of the Company.

DIRECTORS' REPORT

SHARE OPTION SCHEME – continued

Movement of share options during the year ended 31 December 2022 is as follows:

Name	Balance as at 1 January 2022	Granted during the year	Exercised during the year	Cancelled/ Forfeited/ Lapsed during the year	Balance as at 31 December 2022	Exercisable price	Approximate percentage of the issued share capital of the Company
Directors							
Mr. Zhang Huagang (note 1)	50,000,000	–	–	–	50,000,000	HK$0.196	0.99%
Mr. Luo Jun (note 1)	40,000,000	–	–	–	40,000,000	HK$0.196	0.79%
Mr. Wu Tianyu	38,000,000 (note 2, 3)	–	–	(38,000,000)	–	HK$0.40	Nil
	20,000,000 (note 1, 2)	–	–	–	20,000,000	HK$0.196	0.40%
	58,000,000	–	–	(38,000,000)	20,000,000		
Ms. Jiang Sisi	38,000,000 (note 2, 3)	–	–	(38,000,000)	–	HK$0.40	Nil
	10,000,000 (note 1, 2)	–	–	–	10,000,000	HK$0.196	0.20%
	48,000,000	–	–	(38,000,000)	10,000,000		
Dr. Liu Yanwen (note 1)	6,000,000	–	–	–	6,000,000	HK$0.196	0.12%
Dr. Lyu Aiping (note 1)	6,000,000	–	–	–	6,000,000	HK$0.196	0.12%
Employee participant and service providers							
Employee and consultants	8,200,000 (note 3)	–	–	(8,200,000)	–	HK$0.40	Nil
	10,000,000 (note 1)	–	–	–	10,000,000	HK$0.196	0.20%
	18,200,000	–	–	(8,200,000)	10,000,000		
	226,200,000	–	–	(84,200,000)	142,000,000		

DIRECTORS' REPORT

SHARE OPTION SCHEME – continued

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

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

Note 3: These share options were granted on 12 September 2016. 30% of the granted share options would vest on 12 September 2017 and be exercisable from 12 September 2017 to 11 September 2022. Another 25% of the granted share options would vest on 12 September 2018 and be exercisable from 12 September 2018 to 11 September 2022. A further 20% of the granted share options would vest on 12 September 2019 and be exercisable from 12 September 2019 to 11 September 2022. A further 15% of the granted share options would vest on 12 September 2020 and be exercisable from 12 September 2020 to 11 September 2022. The remaining 10% of the granted share options would vest on 12 September 2021 and be exercisable from 12 September 2021 to 11 September 2022. All share options were lapsed on 12 September 2022.

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

(i) participants with options granted that is in excess of the 1% individual limit;

(ii) options granted and to be granted to any related entity participant or service provider in any 12-month period exceeding 0.1% of the relevant class of shares in issue; and

saved for the Share Option Scheme, neither the Company nor its subsidiaries had any other share option schemes during the year ended 31 December 2022.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

The Group had entered into the following transactions with connected parties, as defined under the Listing Rules, during the year ended 31 December 2022 and up to the date of this report:

(i) During the year ended 31 December 2022, the Group had rented a property from Kaisa Group Holdings Ltd. ("Kaisa Group") amounted to approximately HK$144,000. Kaisa Group is a substantial shareholder of the Company and therefore is a connected person of the Company under Chapter 14A of the Listing Rules and the lease constituted exempted connected transactions of the Company under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed the above connected transactions and have confirmed that the connected transactions have been entered into:

1. in the ordinary and usual course of business of the Group;

2. on normal commercial terms or better; and

3. in accordance with the relevant agreement governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Please refer to the section titled "Related Party Transactions" under note 40 to the Notes to the Consolidated Financial Statements on page 171.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

DIRECTOR'S INTERESTS IN CONTRACTS

Save for the transactions disclosed in the section headed "Connected Transactions" in the Directors' report, no other transaction, arrangement or contract of significance, to which the Company, its holding company or subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the year.

USE OF PROCEEDS FROM RIGHTS ISSUE

On 28 July 2017, in order to equip the Group with more financial resources, the Company proposed to implement the rights issue (the "Rights Issue") on the basis of one (1) new ordinary shares to be issued and allotted under the Rights Issue (the "Rights Share") for every three (3) ordinary shares held on the record date at the subscription price of HK$0.40 per Rights Share. The Rights Issue has been completed on 13 November 2017. Kaisa Group has subscribed for the 1,273,050,748 Rights Shares. The remaining 2,351,595 RIghts Shares were acquired by other shareholders. The closing price of securities at the date of completion was HK$0.375. The Group raised proceeds of approximately HK$510.16 million before expenses and the net proceeds of the Rights Issue was HK$507.16 million, which are intended to be applied towards (i) funding potential acquisition in an overseas dental technology company (the "Proposed Acquisition of the Target Company"); (ii) the acquisition of land to construct a manufacturing plant for the Dental Prosthetics Business in the PRC (the "Proposed Acquisition of Land"); and (iii) general working capital requirements of the Group.

DIRECTORS' REPORT

USE OF PROCEEDS FROM RIGHTS ISSUE – continued

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

On 4 May 2018, due to the escalation of the tense trade relationships among various countries, the Board considered to be more prudent for the Company to take a more cautious approach for the expansion of the Group's production capacity. It is currently expected that the Group shall enhance its business diversification and risk resistance capacity in order to better cope with the uncertainty of international market. Therefore, the Board decided to re-allocate the sum of approximately HK$246 million allocated for the purpose of the Acquisition of Land to the investment opportunities within the health care industry in the PRC. On 3 August 2018, the Group has entered the transaction with a subsidiary of Kaisa Group, the controlling shareholder of the Company, for the acquisition of the target companies engaged in the provision of public health and medical services. For details, please refer to the announcements of the Company dated 4 May 2018, 24 May 2018, 3 August 2018, 14 December 2018 and 24 May 2019 and the Circular of the Company dated 28 November 2018.

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

As of the date of this report, (i) approximately HK$246 million has been used for investments within the health care industry in the PRC, (ii) approximately HK$164.16 million has been used for seeking suitable investment opportunities, and (iii) approximately HK$91.95 million has been used for the continuous development of dental business. Approximately HK$5.05 million of the actual proceeds from the Rights Issue remained unutilised and will be applied in accordance with the intended usage for continuous development of dental business.

PERMITTED INDEMNITY PROVISIONS

The bye-laws of the Company provides that the Directors and officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur or sustain by reason of any act done, concurred or omitted in the execution of their duty in their respective offices, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty. During the financial year, the permitted indemnity provisions is in force for the benefit of one or more directors of the Company. The bye-laws of the Company also stipulates that each shareholder agrees to waive any claim or right of action he might have against any Director on account of any action taken by such Director or the failure of such Director to take any action in the performance of his duties for the Company, provided that such waiver shall not extend to any matter in respect of any fraud or dishonesty. Directors liability insurance is in place to protect the Directors and officers of the Company and its subsidiaries against potential costs and liabilities arising from claims brought against the Directors and officers.

DIRECTORS' REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION

The Company has received, from each independent non-executive Director an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors are considered by the Remuneration Committee and recommended to the Board's approval, having regard to the Company's operating results, individual performance and comparable market statistics.

For details of remuneration payable to Directors or members of senior management by band, please refer to note 10 "Five Highest Paid Employees" of the notes to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

DIVIDEND POLICY

Declaration of dividend depend on the annual performance of the Group and will be assessed by the Board semi-annually.

The amount of any dividends that the Company may declare and pay in the future will be subject to the discretion of the Board and will be based upon the Group's overall results of operation, financial condition, working capital requirements, capital expenditure requirements, liquidity position, future expansion plans, amount of retained earnings, distributable reserves and any other conditions that the Directors consider relevant. Any declaration and payment of dividends may also be limited by restrictions under the laws of Bermuda, the Company's constitutional documents, the Listing Rules and any other applicable laws and regulations. The amounts of dividend distributions that the Group has declared and made in the past, if any, are not indicative of the dividends that the Company may pay in the future.

The Directors may recommend a payment of dividends after taking into account the general economic conditions, business cycle of the Group's business and any other internal and external factors that may affect the business and financial performance and position of the Group. Any future declaration of dividends may or may not reflect the historical declarations of dividends and will be at the absolute discretion of the Directors.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2022 and as at the date of this report.

DIRECTORS' REPORT

TAX RELIEF

The Company is not aware of any relief from taxation available to the shareholders of the Company by reason of their holding of the Shares. Intending holders and investors of the Company's Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications (including tax relief) of subscribing for, purchasing, holding, disposing of or dealing in the Shares. It is emphasized that none of the Company or its directors or officers will accept any responsibility for any tax effect on, or liabilities of, holders of Shares in the Company resulting from their subscription for, purchase, holding, disposal of or dealing in such Shares.

AUDIT COMMITTEE

The Company has established the Audit Committee for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. It also reviews the effectiveness of the audit process and risk evaluation.

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

The Audit Committee met with the management on 28 March 2023 to review the accounting standards and practices adopted by the Group and to discuss matters regarding internal control and financial reporting including the review of the Group's audited annual results for the year ended 31 December 2022, before proposing them to the Board for approval.

CHANGE OF AUDITORS

Grant Thornton Hong Kong Limited has resigned as auditors of the Company with effect from 11 July 2022. The Board has appointed Elite Partners CPA Limited as the auditors of the Company to fill the casual vacancy following the resignation of Grant Thornton Hong Kong Limited.

Elite Partners CPA Limited is the auditors of Kaisa Group, the controlling shareholder of the Company. The proposed change of auditors will enable the Company to align the audit arrangements between the Company and Kaisa Group and thus enhancing the efficiency of the audit services and saving cost and is considered by the Board to be in the best interest of the Company as well as its shareholders as a whole.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2022 were audited by Elite Partners CPA Limited. A resolution will be proposed at the forthcoming annual general meeting to re-appoint Elite Partners CPA Limited as the auditor of the Company.

On behalf of the Board

Luo Jun
Chief Executive Officer
Hong Kong, 28 March 2023

INDEPENDENT AUDITOR'S REPORT

To the members of Kaisa Health Group Holdings Limited
佳兆業健康集團控股有限公司
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Kaisa Health Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 86 to 171, which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS – continued

Key Audit Matter	**How the matter was addressed in our audit**
Expected credit loss allowances for trade and other receivables	
We identified the valuation of trade and other receivables as a key audit matter due to the use of judgment and estimation by management in assessing the recoverability of trade receivables. Expected credit loss ("ECL") allowances for trade receivables are based on management's estimate of the lifetime ECL to be incurred, which is estimated based on comparable probability of default and recovery rate quoted from international credit-rating agencies; and adjusted for forward-looking information, all of which involve a significant degree of management's estimates and judgment. As at 31 December 2022, the carrying amount of trade and other receivables is approximately HK$126,919,000.	Our audit procedures in relation to the valuation of trade and other receivables included: • Obtaining an understanding of how the ECL allowances for trade and other receivables is estimated by the management in relation to the preparation of the aging analysis of trade and other receivables and the credit risk assessment; • Testing the aging analysis of trade and other receivables, on a sample basis, to the source documents including goods delivery notes and sales invoices; • Reviewing the aging analysis of trade and other receivables throughout the year to understand the settlement patterns by the customers; • Evaluating the independent external valuer's competence, capabilities and objectivity; • Discussing with the independent external valuer and obtaining the independent ECL valuation report to reassess the ECL allowances for trade and other receivables; • Evaluating the appropriateness of the valuation model and key inputs used in determining ECL allowances for trade and other receivables, and check the mathematical accuracy of the valuation model; and • Assessing the reasonableness of management's ECL allowances estimates by examining the information used by the independent external valuer to form such judgment, including checking the loss rates of the debtors to independent source, comparing historical default rates and evaluating whether the loss rates are appropriately adjusted for forward-looking information.

INDEPENDENT AUDITOR'S REPORT

OTHER MATTER

The consolidated financial statements of the Company for the year ended 31 December 2021, were audited by another auditor who expressed an unmodified opinion or those statements on 20 April 2022.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGE WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charge with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – continued

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be through to bear on our independence and, where applicable, actions taken to eliminate or safeguards applied.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – continued

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Yip Kai Yin with Practising Certificate number P07854.

Elite Partners CPA Limited
Certified Public Accountants

10/F., 8 Observatory Road,
Tsim Sha Tsui, Kowloon,
Hong Kong, 28 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Revenue	5	**191,499**	209,626
Cost of sales		**(108,934)**	(112,211)
Gross profit		**82,565**	97,415
Other income, gains and losses	6	**8,958**	12,859
Selling and distribution costs		**(46,098)**	(49,143)
Administrative expenses		**(86,445)**	(108,159)
(Loss)/Gain from change in fair value of financial assets at fair value through profit or loss	18	**(12,070)**	57,146
Loss from change in fair value of financial liabilities at fair value through profit or loss	27(a)	**(17,076)**	(1,688)
Gain from change in fair value of convertible promissory note		**–**	2,275
Impairment loss on trade receivables, net	21	**(872)**	(822)
Impairment loss on other receivable	21	**(3,959)**	–
Impairment loss on property, plant and equipment	14	**(26,501)**	–
Impairment loss on right-of-use assets	14	**(9,232)**	–
Impairment loss on properties under development	19	**(37,628)**	–
Reversal of impairment loss on amount due from a director	23	**1,100**	217
Reversal of impairment loss on loan receivable	22	**1,455**	26,503
Other expenses		**(17,428)**	(17,217)
Finance costs	7	**(7,732)**	(8,183)
(Loss)/Profit before income tax	8	**(170,963)**	11,203
Income tax expense	11	**(1,169)**	(23,526)
Loss for the year		**(172,132)**	(12,323)
Other comprehensive income, including reclassification adjustments			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(42,350)**	5,084
Total comprehensive expense for the year		**(214,482)**	(7,239)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
(Loss)/Profit for the year attributable to:			
– Owners of the Company		**(123,318)**	2,359
– Non-controlling interests		**(48,814)**	(14,682)
		(172,132)	(12,323)
Total comprehensive (expense)/income for the year attributable to:			
– Owners of the Company		**(168,332)**	9,060
– Non-controlling interests		**(46,150)**	(16,299)
		(214,482)	(7,239)
		HK cents	HK cents
(Loss)/Earnings per share			
– Basic	13	**(2.45)**	0.05
– Diluted		**(2.45)**	0.05

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Non-current assets			
Property, plant and equipment	14	19,464	58,760
Right-of-use assets	14	20,362	30,598
Land use rights	15	3,745	4,175
Intangible assets	16	4,579	5,132
Goodwill	17	20,217	20,217
Loan receivable	22	–	21,240
Prepayments and deposits	21	22,562	24,495
Financial assets at fair value through profit or loss	18	200,280	230,098
Financial assets at fair value through other comprehensive income		–	245
Deferred tax assets	30	264	539
		291,473	395,499
Current assets			
Properties under development	19	124,571	144,669
Inventories	20	18,790	16,190
Trade and other receivables	21	126,919	135,893
Loan receivable	22	21,968	–
Amount due from a director	23	9,787	19,293
Amounts due from fellow subsidiaries	24	640	525
Bank balances and cash	25	173,450	259,264
		476,125	575,834
Current liabilities			
Trade and other payables	26	123,995	127,873
Other financial liabilities	27	100,753	89,078
Lease liabilities	28	7,013	6,753
Amount due to a related party	29	723	785
Amounts due to fellow subsidiaries	24	2,034	1,443
Amount due to a non-controlling shareholder of a subsidiary	24	15,318	12,245
Taxation payable		21,172	23,814
		271,008	261,991
Net current assets		205,117	313,843
Total assets less current liabilities		496,590	709,342
Non-current liabilities			
Lease liabilities	28	24,859	25,528
Deferred tax liabilities	30	825	970
		25,684	26,498
Net assets		470,906	682,844

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Equity			
Share capital	31	**6,303**	6,303
Reserves		**479,026**	644,814
Equity attributable to owners of the Company		**485,329**	651,117
Non-controlling interests		**(14,423)**	31,727
Total equity		**470,906**	682,844

The consolidated financial statements on pages 86 to 171 were approved and authorised for issue by the Board of Directors on 28 March 2023 and are signed on behalf of the Board by:

Zhang Huagang	**Luo Jun**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium* HK$'000	Special reserve* HK$'000 (note)	Translation reserve* HK$'000	Share option reserve* HK$'000	Accumulated losses* HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
As at 1 January 2021	6,303	984,639	1,545	13,948	22,770	(392,689)	636,516	10,985	647,501
Profit/(Loss) for the year	–	–	–	–	–	2,359	2,359	(14,682)	(12,323)
Exchange differences arising on translation of foreign operations	–	–	–	6,701	–	–	6,701	(1,617)	5,084
Total comprehensive income/(expense) for the year	–	–	–	6,701	–	2,359	9,060	(16,299)	(7,239)
Recognition of equity-settled share-based payment (note 32)	–	–	–	–	5,541	–	5,541	–	5,541
Release of share option reserve upon share options forfeited/lapsed	–	–	–	–	(2,897)	2,897	–	–	–
Capital contributions from non-controlling interests	–	–	–	–	–	–	–	37,041	37,041
As at 31 December 2021 and as at 1 January 2022	6,303	984,639	1,545	20,649	25,414	(387,433)	651,117	31,727	682,844
Loss for the year	–	–	–	–	–	(123,318)	(123,318)	(48,814)	(172,132)
Exchange differences arising on translation of foreign operations	–	–	–	(45,014)	–	–	(45,014)	2,664	(42,350)
Total comprehensive expense for the year	–	–	–	(45,014)	–	(123,318)	(168,332)	(46,150)	(214,482)
Recognition of equity-settled share-based payment (note 32)	–	–	–	–	2,544	–	2,544	–	2,544
Release of share option reserve upon share options forfeited/lapsed	–	–	–	–	(17,203)	17,203	–	–	–
As at 31 December 2022	6,303	984,639	1,545	(24,365)	10,755	(493,548)	485,329	(14,423)	470,906

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

* The reserves accounts comprise the Group's reserve of HK$489,888,000 (2021: HK$644,814,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022 HK$'000	2021 HK$'000
Cash flows from operating activities		
(Loss)/Profit before income tax	**(170,963)**	11,203
Adjustments for:		
Amortisation of intangible assets	**1,047**	731
Amortisation of land use rights	**104**	1,200
Depreciation of property, plant and equipment	**22,061**	16,046
Depreciation of right-of-use assets	**8,100**	9,413
COVID-19-related rent concessions	**–**	(193)
Loss on disposal of property, plant and equipment	**5**	1,178
Gain on disposal of financial assets at fair value through profit or loss	**–**	(12,620)
Loss on disposal of convertible promissory note	**–**	5,331
Loss on deregistration of a subsidiary	**–**	1,031
Interest income on bank deposits	**(224)**	(558)
Interest income on convertible promissory note	**–**	(253)
Interest income on loan receivable	**(744)**	(508)
Dividend income	**(1,136)**	–
Gain on short-term investments	**–**	(1,581)
(Reversal of impairment loss)/Impairment loss on amount due from a director	**(1,100)**	(217)
(Reversal of impairment loss)/Impairment loss on loan receivable	**(1,455)**	(26,503)
Impairment loss on trade receivables, net	**872**	822
Impairment loss on other receivable	**3,959**	–
Impairment loss on property, plant and equipment	**26,501**	–
Impairment loss on right of use assets	**9,232**	–
Impairment loss on properties under development	**37,628**	–
Loss/(gain) from change in fair value of financial assets at fair value through profit or loss	**12,070**	(57,146)
Loss from change in fair value of financial liabilities at fair value through profit or loss	**17,076**	1,688
Gain from change in fair value of convertible promissory note	**–**	(2,275)
Interest expenses	**7,732**	8,183
Share-based payment expenses	**2,544**	5,541
Operating cash flows before movements in working capital	**(26,691)**	(39,487)
Increase in inventories	**(3,415)**	(1,844)
Increase in trade and other receivables	**(6,779)**	(36,531)
Increase in properties under development	**(21,956)**	(76,894)
Increase in trade and other payables	**5,982**	29,322
Net cash used in operations	**(52,859)**	(125,434)
PRC Enterprise Income Tax (paid)/refunded	**(3,681)**	2,624
Net cash used in operating activities	**(56,540)**	(122,810)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022 HK$'000	2021 HK$'000
Cash flows from investing activities		
Income from short-term investments	–	1,581
Proceeds from disposal of property, plant and equipment	646	1,284
Proceeds from disposal of financial assets at fair value through profit or loss	–	337,962
Proceeds from disposal of equity interest in an associate	–	2,400
Purchase of financial assets at fair value through profit or loss	–	(220,410)
Purchase of property, plant and equipment	(13,381)	(13,786)
Purchase of intangible assets	(622)	(1,302)
Purchase of financial assets at fair value through other comprehensive income	–	(241)
Proceed from disposal of financial assets at fair value through other comprehensive income	233	–
Capital contribution to an associate	–	(2,400)
Deposits paid for acquisition of land use rights	–	(24,495)
Acquisition of a subsidiary, net of cash acquired	–	(7,195)
Repayment from loan receivable	–	22,727
Repayment from a director	10,398	2,143
Proceeds from disposal of convertible promissory note	–	29,929
Interest received	224	811
Dividend received	1,136	–
Advances to fellow subsidiaries	582	(308)
Repayment from a non-controlling shareholder of subsidiaries	4,163	467
Net cash generated from investing activities	3,379	129,167
Cash flows from financing activities		
Proceeds from other financial liabilities	–	80,328
Advances from fellow subsidiaries	–	821
Repayment to fellow subsidiaries	–	(66)
Payment of lease liabilities	(7,077)	(9,846)
Capital injection by non-controlling interests	–	13,314
Interest paid	(12,349)	(1,143)
Net cash (used in)/generated from financing activities	(19,426)	83,408
Net (decrease)/increase in cash and cash equivalents	(72,587)	89,765
Cash and cash equivalents at 1 January	259,264	176,600
Effect of foreign exchange rate changes	(13,227)	(7,101)
Cash and cash equivalents at 31 December, representing bank balances and cash	173,450	259,264

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and its principal place of business is 30/F, The Center, 99 Queen's Road Central, Central, Hong Kong. The ultimate holding company of the Company is Kaisa Group Holdings Ltd., which was incorporated in the Cayman Islands and its shares are listed on the Stock Exchange.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 39.

2. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amended HKFRSs that are effective for annual periods beginning on 1 January 2022

In the current year, the Group has applied for the first time the following amended HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2022:

Amendment to HKFRS 16	Reference to the Conceptual Framework
Amendment to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendment to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendment to HKFRSs	Annual Improvements to HKFRSs 2018-2020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. ADOPTION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

Issued but not yet effective HKFRSs

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 17	Insurance Contracts and related amendments[1]
Amendments to HKFRS 16	Lease liabilities in a sale and Leaseback[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023

2 Effective for annual periods beginning on or after a date to be determined

3 Effective for annual periods beginning on or after 1 January 2024

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. The new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the applicable disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost except for certain financial instruments that are measured at fair value. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.2 Changes in the Group's ownership interests in existing subsidiaries

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss on disposal is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 "Financial Instruments" or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs for investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the end of the reporting period. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.3 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities and contingent liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see note 3.17);

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments as if the acquired leases were new leases at the acquisition date. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.3 Business combinations – continued

Where the consideration the Group transferred in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date. The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as a financial liability is remeasured at subsequent reporting dates at fair value with corresponding gain or loss being recognised in profit or loss.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

3.4 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see note 3.3) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or groups of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount (being the higher of fair value less costs of disposal and value in use) of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or groups of cash-generating units).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.4 Goodwill – continued

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

3.5 Revenue recognition

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

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligations are satisfied

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Further details of the Group's revenue and other income recognition policies are as follows:

Revenue from the sale of goods is recognised when or as the Group transfers control of the goods to the customer.

Service and consultancy income is recognised when services are provided.

Dividend income is recognised when the right to receive payment is established.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.6 Property, plant and equipment

Property, plant and equipment (other than construction in progress as described below and cost of right-of-use assets as described in note 3.19) are initially recognised at acquisition cost and/or manufacturing cost (including any cost directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Group's management). They are subsequently stated at cost less accumulated depreciation and impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their estimated useful lives, using the straight line method, at the following rates per annum:

Furniture, fixtures and equipment	20%
Moulds, plant and machinery	20%
Motor vehicles	20%
Leasehold improvements	Over the remaining unexpired terms of the leases or 5 years, whichever is shorter

Accounting policy for depreciation of right-of-use assets is set out in note 3.19.

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.7 Land use rights

Land use rights (which meet the definition of right-of-use assets) represent the upfront payment for long-term land lease in which the payment can be reliably measured. It is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight line basis over the term of the lease/right-of-use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

3.8 Intangible assets (other than goodwill) and research and development activities

Intangible assets (other than goodwill)

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any impairment losses. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see note 3.9).

Amortisation of intangible assets with finite useful lives is provided using the straight line method, at the following rates per annum:

Trademarks and patents	Over the useful life of 8.7 to 10 years
Computer softwares	Over the useful life of 3 years

Trademarks are considered to have indefinite useful life as such are renewable for every 10 years at minimal costs.

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.8 Intangible assets (other than goodwill) and research and development activities – continued

Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.9 Impairment on property, plant and equipment, right-of-use assets, land use rights, investments in subsidiaries and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, land use rights, investments in subsidiaries and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, right-of-use assets, land use rights, investments in subsidiaries and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.10 Borrowing costs

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

3.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.12 Derivate financial instruments and contingent consideration

Derivate financial instruments and contingent consideration are recognised at fair value at the end of each reporting period with gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for hedged accounting under HKFRS 9.

3.13 Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 3.5). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

3.14 Retirement benefit costs

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the reporting date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.14 Retirement benefit costs – continued

(ii) Retirement benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated at a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. No forfeited contribution under the defined contribution retirement benefit plans is available to reduce the contribution payable in future years. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong, which is a defined contribution retirement scheme. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds. No forfeited contribution under the defined contribution retirement benefit plans is available to reduce the contribution payable in future years. The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.15 Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

3.16 Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the share options is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting condition. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Share options granted to consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in share option reserve, when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.17 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit/loss before income tax' as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.17 Taxation – continued

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable income of the periods in which the temporary differences are expected to reverse.

The determination of the average tax rates requires an estimation of (i) when the existing temporary differences will reverse and (ii) the amount of future taxable profit in those years. The estimate of future taxable profits includes:

– income or loss excluding reversals of temporary differences; and
– reversals of existing temporary differences.

3.18 Leases

Definition of a lease and the Group as a lessee

At inception of a contract, the Group considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

– the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;

– the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

– the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.18 Leases – continued

Definition of a lease and the Group as a lessee – continued

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use assets for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments.

The Group remeasures lease liabilities whenever:

– there are changes in lease term or in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

– the lease payments changes due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.18 Leases – continued

Definition of a lease and the Group as a lessee – continued

Measurement and recognition of leases as a lessee – continued

For lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification. The only exception is any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 "Leases". In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less.

On the consolidated statement of financial position, right-of-use assets are presented separately under non-current assets. The prepaid lease payments for leasehold land are presented as "Land use rights" under non-current assets.

Refundable rental deposits paid are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3.19 Foreign currencies

The consolidated financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date).

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.19 Foreign currencies – continued

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

3.20 Financial instruments

(i) Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

(ii) Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component are measured at the transaction price in accordance with HKFRS 15 "Revenue from Contracts with Customers", all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Non-equity financial assets held by the Group are classified into one of the following measurement categories:

- amortised cost, if the financial asset is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the financial asset is calculated using the effective interest method;

- Fair value through other comprehensive income ("FVOCI") – recycling, if the contractual cash flows of the financial asset comprise solely payments of principal and interest and the financial asset is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the financial asset is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

- FVTPL, if the financial asset does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the financial asset (including interest) are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.20 Financial instruments – continued

(ii) Classification and initial measurement of financial assets – continued

Investment in equity securities are classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment, the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) in the equity until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to accumulated losses. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVOCI (non-recycling), are recognised in profit or loss.

Trade receivables are recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. They are stated at amortised cost using the effective interest method less allowance for impairment losses.

Other receivables, loan receivable, amount due from a director, amounts due from fellow subsidiaries, amounts due from a non-controlling shareholder of subsidiaries and bank balances and cash of the Group are stated at amortised cost.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs and other income, except for expected credit losses ("ECL") of financial assets which is presented as a separate item in profit or loss.

The Group currently classifies its investment in limited partnership interest (2021: investment in limited parthership interest) as financial assets at FVTPL based on the business model and contractual cash flows characteristics.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.20 Financial instruments – continued

(iii) Subsequent measurement of financial assets

Financial assets at amortised cost

After initial recognition, these financial assets are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in "Other income, gains and losses" in profit or loss. Discounting is omitted where the effect of discounting is immaterial.

Financial assets at FVTPL

Financial assets at FVTPL are subsequently carried at fair value. Unrealised and realised gains and losses arising from changes in the fair value of such financial assets are recognised in profit or loss in the period in which they arise.

Equity investments

An investment in equity securities is classified as FVTPL. Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Other income, gains and losses" in profit or loss.

(iv) Impairment of financial assets

HKFRS 9's impairment requirements use forward-looking information to recognise ECL – the "ECL model". Instruments within the scope included financial assets carried at amortised cost.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

ECL is measured on either of the following bases:

– 12-month ECL: these are losses which are expected to result from possible default events within the 12 months after the reporting date; and

– Life-time ECL: these are losses which are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.20 Financial instruments – continued

(iv) Impairment of financial assets – continued

In applying this forward-looking approach, a distinction is made between:

– financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1"); and

– financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade receivables

The Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment. To measure the ECL, trade receivables have been grouped based on share credit risk characteristics and the days past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.20 Financial instruments – continued

(iv) Impairment of financial assets – continued

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood of risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the end of each reporting period with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

– existing or forecast adverse changes in regulatory, business, financial, economic conditions, or technological environment that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations; and

– an actual or expected significant deterioration in the operating results of the debtor.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.20 Financial instruments – continued

(iv) Impairment of financial assets – continued

Other financial assets measured at amortised cost – continued

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

(v) Classification and measurement of financial liabilities

The Group's financial liabilities include trade and other payables, deferred contingent consideration, lease liabilities, amount due to a related party, amounts due to fellow subsidiaries, amount due to a non-controlling shareholder of a subsidiary and other financial liabilities.

Financial liabilities (other than lease liabilities) are initially measured at fair value, and where applicable, adjusted for transaction costs unless the Group designated a financial liability at FVTPL.

Subsequently, financial liabilities (other than lease liabilities) are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included on the face of the consolidated statement of profit or loss and other comprehensive income and "Finance costs".

Accounting policies of lease liabilities are set out in note 3.18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.20 Financial instruments – continued

(v) Classification and measurement of financial liabilities – continued

Trade and other payables, amount due to a related party, amounts due to fellow subsidiaries, amount due to a non-controlling shareholder of a subsidiary

These are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Other financial liabilities

They are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

They are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Derivative financial instruments and contingent consideration

Details of accounting policy of derivate financial instruments and contingent consideration are set out in note 3.12.

3.21 Share capital

Ordinary shares are classified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.22 Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and if that person:

- (i) has control or joint control over of the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) the party is an entity and if any of the following conditions applies:

- (i) the entity and the Group are members of the same group.
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) the entity and the Group are joint ventures of the same third party.
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) the entity is controlled or jointly controlled by a person identified in (a).
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.23 Segment reporting

The Group identifies operating segments and prepares segment information based on regular internal financial information reported to the chief operating decision maker ("CODM"), being directors of the Company.

The Group has identified the following reportable segments:

– Dental business – manufacturing of and trading in dental prosthetics and implant instruments

– Health care – rehabilitation business – provision of public health and medical services

– Health care – health leisure business – provision of agricultural (cultural) tourism and construction of health care real estate projects

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

Segment assets include all assets other than certain prepayments, short-term bank deposits, bank balances and cash held by the respective head offices, loan receivable/convertible bonds receivable, convertible promissory note, unlisted managed fund, deferred taxation and taxation recoverable.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include deferred taxation and taxation payable.

3.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate.

Government grants relating to income is presented in gross under "Other income, gains and losses" in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3.25 Properties under development

Except for the leasehold land element which is measured at cost model in accordance with the accounting policies of right-of-use assets in note 3.18, properties under development are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised less applicable variable selling expenses and anticipated cost to completion.

Development cost of properties comprises mainly construction costs, land use rights in relation to properties under development for subsequent sale, borrowing costs on qualifying assets and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets unless those will not be realised in the normal operating cycle.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Key sources of estimation uncertainty

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated fair value of financial instruments not traded in an active market

As at 31 December 2022, financial instruments that are not traded in an active market including the investment in limited partnership interest, carried at fair value of HK$200,280,000 (2021: HK$230,098,000) (note 18) and the put option liability carried at fair value of HK$39,936,000 (2021: HK$25,350,000) (note 27(a)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Key sources of estimation uncertainty – continued

Estimated fair value of financial instruments not traded in an active market – continued

The fair values are determined by using valuation techniques, details of which are set out in the respective notes. This involves developing estimates and assumptions in consistent with how market participants would price the instrument. The Group bases its assumptions on observable data as far as possible but this is not always available. In that case, the Group uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Estimated impairment of trade receivables and other financial assets

The Group makes allowances on items subjects to ECL (including trade and other receivables, loan receivable/convertible bonds receivable, amount due from a director, amounts due from fellow subsidiaries and amounts due from a non-controlling shareholder of subsidiaries) based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period as set out in note 3.20.

As at 31 December 2022, the aggregate carrying amounts of trade and other receivables, loan receivable, amount due from a director and amounts due from fellow subsidiaries amounted to HK$147,472,000 (net of ECL allowance of HK$6,007,000), HK$21,968,000 (net of ECL allowance of HK$2,559,000), HK$9,787,000 (net of ECL allowance of HK$1,054,000) and HK$640,000 (net of ECL allowance of HK$nil), respectively (2021: the aggregate carrying amounts of trade and other receivables, loan receivable, amount due from a director and amounts due from fellow subsidiaries amounted to HK$72,791,000 (net of ECL allowance of HK$1,131,000), HK$21,240,000 (net of ECL allowance of HK$4,335,000), HK$19,293,000 (net of ECL allowance of HK$2,154,000) and HK$525,000 (net of ECL allowance of HK$nil), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5. REVENUE AND SEGMENT INFORMATION

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

For the year ended 31 December 2022, the Group's operating activities are attributable to three (2021: three) operating segments focusing on the operation of manufacturing of and trading in dental products, the health care – rehabilitation business and the health care – health leisure business.

5.1 Segment revenue and results

For the year ended 31 December 2022

	Dental business HK$'000	Health care – rehabilitation business HK$'000	Health care – health leisure business HK$'000	Total HK$'000
REVENUE				
Revenue from external customers	181,275	7,663	2,561	191,499
RESULTS				
Segment profit/(loss) before depreciation and amortisation	22,660	(11,508)	(27,788)	(16,636)
Depreciation				
– Property, plant and equipment	(16,091)	(2,468)	(3,502)	(22,061)
– Right-of-use assets	(3,857)	(3,281)	(962)	(8,100)
Amortisation of land use rights	–	–	(104)	(104)
Amortisation of intangible assets	(531)	(479)	(37)	(1,047)
Segment operating profit/(loss)	2,181	(17,736)	(32,393)	(47,948)
Impairment loss on trade receivables, net	(872)	–	–	(872)
Reversal of impairment loss on amount due from a director	1,100	–	–	1,100
Impairment loss on properties under development	–	–	(37,628)	(37,628)
Impairment loss on right-of-use assets	–	–	(9,232)	(9,232)
Impairment loss on property, plant and equipment	–	–	(26,501)	(26,501)
Impairment loss on other receivables	–	(3,959)	–	(3,959)
Loss from change in fair value of financial assets at fair value	–	(12,070)	–	(12,070)
Loss from change in fair value of financial liabilities at fair value through profit or loss	–	–	(17,076)	(17,076)
Segment profit/(loss) before income tax	2,409	(33,765)	(122,830)	(154,186)
Reversal of impairment loss on loan receivable				1,455
Unallocated income				146
Unallocated expenses				(18,378)
Loss before income tax				(170,963)

* *For identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5. REVENUE AND SEGMENT INFORMATION – continued

5.1 Segment revenue and results – continued

For the year ended 31 December 2021

	Dental business HK$'000	Health care – rehabilitation business HK$'000	Health care – health leisure business HK$'000	Total HK$'000
REVENUE				
Revenue from external customers	200,487	7,125	2,014	209,626
RESULTS				
Segment profit/(loss) before depreciation and amortisation	22,975	52,377	(33,199)	42,153
Depreciation				
– Property, plant and equipment	(13,042)	(1,274)	(1,730)	(16,046)
– Right-of-use assets	(5,389)	(3,343)	(681)	(9,413)
Amortisation of land use rights	–	–	(1,200)	(1,200)
Amortisation of intangible assets	(654)	(77)	–	(731)
Segment operating profit/(loss)	3,890	47,683	(36,810)	14,763
Impairment loss on trade receivables, net	(822)	–	–	(822)
Reversal of impairment loss on amount due from a director	217	–	–	217
Loss on deregistration of a subsidiary	(1,031)	–	–	(1,031)
Segment profit/(loss) before income tax	2,254	47,683	(36,810)	13,127
Gain from change in fair value of convertible promissory note				2,275
Loss on disposal of convertible promissory note				(5,331)
Reversal of impairment loss on loan receivable				26,503
Unallocated income				758
Unallocated expenses				(26,129)
Profit before income tax				11,203

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit/loss represents the profit/loss earned/incurred by each segment without allocation of central administration costs, certain other income, gains and losses, changes in fair value of convertible bonds receivable, convertible promissory note and unlisted managed fund and impairment loss on loan receivable/convertible bonds receivable. This is the information reported to the CODM for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5. REVENUE AND SEGMENT INFORMATION – continued

5.2 Segment assets and liabilities

As at 31 December 2022

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

As at 31 December 2021

	Dental business HK$'000	Health care – rehabilitation business HK$'000	Health care – health leisure business HK$'000	Total HK$'000
Reportable segment assets	348,728	295,350	279,459	923,537
Loan receivable				21,240
Deferred tax assets				539
Unallocated assets				26,017
Total assets				971,333
Reportable segment liabilities	(79,840)	(26,401)	(155,293)	(261,534)
Deferred tax liabilities				(970)
Taxation payable				(23,814)
Unallocated liabilities				(2,171)
Total liabilities				(288,489)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5. REVENUE AND SEGMENT INFORMATION – continued

5.2 Segment assets and liabilities – continued

During the year ended 31 December 2022, capital expenditure incurred by the dental business segment, health care – rehabilitation business segment and health care – health leisure business segment amounted to approximately HK$12,936,000 (2021: approximately HK$31,665,000), approximately HK$5,483,000 (2021: approximately HK$13,682,000) and approximately HK$4,859,000 (2021: approximately HK$40,212,000), respectively.

5.3 Geographical information

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

	Revenue from external customers		Non-current assets	
	2022	2021	**2022**	2021
	HK$'000	HK$'000	**HK$'000**	HK$'000
PRC (excluding Hong Kong)	**189,459**	207,966	**67,682**	118,251
Others	**2,040**	1,660	**23,247**	46,366
	191,499	209,626	**90,929**	164,617

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

5.4 Information about major customers

The Group has no customer with whom transaction exceeded 10% of the Group's total revenue during the years ended 31 December 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

6. OTHER INCOME, GAINS AND LOSSES

	2022 HK$'000	2021 HK$'000
Interest income on bank deposits	224	558
Interest income on loan receivable/convertible bonds receivable	744	508
Interest income on convertible promissory note	–	253
Gain on disposal of financial assets at fair value through profit or loss	2,039	12,620
Loss on disposal of convertible promissory note	–	(5,331)
Loss on deregistration of a subsidiary	–	(1,031)
Dividend income	1,136	–
Gain on short-term investments	–	1,581
Loss on disposal of property, plant and equipment	(5)	(1,178)
Government subsidies (note (i))	2,788	3,971
COVID-19-related rent concessions received (note (ii))	–	193
Consultancy income	–	950
Net exchange gain/(loss)	782	(1,812)
Others	1,250	1,577
	8,958	12,859

Notes:

(i) The Group has received or receivable subsidy from a provincial government in the PRC for its research and development activities. There were no unfulfilled conditions and other contingencies attaching to government subsidy that has been recognised.

(ii) During the years ended 31 December 2022 and 2021, the rent concessions received by the Group are in the form of a discount on fixed payments during the period of severe social distancing and travel restriction measures introduced to prevent the spread of COVID-19.

7. FINANCE COSTS

	2022 HK$'000	2021 HK$'000
Interest charges on:		
– Other financial liabilities	12,786	8,205
– Lease liabilities	1,611	1,739
Total interest expense	14,397	9,944
Less: amounts capitalised in the cost of qualifying assets	(6,665)	(1,761)
	7,732	8,183

Note: The borrowing costs have been capitalised at a rate of 10.25% per annum (2021: 10.25%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

8. (LOSS)/PROFIT BEFORE INCOME TAX

	2022 HK$'000	2021 HK$'000
(Loss)/Profit before income tax has been arrived at after charging/(crediting):		
Directors' remuneration		
– fees	1,420	1,565
– other emoluments	19,357	14,111
– equity-settled share-based payment expenses	2,185	4,639
– contributions to defined contribution retirement schemes	161	131
	23,123	20,446
Other staff costs		
– staff salaries and allowances	97,746	110,060
– equity-settled share-based payment expenses	359	902
– contributions to defined contribution retirement schemes	6,113	5,941
	104,218	116,903
Total staff costs	127,341	137,349
Auditor's remuneration		
– Current year	1,200	1,200
– Predecessor Auditor's remuneration	510	–
Amortisation of intangible assets (included in cost of sales)	1,047	731
Amortisation of land use rights	104	1,200
Cost of inventories recognised as expense	88,646	96,859
Depreciation:		
– Property, plant and equipment	22,061	16,046
– Right-of-use assets	8,100	9,413
Impairment loss on trade receivables, net	872	822
(Reversal of impairment loss)/Impairment loss on amount due from a director	(1,110)	(217)
(Reversal of impairment loss)/Impairment loss on loan receivable	(1,455)	(26,503)
Lease charges:		
– Short-term leases with lease term less than 12 months	984	832
– COVID-19-related rent concessions received	–	(193)
Net exchange (gain)/loss (included in other income, gains and losses)	(782)	1,812
Research and development expenses (included in other expenses)	17,428	17,217
Finance charges on lease liabilities	1,611	1,739
Loss on disposal of convertible promissory note (included in other income, gains and losses)	–	5,331
Gain on disposal of financial assets at fair value through profit or loss (included in other income, gains and losses)	(2,039)	(12,620)
Impairment loss on other receivables	3,959	–
Impairment loss on property, plant and equipment	26,501	–
Impairment loss on right-of-use assets	9,232	–
Impairment loss on properties under development	37,628	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules, section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Fees HK$'000	Basic salaries and allowances HK$'000	Performance related incentive bonus HK$'000	Equity-settled share-based payment expenses HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
2022						
Executive directors						
Mr. Kwok Ying Shing	100	–	–	–	5	105
Mr. Luo Jun *(chief executive officer)*	570	1,833	–	717	18	3,138
Mr. Wu Tianyu	–	8,574	8,000	358	107	17,039
Mr. Zhang Huagang	–	950	–	896	18	1,864
Independent non-executive directors						
Dr. Liu Yanwen	250	–	–	107	–	357
Dr. Lyu Aiping	250	–	–	107	13	370
Ms. Li Zhiying (note d) (formerly named as Ms. Li Yonglan)	250	–	–	–	–	250
	1,420	11,357	8,000	2,185	161	23,123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – continued

	Fees HK$'000	Basic salaries and allowances HK$'000	Performance related incentive bonus HK$'000	Equity-settled share-based payment expenses HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
2021						
Executive directors						
Mr. Zhang Huagang	–	2,980	–	1,833	18	4,831
Mr. Luo Jun (chief executive officer)	600	2,425	–	1,466	26	4,517
Mr. Wu Tianyu	–	6,416	2,290	850	75	9,631
Mr. Kwok Ying Shing	100	–	–	–	2	102
Ms. Kwok Ho Lai (note a)	75	–	–	–	4	79
Ms. Kwok Hiu Yan (note b)	41	–	–	–	2	43
Independent non-executive directors						
Dr. Liu Yanwen	250	–	–	220	–	470
Dr. Lyu Aiping	250	–	–	220	4	474
Mr. Fok Hei Yu (note c)	44	–	–	50	–	94
Ms. Li Zhiying (note d) (formerly named as Ms. Li Yonglan)	205	–	–	–	–	205
	1,565	11,821	2,290	4,639	131	20,446

Notes:

(a) Appointed as an executive director with effect from 19 July 2021 and resigned on 3 December 2021.

(b) Appointed as an executive director with effect from 21 September 2021 and resigned on 3 December 2021.

(c) Resigned on 4 March 2021.

(d) Appointed as an independent non-executive director with effect from 6 March 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – continued

The performance related incentive bonus payment is determined with reference to the operating results and individual performance for each year by the board of directors of the Company.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The non-executive director's emoluments shown above were for their services as directors of the Company or its subsidiaries. The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year. In addition, there was no inducement paid for directors to join the Group and no compensation for the loss of office as a director in connection with the management of the affairs of any member of the Group.

During the year, no share options were granted to directors. Details of the share option scheme are set out in note 32 to the Group's consolidated financial statements.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals of the Group during the year included three (2021: three) directors, details of whose remunerations are set out in note 9. The details of the remaining two (2021: two) highest paid employees who are not a director or chief executive of the Company are as follows:

	2022 HK$'000	2021 HK$'000
Staff salaries and allowances	**11,687**	9,417
Equity-settled share-based payment expenses	**179**	484
Contributions to defined contribution retirement schemes	**140**	18
	12,006	9,919

The emoluments were within the following bands:

	2022 HK$'000	2021 HK$'000
Nil to HK$1,000,000	**1**	–
HK$1,500,001 to HK$2,000,000	**–**	1
HK$8,000,001 to HK$8,500,000	**–**	1
HK$11,000,001 to HK$11,500,000	**1**	–
	2	2

There was no arrangement under which non-director or non-chief executive highest paid employees waived or agreed to waive any remuneration during the year. In addition, there was no inducement paid for non-director or non-chief executive highest paid employees to join the Group and no compensation for the loss of office in connection with the management of the affairs of any member of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

11. INCOME TAX EXPENSE

	2022 HK$'000	2021 HK$'000
Current tax:		
Hong Kong Profits Tax	–	–
PRC Enterprise Income Tax	1,039	23,472
	1,039	23,472
Deferred tax expense (note 30)	130	54
	1,169	23,526

No Hong Kong Profits Tax has been provided as the Group did not have any assessable profits during the years ended 31 December 2022 and 2021.

The provision for PRC Enterprise Income Tax ("EIT") is based on the estimated taxable income for PRC taxation purpose at the rate of taxation applicable for the year ended 31 December 2022 (2021: No PRC Enterprise Income Tax had been provided as the Group did not have any taxable income for PRC taxation purpose).

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. A subsidiary of the Group was accredited as a "High and New Technology Enterprise" in the PRC with effect from 23 December 2021, and was registered with the local tax authority to be eligible to a concessionary tax rate of 15% for three years from 2021 to 2023.

According to a policy promulgated by the State Tax Bureau of the PRC, effective from September 2019 onwards, enterprises engage in research and development activities are entitled to claim 175% of the research and development expenses incurred in a year as tax deductible expenses in determining taxable profits for that year ("Super Deduction"). A subsidiary is eligible to such Super Deduction in ascertaining its tax assessable profit for the years ended 31 December 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

11. INCOME TAX EXPENSE – continued

Tax expense for the year is reconciled to profit/(loss) before income tax per consolidated statement of profit or loss and other comprehensive income as follows:

	2022 HK$'000	2021 HK$'000
(Loss)/Profit before income tax	(170,963)	11,203
Tax charge at applicable tax rate at 25%	(42,741)	2,801
Tax effect of income not taxable for tax purpose	(2,372)	(1,206)
Tax effect of expenses not deductible for tax purpose	38,730	23,248
Tax effect of Super Deduction on research and development expenses	(2,614)	(3,228)
Tax effect of temporary difference not recognised	(82)	(518)
Tax effect of tax losses not recognised	10,248	7,367
Utilisation of tax losses previously not recognised	–	(4,938)
Tax expense for the year	1,169	23,526

12. DIVIDENDS

No dividends were paid, declared or proposed for the years ended 31 December 2022 and 2021, nor has any dividend been proposed since the end of the reporting periods.

13. (LOSS)/EARNINGS PER SHARE

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

	2022 HK$'000	2021 HK$'000
(Loss)/profit for the year attributable to owners of the Company	(123,318)	2,359

Number of shares

	2022	2021
Weighted average number of ordinary shares in issue during the year	5,042,139,374	5,042,139,374

The diluted (loss)/earnings per share for the years ended 31 December 2022 and 2021 does not assume the exercise of the Company's share options because the exercise price of those share options was higher than the average market price for shares. Therefore, the diluted (loss)/earnings per share is the same as basic (loss)/earnings per share for the years ended 31 December 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

	Moulds, plant and machinery	Furniture, fixtures and equipment	Leasehold improvements	Motor vehicles	Construction in progress	Sub-total	Right-of-use assets (note)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost								
As at 1 January 2021	33,884	17,252	8,950	2,482	–	62,568	32,266	94,834
Exchange realignment	1,280	507	292	20	929	3,028	864	3,892
Additions	29,892	5,717	2,756	76	5,434	43,875	15,885	59,760
Modification	–	–	–	–	–	–	340	340
Lease reassessment	–	–	–	–	–	–	402	402
Disposals/write-off	(7,530)	(2,957)	–	(735)	–	(11,222)	–	(11,222)
Deregistration of a subsidiary	–	(606)	–	(345)	–	(951)	–	(951)
As at 31 December 2021 and 1 January 2022	57,526	19,913	11,998	1,498	6,363	97,298	49,757	147,055
Exchange realignment	(4,701)	(1,617)	(1,038)	(6)	(443)	(7,805)	(3,998)	(11,803)
Additions	8,029	2,656	2,425	–	271	13,381	9,277	22,658
Transfer	1,402	–	774	–	(2,176)	–	–	–
Disposal	(3,898)	(948)	–	–	–	(4,846)	(4,820)	(9,666)
As at 31 December 2022	**58,358**	**20,004**	**14,159**	**1,492**	**4,015**	**98,028**	**50,216**	**148,244**
Depreciation/Impairment								
As at 1 January 2021	16,431	8,707	4,778	943	–	30,859	9,360	40,219
Exchange realignment	487	265	115	12	–	879	386	1,265
Provided for the year	8,242	4,379	3,111	314	–	16,046	9,413	25,459
Disposals/write-off	(5,958)	(2,231)	–	(571)	–	(8,760)	–	(8,760)
Deregistration of a subsidiary	–	(221)	–	(265)	–	(486)	–	(486)
As at 31 December 2021 and 1 January 2022	19,202	10,899	8,004	433	–	38,538	19,159	57,697
Exchange realignment	(2,458)	(1,035)	(746)	(3)	(99)	(4,341)	(1,834)	(6,175)
Provided for the year	13,697	4,407	3,801	156	–	22,061	8,100	30,161
Disposals/write-off	(3,462)	(733)	–	–	–	(4,195)	(4,803)	(8,998)
Impairment	20,959	2,218	–	51	3,273	26,501	9,232	35,733
As at 31 December 2022	**47,938**	**15,756**	**11,059**	**637**	**3,174**	**78,564**	**29,854**	**108,418**
Carrying values								
As at 31 December 2022	**10,420**	**4,248**	**3,100**	**855**	**841**	**19,464**	**20,362**	**39,826**
As at 31 December 2021	38,324	9,014	3,994	1,065	6,363	58,760	30,598	89,358

Note: For both years, the Group leases various offices premises, staff quarters, workings areas (i.e. factory &kitchen) and agricultural land in the PRC for its operations. Lease contracts are entered into for fixed term of 2 to 23 (2021: 1 to 23 years). Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

15. LAND USE RIGHTS

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

	2022 **HK$'000**	2021 HK$'000
As at 1 January	**4,175**	46,583
Transfer to properties under development (note 19)	**–**	(41,801)
Amortisation	**(104)**	(1,200)
Exchange realignment	**(326)**	593
As at 31 December	**3,745**	4,175

16. INTANGIBLE ASSETS

	Trademarks and patents HK$'000	**Computer softwares** HK$'000	**Total** HK$'000
Cost			
As at 1 January 2021	32,149	1,758	33,907
Exchange realignment	–	68	68
Arising on acquisition of a subsidiary (note 33)	3,538	–	3,538
Additions	–	1,302	1,302
As at 31 December 2021 and 1 January 2022	35,687	3,128	38,815
Exchange realignment	–	(265)	(265)
Additions	–	622	622
As at 31 December 2022	35,687	3,485	39,172
Amortisation and impairment			
As at 1 January 2021	32,149	771	32,920
Exchange realignment	–	32	32
Provided for the year	–	731	731
As at 31 December 2021 and 1 January 2022	32,149	1,534	33,683
Exchange realignment	–	(137)	(137)
Provided for the year	531	516	1,047
As at 31 December 2022	32,680	1,913	34,593
Carrying values			
As at 31 December 2022	**3,007**	**1,572**	**4,579**
As at 31 December 2021	3,538	1,594	5,132

The amortisation charge for the year is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

On 30 June 2021, the Group completed the acquisition of the entire equity interest in Basic Dental Implant Systems, Inc., which included the acquisition of patents. The patents were measured at fair values at the date of acquisition and the valuation was performed by an independent professional valuer not related to the Group. The fair value of the patents at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patents. The expected useful lives of the patents are 10 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

17. GOODWILL

	HK$'000
Cost	
As at 1 January 2021	330,805
Arising on acquisition of a subsidiary (note 33)	20,217
As at 31 December 2021, 1 January 2022 and 31 December 2022	**351,022**
Accumulated impairment	
As at 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	**330,805**
Carrying values	
As at 31 December 2022	**20,217**
As at 31 December 2021	20,217

For the purpose of impairment assessment, the goodwill and intangible assets arising on the acquisition of a subsidiary has been allocated to the CGU of dental business which was acquired during the year ended 31 December 2021. As at 31 December 2022, the directors conducted a review of the recoverable amount of the CGU containing the goodwill and intangible assets, and determined that there is no impairment of the CGU containing that goodwill and intangible assets.

The recoverable amount of the CGU has been determined by VIU calculation. The calculation uses cash flows projections based on financial budgets approved by the management for the year ending 31 December 2023 and the following four years based on average growth rate of 78% (2021: 84.2%) per annum. Cash flows beyond the five-year period are extrapolated using 2.1% (2021: 2.5%) growth rate. A pre-tax discount rate of 25.5% (2021: 22.5%) is used for this CGU and derived using risk-free rate, the market return and CGU specific risk factors. The average gross margin and net margin of the CGU during forecast period are 65.4% and 29.4% (2021: 56.5% and 26.5%) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 HK$'000	2021 HK$'000
Non-current:		
Limited partnership interest (note)	200,280	230,098

The measurement of fair value of the Group's financial instruments have been described in note 37.3.

Note:

On 20 July 2021, 21 July 2021 and 31 August 2021, the Group and Shenzhen Yingdou Technology Co., Ltd.* (深圳盈都科技有限公司) (the "Vendor") entered into three transfer agreements respectively. Pursuant to these agreements, the Vendor has agreed to transfer to the Group, of an aggregate of 5.51% limited partnership interest in Zhuhai Jinyiming Equity Investment Fund Partnership (L.P.)* (珠海金鎰銘股權投資基金合夥企業(有限合夥) (the "Limited Partnership"), at a consideration of RMB180,000,000 (equivalent to HK$220,410,000 through certain contractual arrangements.

The Limited Partnership has investment focuses in equity and equity related securities in the information technology, high-quality medical and health industries. Pursuant to the applicable PRC laws and regulations, investments in medical or healthcare businesses should be subjected to a sino-foreign joint venture structure, with the Chinese party holding not less than 30% equity interests in it. As the Group is regarded as a foreign investor, the Group and the Vendor have entered into certain contractual arrangements (the "Contractual Arrangements") to avoid the aforementioned foreign restrictions.

Under the Contractual Arrangements, the cooperation agreements and the VIE agreements (including the exclusive consulting and service provision agreement, the exclusive option agreement, the power of attorney, the equity pledge agreement and the loan agreement) have been entered into by the Group, the Vendor and Shenzhen Dayizhen Technology Co., Ltd.* (深圳達逸臻科技有限公司) (the "VIE entity"), a special purpose vehicle established by the Vendor, which enable the Group to:

– exercise effective financial and operational control over the VIE entity;

– exercise equity holder's voting right of the VIE entity;

– receive substantially all of the economic interest returns generated by the VIE entity in consideration for the business support, technical and consulting services provided by the Group;

– obtain an irrevocable and exclusive right to purchase all or part of equity interest in and/or assets of the VIE entity from its owner at a minimum purchase price permitted under the PRC laws and regulations;

– obtain a pledge over the entire equity interest of the VIE entity from its owner as collateral security for all of the VIE entity's payments due to the Group and to secure performance of the VIE entity's obligations under the Contractual Arrangements.

* *For identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – continued

Notes: – continued

The Group does not have any equity interest in the VIE entity. However, as a result of the Contractual Arrangements, the Group has rights to variable returns from its involvement with the VIE entity and has the ability to affect those returns through its power over the VIE entity and is considered to control the VIE entity. Consequently, the Company regards the VIE entity as consolidated structured entity under HKFRSs. The Group has consolidated the financial position and results of the VIE entity in the Group's consolidated financial statements for the years ended 31 December 2022 and 2021.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the VIE entity and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the VIE entity. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with relevant PRC laws and regulations and are legally enforceable.

As at 31 December 2022, the investment in limited partnership interest has been fair valued with reference to the valuation conducted by an independent qualified professional valuer.

Details of movement is set out below:

	HK$'000
As at 1 January 2021	–
Additions	220,410
Change in fair value recognised in profit or loss	9,537
Exchange realignment	151
As at 31 December 2021 and 1 January 2022	230,098
Change in fair value recognised in profit or loss	(12,070)
Exchange realignment	(17,748)
As at 31 December 2022	**200,280**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

19. PROPERTIES UNDER DEVELOPMENT

	2022 HK$'000	2021 HK$'000
As at 1 January	144,669	–
Transfer from land use rights (note 15)	–	41,801
Additions	28,621	102,620
Impairment loss	(37,628)	–
Exchange realignment	(11,091)	248
As at 31 December	124,571	144,669
Amount comprise:		
Construction costs	114,968	101,107
Interest capitalised (note 7)	8,111	1,761
Land use rights	39,120	41,801
	162,199	144,669
Less: Impairment	(37,628)	–
	124,571	144,669
Amounts are expected to be completed:		
Within the normal operating cycle included under current assets	124,571	144,669

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

	2022 HK$'000	2021 HK$'000
In PRC, with remaining lease term of:		
– between 10 to 50 years	39,120	41,801

As at 31 December 2022 and 2021, the properties under development was not pledged to secure any borrowings granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

20. INVENTORIES

	2022 HK$'000	2021 HK$'000
Raw materials	16,891	15,430
Finished goods	1,899	760
	18,790	16,190

21. TRADE AND OTHER RECEIVABLES

	2022 HK$'000	2021 HK$'000
Non-current:		
Deposits for acquisition of land use rights (note (i))	22,562	24,495
Current:		
Trade receivables	82,814	68,337
Less: Expected credit loss ("ECL") allowance	(2,048)	(1,131)
	80,766	67,206
Other receivables, prepayments and deposits (note (ii))	50,112	17,077
Less: ECL allowance	(3,959)	–
	46,153	17,077
Prepayments for construction costs in relation to the properties under development	–	51,610
	126,919	135,893
	149,481	160,388

Notes:

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

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

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

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

* *For identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

21. TRADE AND OTHER RECEIVABLES – continued

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

	2022 HK$'000	2021 HK$'000
0 – 90 days	57,232	50,062
91 – 180 days	7,558	9,112
181 – 365 days	7,632	4,780
Over 1 year	8,344	3,252
	80,766	67,206

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

The movement in the ECL allowance of trade receivables is as follows:

	2022 HK$'000	2021 HK$'000
As at 1 January	1,131	1,013
Recognised during the year	1,652	1,042
Reversed during the year	(780)	(220)
Write-off during the year	–	(727)
Exchange realignment	45	23
As at 31 December	2,048	1,131

22. LOAN RECEIVABLE

On 29 November 2016, the Group completed the subscription of 257,663 unlisted 5% coupon convertible bonds (the "Convertible Bonds") issued by Condor Technologies NV (formerly known as Condor International NV) ("Condor Tech"), at an aggregate principal amount of EUR5,000,000 maturing on the third anniversary of the date of issue (the "Maturity Date").

On 29 November 2019, the Group and Condor Tech entered into an amendment deed to amend and supplement the terms and conditions of the Convertible Bonds, pursuant to which the maturity date of the Convertible Bond has been extended from 27 November 2019 to 27 November 2020 (the "Extended Maturity Date"). Details of the extension of the Convertible Bonds were set out in the Company's announcement dated 3 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

22. LOAN RECEIVABLE – continued

Upon the Extended Maturity Date, Condor Tech has not made any repayment for the redemption of the outstanding Convertible Bonds or the accrued and unpaid interest thereon. Pursuant to the terms of the Convertible Bonds, it constitutes an event of default if, among others, Condor Tech fails to pay any amount for the redemption of the outstanding Convertible Bonds or the accrued and unpaid interest thereon when due. In this regard, the Group has expressly renounced to exercise the conversion right applicable in relation to the Convertible Bonds and it has required the full reimbursement of the amounts due in respect of the Convertible Bonds. Accordingly, the Group has reclassified the convertible bonds receivable from financial assets at fair value through profit or loss to financial assets at amortised cost at the Extended Maturity Date.

On 25 March 2021, the Group, Condor Tech and two independent third parties entered into a settlement agreement (the "Settlement Agreement"), among others, to settle the outstanding payment payable by Condor Tech to the Group. Pursuant to the Settlement Agreement, the Group agreed to sell to the independent third parties, and the independent third parties agreed to purchase from the Group, all the outstanding Convertible Bonds at a purchase price of EUR5,225,000 (equivalent to approximately HK$47,981,000). The purchase price was determined by taking into consideration of the principal amount of the Convertible Bonds of EUR5,000,000 (equivalent to approximately HK$45,915,000) together with interest received in advance at 3% per annum based on deferred payment, and shall be payable in cash by way of (i) an amount of EUR2,225,000 (equivalent to approximately HK$20,432,000) to be made within five business days after the date of the entering of the Settlement Agreement (the "First Instalment"); and (ii) a deferred payment in cash in an amount of EUR3,000,000 (equivalent to approximately HK$27,549,000) (the "Second Instalment") to be made upon the expiry of a period of thirty months from the date of the entering of the Settlement Agreement, i.e. by 25 September 2023 at the latest.

In addition, subject to the terms of the Settlement Agreement, Condor Tech agreed to pay in cash to the Group by way of final settlement for the accrued interests of the outstanding Convertible Bonds in an amount of EUR250,000 (equivalent to approximately HK$2,296,000) within five business days after the date of the entering of the Settlement Agreement. During the year ended 31 December 2021, the accrued interest has been repaid.

Accordingly, the convertible bonds receivable of EUR5,000,000 (equivalent to approximately HK$45,915,000) was derecognised and a loan receivable of EUR3,000,000 (equivalent to approximately HK$27,549,000) was recognised on 25 March 2021.

As at 31 December 2022, a net reversal of impairment loss on loan receivable of approximately HK$1,455,000 (2021: HK$26,503,000) was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

22. LOAN RECEIVABLE – continued

Details of movement is set out below:

	HK$'000
As at 1 January 2021	18,842
Exchange realignment	(1,886)
Repayment for the year	(22,727)
Add: reversal of ECL allowance	26,503
Effective interest	508
As at 31 December 2021 and 1 January 2022	21,240
Exchange realignment	(1,471)
Add: reversal of ECL allowance	1,455
Effective interest	744
As at 31 December 2022	**21,968**

The movement in the ECL allowance of loan receivable is as follows:

	HK$'000
As at 1 January 2021	30,838
Reversal of during the year	(26,503)
As at 31 December 2021 and 1 January 2022	4,335
Reversal during the year	(1,455)
Exchange realignment	(321)
As at 31 December 2022	**2,559**

23. AMOUNT DUE FROM A DIRECTOR

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

The amount is due from a director, Mr. Wu Tianyu ("Mr. Wu", the executive director of the Company), and the maximum amount outstanding during the year ended 31 December 2022 is HK$21,447,000 (2021: HK$27,812,000).

During the year ended 31 December 2022, having considered the repayment from the director has been reducing in recent years, the Group considered that the credit quality have deteriorated significantly since initial recognition and the credit risk is not low, therefore, a Stage 2 ECL allowance of approximately HK$1,054,000 (2021: HK$2,154,000) was recognised. Accordingly, a reversal of impairment loss on amount due from a director of approximately HK$1,100,000 (2021: HK$217,000) was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

24. AMOUNTS DUE FROM/TO A NON-CONTROLLING SHAREHOLDER OF SUBSIDIARIES/FELLOW SUBSIDIARIES

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

25. BANK BALANCES AND CASH

(a) Bank balances and cash comprise:

	2022 HK$'000	2021 HK$'000
Bank balances and cash	**173,450**	259,264

Bank balances carry interest at market rates which ranges from 0.001% to 0.25% (2021: 0.001% to 0.25%) per annum.

Included in bank balances and cash are the following amounts denominated in currencies other than the functional currencies of the relevant group entities:

	2022 HK$'000	2021 HK$'000
United States dollar	**32,393**	32,243
Euro	**–**	19,506

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

25. BANK BALANCES AND CASH – continued

(b) Reconciliation of liabilities arising from financing activities

The table below shows details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flow as cash flows from financing activities.

	Lease liabilities HK$'000 (note 28)	**Amount due to a related party** HK$'000 (note 29)	**Amounts due to fellow subsidiaries** HK$'000 (note 24)	**Amount due to a non-controlling shareholder of a subsidiary** HK$'000 (note 24)	**Other financial liabilities** HK$'000 (note 27)	**Total** HK$'000
As at 1 January 2021	23,236	764	862	11,919	–	36,781
Cash-flows:						
Proceeds	–	–	821	–	80,328	81,149
Repayment	–	–	(66)	–	(1,143)	(1,209)
Capital element of lease rentals paid	(8,107)	–	–	–	–	(8,107)
Interest element of lease rentals paid	(1,739)	–	–	–	–	(1,739)
Non-cash (note):						
COVID-19-releated rent concessions received (note 6)	(193)	–	–	–	–	(193)
Interest charges	1,739	–	–	–	8,205	9,944
Entering into new leases	15,885	–	–	–	–	15,885
Modification	340	–	–	–	–	340
Lease reassessment	402	–	–	–	–	402
Change in fair value recognised in profit or loss	–	–	–		1,688	1,688
Property, plant and equipment (note 14)	–	–	–	23,727	–	23,727
Capital injection (note 14)	–	–	–	(23,357)	–	(23,357)
Exchange realignment	718	21	(174)	(44)	–	521
As at 31 December 2021 and as at 1 January 2022	32,281	785	1,443	12,245	89,078	135,832

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

25. BANK BALANCES AND CASH – continued

(b) Reconciliation of liabilities arising from financing activities – continued

	Lease liabilities HK$'000 (note 28)	Amount due to a related party HK$'000 (note 29)	Amounts due to fellow subsidiaries HK$'000 (note 24)	Amount due to a non-controlling shareholder of a subsidiary HK$'000 (note 24)	Other financial liabilities HK$'000 (note 27)	Total HK$'000
As at 1 January 2022	32,281	785	1,443	12,245	89,078	135,832
Cash-flows:						
Proceeds	–	–	882	4,163	–	5,045
Repayment	–	–	(156)	–	(10,738)	(10,894)
Capital element of lease rentals paid	(7,077)	–	–	–	–	(7,077)
Interest element of lease rentals paid	(1,611)	–	–	–	–	(1,611)
Non-cash (note):						
Interest charges	1,611	–	–	–	12,786	14,397
Entering into new leases	9,277	–	–	–	–	9,277
Change in fair value recognised in profit or loss	–	–	–	–	17,076	17,076
Exchange realignment	(2,609)	(62)	(135)	(1,090)	(7,449)	(11,345)
As at 31 December 2022	**31,872**	**723**	**2,034**	**15,318**	**100,753**	**150,700**

Note:

The Group entered into the following non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows:

During the year ended 31 December 2022, the Group entered into certain lease agreements in which additions to right-of-use assets and lease liabilities amounting to HK$9,277,000 (2021: HK$15,885,000) were recognised at the lease commencement date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

26. TRADE AND OTHER PAYABLES

	2022 HK$'000	2021 HK$'000
Trade payables	46,552	45,571
Receipts in advance	20,385	22,128
Other payables (note (a))	40,997	27,063
Accrued charges (note (a))	12,740	29,520
Contract liabilities (note (b))	981	1,251
Deferred contingent consideration (note 33)	2,340	2,340
	123,995	127,873

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

	2022 HK$'000	2021 HK$'000
0 – 90 days	6,558	41,671
91 – 180 days	33,268	3,662
Over 180 days	6,726	238
	46,552	45,571

The average credit period on purchases of goods is 90 days (2021: 90 days).

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

Notes:

(a) Other payables mainly include value added tax and other tax payables in the PRC, and accrued charges mainly include accrued staff salaries and allowances, contributions to defined contribution retirement schemes and consultancy fees for dental and health care projects.

(b) Contract liabilities represents deposits received from medical services under the health care – rehabilitation business segment. When the Group receives a deposit before the commencement of medical services, this will give rise to a contract liability at the inception of a contract until the revenue recognised on the service could cover the amount of the deposit. The contract liabilities represent receipts in advance for the medical services and are expected to be recognised as revenue within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

27. OTHER FINANCIAL LIABILITIES

	2022 HK$'000	2021 HK$'000
Financial liabilities at fair value through profit or loss:		
Put option liability (note (a))	**39,936**	25,350
Financial liabilities measured at amortised cost:		
Other financial liabilities (note (b))	**60,817**	63,728
	100,753	89,078

Notes:

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

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

** For identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

27. OTHER FINANCIAL LIABILITIES – continued

Notes: – continued

(a) – continued

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

Details of movement is set out below:

	2022 HK$'000	2021 HK$'000
As at 1 January	25,350	–
At initial recognition	–	23,662
Change in fair value recognised in profit or loss	17,076	1,688
Exchange realignment	(2,490)	–
As at 31 December	39,936	25,350

As at 31 December 2022 and 2021, the Put Option had been fair valued with reference to the valuation conducted by an independent qualified professional valuer, using the Binomial Option Pricing Model. Key valuation assumptions used to determine the fair value of the Put Option are as follows:

	2022	2021
– Volatility	49.0%	42.4%
– Risk-free rate	2.4%	2.5%
– Risky rate	15.8%	15.8%
– Dividend yield	0%	0%

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

	HK$'000
As at 1 January 2021	–
At initial recognition	56,666
Interest expense (note 7)	8,205
Interest paid	(1,143)
As at 31 December 2021 and 1 January 2022	63,728
Interest expense (note 7)	12,786
Interest paid	(10,738)
Exchange realignment	(4,959)
As at 31 December 2022	**60,817**

* *For identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

27. OTHER FINANCIAL LIABILITIES – continued

Notes: – continued

(b) – continued

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

Kaisa Group (Shenzhen) Co., Ltd.* (佳兆業集團(深圳)有限公司), a wholly-owned subsidiary of Kaisa Group Holdings Ltd., which is the Group's ultimate holding company, provided a corporate guarantee for the repayment of capital contributed from Sinochem, the distribution of investment returns, and the necessary administrative expenses.

28. LEASE LIABILITIES

The following table presents the remaining contractual maturities of the Group's lease liabilities as at the end of the reporting periods:

	2022 **HK$'000**	2021 HK$'000
Lease liabilities payable:		
After 1 year but within 2 years	**7,013**	6,753
After 2 years but within 5 years	**17,097**	18,599
Over 5 years	**7,762**	6,929
	31,872	32,281
Less: Amount due for settlement with 12 months shown under current liabilities	**7,013**	6,753
Amount due for settlement after 12 months shown under non-current liabilities	**24,859**	25,528

As at 31 December 2022, lease liabilities amounting to HK$31,872,000 (2021: HK$32,281,000) are effectively secured by the related underlying assets as the rights to the leased assets would be reverted to the lessor in the event of default by repayment by the Group.

During the year ended 31 December 2022, the total cash outflows for the leases are HK$8,688,000 (2021: HK$10,678,000), of which the cash outflows amounting to HK$144,000 (2021: HK$144,000) are made to the ultimate holding company, Kaisa Group Holdings Ltd.

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29. AMOUNT DUE TO A RELATED PARTY

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

The amount is due to a related party, Ms. Jiang Sisi ("Ms. Jiang", the spouse of Mr. Wu (defined in note 23), and the balance due as at 31 December 2022 is HK$723,000 (2021: HK$785,000).

30. DEFERRED TAX ASSETS/(LIABILITIES)

The deferred tax assets/(liabilities) recognised and movements during the current and prior reporting periods are as follows:

	Fair value adjustments on intangible assets acquired in business combinations HK$'000	**Others** HK$'000	**Total** HK$'000
As at 1 January 2021	–	593	593
Arising on the acquisition of a subsidiary (note 33)	(970)	–	(970)
Charged to profit or loss for the year (note 11)	–	(54)	(54)
As at 31 December 2021 and 1 January 2022	(970)	539	(431)
Charged to profit or loss for the year (note 11)	145	(275)	(130)
As at 31 December 2022	**(825)**	**264**	**(561)**

As at 31 December 2022, the Group has unused tax losses of HK$184,391,000 (2021: HK$131,688,000 available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$53,306,000 that will expire in 2029 (2021: HK$13,241,000 that will expire in 2028).

As at 31 December 2022, the Group has unremitted earnings for certain subsidiaries amounting to HK$19,574,000 (2021: HK$234,769,000). No deferred tax liability has been recognised in respect of these unremitted earnings because the Company controls the dividend policy of these subsidiaries, and it is not probable that the temporary differences will reverse in the foreseeable future.

31. SHARE CAPITAL

	Number of shares	**Share capital** HK$'000
Ordinary shares of HK$0.00125 each:		
Authorised:		
At 1 January 2021, 31 December 2021 and 31 December 2022	160,000,000,000	200,000
Issued and fully paid:		
At 1 January 2021, 31 December 2021 and 31 December 2022	**5,042,139,374**	**6,303**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. SHARE OPTIONS

Pursuant to an ordinary resolution passed in the Company's special general meeting on 8 June 2015, the Company approved and adopted a share option scheme (the "Scheme") for a period of 10 years commencing from 8 June 2015 as incentive or reward for the grantees for their contribution or potential contribution to the Group.

Under the Scheme, the Company may grant options to eligible participant which includes any full-time or part-time employees, consultants, potential employees, executives or officers (including executive, non-executive and independent non-executive directors) of the Company or any of its subsidiaries and any suppliers, customers, consultants, agents and advisers, and any related entity participants or service providers who, in the sole opinion of the board of directors, will contribute or has contributed to the Company and/or any of its subsidiaries.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or any independent non-executive director of the Company, or to any of their associates, and any related entity participants or service providers, which would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person in any one year up to and including the date of such grant (i) representing in aggregate value over 0.1% of the shares of the Company in issue on that date; and (ii) having an aggregate value, based on the closing price of the shares on the date of each grant, in excess of HK$5 million, are subject to shareholders' approval in a general meeting.

The exercisable period of the options granted are determined by the board of directors of the Company at its absolute discretion. The share options will expire no later than ten years from the date of grant. At the time of grant of the share options, the Company may specify a minimum period for which an option must be held before it can be exercised. The acceptance date should not be later than 14 days after the date of offer. A nominal consideration of HK$1 is payable on acceptance of the grant of options. The subscription price of the option shares is not less than the higher of (i) the closing price of the shares on the date of grant; (ii) the average closing prices of the shares on the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed, in aggregate, nominal amount of 10% of the issued share capital of the Company at the date of approval of the Scheme. The Scheme limit may be increased from time to time to 10% of the shares in issue as at the date of such shareholders' approval. However, the total maximum number of shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital from time to time. The number of shares in respect of which options may be granted to each eligible participants in any one year is not permitted to exceed 1% of the shares of the Company in issue from time to time.

As at 31 December 2022, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 142,000,000 (2021: 226,200,000), representing 2.8% (2021: 4.5%) of the shares of the Company in issue at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. SHARE OPTIONS – continued

The fair values of share options were calculated using Binomial Option Pricing Model based on following data:

Grant date	16 June 2015	24 July 2015	12 September 2016	22 July 2020	26 August 2021
Share price at grant date	HK$0.780	HK$0.690	HK$0.350	HK$0.144	HK$0.275
Exercise price	HK$0.784	HK$0.784	HK$0.400	HK$0.196	HK$0.450
Expected volatility	73.49%	80.31%	76.75%	63.68%	73.33%
Expected life	5 years	5 years	6 years	10 years	10 years
Risk-free rate	1.296%	1.230%	0.713%	0.396%	1.010%
Expected dividend yield	5.17%	4.62%	0.00%	0.00%	0.00%
Early exercise multiples					
– Director and its associate	N/A	2.8x	2.8x	2.8x	N/A
– Employees or consultants	2.2x	N/A	2.2x	2.8x	2.2x

The Binomial Option Pricing Model has been used to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options were based on the directors' best estimate. The expected volatility was determined with reference to the historical volatilities of the Company's share prices over the last five years. The expected dividend yield was based on the historical dividend yields of the Company. The value of an option varies with different variables of certain subjective assumptions.

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercisable period	Exercise price
2015A	16.6.2015	16.6.2015 – 15.6.2019	16.6.2016 – 15.6.2020	HK$0.784
2015B	24.7.2015	16.6.2015 – 15.6.2019	16.6.2016 – 15.6.2020	HK$0.784
2016	12.9.2016	12.9.2016 – 11.9.2021	12.9.2017 – 11.9.2022	HK$0.400
2020	22.7.2020	22.7.2020 – 21.7.2023	22.7.2021 – 21.7.2030	HK$0.196
2021	26.8.2021 (note i)	26.8.2021 – 25.8.2024	26.8.2022 – 25.8.2031	HK$0.450

Note:

(i) Share options was proposed and granted by board of directors on 26 August 2021. All the share options were forfeited on 10 November 2021 upon the resignation of grantees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

32. SHARE OPTIONS – continued

A summary of the movements of the number of share options under the Scheme during the years is as follows:

Type of participant	Option type	Outstanding at 1 January 2021	Cancelled/ Forfeited/ Lapsed during the year	Granted during the year	Outstanding at 31 December 2021 and 1 January 2022	Cancelled/ Forfeited/ Lapsed during the year	Granted during the year	Outstanding at 31 December 2022
Mr. Wu	2016	38,000,000	–	–	38,000,000	(38,000,000)	–	–
Ms. Jiang	2016	38,000,000	–	–	38,000,000	(38,000,000)	–	–
Ms. Wu Ansheng (note)	2016	8,000,000	(8,000,000)	–	–	–	–	–
Employees	2016	13,800,000	(5,600,000)	–	8,200,000	(8,200,000)	–	–
Mr. Zhang	2020	50,000,000	–	–	50,000,000	–	–	50,000,000
Mr. Luo	2020	40,000,000	–	–	40,000,000	–	–	40,000,000
Mr. Wu	2020	20,000,000	–	–	20,000,000	–	–	20,000,000
Dr. Liu	2020	6,000,000	–	–	6,000,000	–	–	6,000,000
Mr. Fok	2020	6,000,000	(6,000,000)	–	–	–	–	–
Dr. Lyu	2020	6,000,000	–	–	6,000,000	–	–	6,000,000
Ms. Jiang	2020	10,000,000	–	–	10,000,000	–	–	10,000,000
Employee	2020	10,000,000	–	–	10,000,000	–	–	10,000,000
Employee	2021	–	(80,000,000)	80,000,000	–	–	–	–
		245,800,000	(99,600,000)	80,000,000	226,200,000	(84,200,000)	–	142,000,000
Exercisable at the end of the year		88,020,000			141,600,000			100,000,000
Weighted average exercise price		HK$0.277	HK$0.428	HK$0.450	HK$0.272	HK$0.400	Nil	HK$0.196

Note: Ms. Wu Ansheng is a sister of Mr. Wu, who has resigned on 31 July 2021 as the General Manager and Sales Director of a subsidiary of the Group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

32. SHARE OPTIONS – continued

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

	2022 HK$'000	2021 HK$'000
Directors	2,186	4,639
Employees and consultants	358	902
	2,544	5,541

33. ACQUISITION OF A SUBSIDIARY

On 13 August 2020, the Group entered into a sale and purchase agreement with an independent third party (the "Seller") for an acquisition of the entire equity interest in Basic Dental Implant Systems, Inc. (the "Target Company"). The Target Company locates in the USA and holds regulatory approvals and intellectual property relating to, the manufacture, marketing, and distribution of dental implant systems and related dental products and technologies in the USA and the PRC. Acquisition of the Target Company allows the Group to further diversify its business portfolio into the dental business in the PRC and overseas markets and explore an additional income stream for the Group. The total consideration of the acquisition amounted to USD3,525,000 (equivalent to approximately HK$27,489,000), subject to adjustment of inventory amount and relevant expenses (the "Purchase Price Adjustment") and a deferred contingent consideration of up to USD1,000,000 (equivalent to approximately HK$7,753,000), subject to the receipt of certain implants certification. On 30 June 2021, the Group has completed the acquisition of Target Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

33. ACQUISITION OF A SUBSIDIARY – continued

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	As at 30 June 2021 (date of acquisition) HK$'000
Inventories	7,410
Trade and other receivables	336
Bank balance and cash	214
Trade and other payables	(203)
Amount due to intermediate holding company	(713)
Total identifiable net assets at fair value	7,044
Intangible assets (note 16)	3,538
Goodwill (note 17)	20,217
Deferred taxation (note 30)	(970)
	29,829
Satisfied by:	
Cash consideration	27,489
Deferred contingent consideration (note 26)	2,340
	29,829
Consideration paid in cash	(27,489)
Add:	
– Deposits paid of acquisition of a subsidiary	20,080
– Cash and cash equivalent acquired	214
Net cash outflow on acquisition of a subsidiary	(7,195)

Goodwill arose in the acquisition of the Target company is attributable to the anticipated profitability in the dental prosthetics in the established sales network in both domestic and overseas markets. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth and future market development of the Target Company. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Included in the loss for the year is approximately HK$1,501,000 attributable to the additional business generated by the Target Company. Revenue for the year includes approximately HK$1,660,000 generated from the Target Company.

Had the acquisition been completed on 1 January 2021, total group revenue for the year would have been approximately HK$209,713,000, and loss for the year would be been approximately HK$12,080,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2021, nor is it intended to be a projection of future results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

34. LEASE COMMITMENTS

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

	2022 HK$'000	2021 HK$'000
Within one year	**379,000**	1,487

As at 31 December 2022 and 2021, the Group leases a number of properties with a lease period of 12 months, which are qualified to be accounted for under short-term leases exemption under HKFRS 16.

35. CAPITAL COMMITMENTS

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

	2022 HK$'000	2021 HK$'000
Contracted for:		
Construction of properties under development	**178,294**	181,614

36. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The management of the Group reviews the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-back as well as debt raising.

The net debt to equity ratio defined and calculated by the Group as other financial liabilities less cash and cash equivalents expressed as a percentage of total equity. The ratio is not presented as the Group has no net debt at 31 December 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. FINANCIAL INSTRUMENTS

37.1 Categories of financial instruments

	2022 HK$'000	2021 HK$'000
Financial assets		
Financial assets measured at amortised cost:		
Trade and other receivables	147,472	72,791
Loan receivable	21,968	21,240
Amount due from a director	9,787	19,293
Amounts due from fellow subsidiaries	640	525
Bank balances and cash	173,450	259,264
	353,317	373,113
Financial assets measured at FVTOCI:		
Unlisted equity investment	–	245
Financial assets measured at FVTPL:		
Limited partnership interest	200,280	230,098
	553,597	603,456
Financial liabilities		
Financial liabilities measured at amortised cost:		
Trade and other payables	106,094	84,654
Other financial liabilities	60,817	63,728
Amount due to a related party	723	785
Amounts due to fellow subsidiaries	2,034	1,443
Amount due to a non-controlling shareholder of a subsidiary	15,318	12,245
	184,986	162,855
Financial liabilities measured at FVTPL:		
Put option liability	39,936	25,350
Deferred contingent consideration	2,340	2,340
	42,276	27,690
	227,262	190,545

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. FINANCIAL INSTRUMENTS – continued

37.2 Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, limited partnership interest, loan receivable, amount due from a director, amounts due from/to fellow subsidiaries, amounts due from/to a non-controlling shareholder of subsidiaries, bank balances and cash, trade and other payables, deferred contingent consideration, lease liabilities, amount due to a related party and other financial liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

As at 31 December 2022, the Group is exposed to fair value interest rate risk in relation to fixed-rate bank deposits, lease liabilities and fixed-rate other financial liabilities (2021: fixed-rate bank deposits, lease liabilities and fixed-rate other financial liabilities. It is the Group's policy to keep its loans at fixed rates of interest so as to minimise its exposures on interest rate movements.

The Group is also exposed to cash flow interest rate risk relating to the Group's variable-rate bank deposits. In management's opinion, the sensitivity analysis is unrepresentative as the cash flow interest rate risk is not significant to the consolidated financial statements.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Foreign currency risk

Several subsidiaries of the Company have foreign currency bank balances and trade receivables that are denominated in currencies other than the functional currencies of the relevant group entities which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedge policy. In order to mitigate the foreign currency risk, management closely monitors such risks and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are disclosed in respective notes. As at 31 December 2022 and 2021, the Group is mainly exposed to exchange rate fluctuations of United States dollar ("USD") and Euro ("EUR"). As Hong Kong dollar is pegged to USD, hence, the Group's foreign currency exposure against USD is not significant. The Group is mainly exposed to the effects of fluctuation in EUR.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. FINANCIAL INSTRUMENTS – continued

37.2 Financial risk management objectives and policies – continued

Market risk – continued

Foreign currency risk – continued

Foreign currency denominated monetary assets, translated into Hong Kong dollars at the closing rates, are as follows:

	2022 EUR HK$'000	2021 EUR HK$'000
Loan receivable	**21,968**	21,240

The following table illustrates the sensitivity of the Group's profit/loss after income tax for the year and equity in regards to an appreciation in the group entities' functional currencies against EUR. The sensitivity rate is the rates used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

	Sensitivity rate %	**Decrease in profit/ increase in loss** HK$'000	**Decrease in equity** HK$'000
2022			
EUR	**5%**	**367**	**367**
2021			
EUR	5%	887	887

The same % depreciation in the group entities' functional currencies against the respective foreign currencies would have the same magnitude on the Group's profit/loss for the year and equity but of opposite effect.

Credit risk

As at 31 December 2022 and 2021, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. FINANCIAL INSTRUMENTS – continued

37.2 Financial risk management objectives and policies – continued

Credit risk – continued

(i) *Trade receivables*

The Group's credit risk is primarily attributable to its trade receivables. At 31 December 2022, the Group has concentration of credit risk on certain trade receivables as 5% (2021: 21%) and 13% (2021: 30%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group's management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality based on the good payment history of the related debtors from historical experience. In addition, as set out in note 3.21(iv), for the year ended 31 December 2022, the Group assesses ECL under HKFRS 9 on trade receivables by reference to the probability of default and recovery rate by credit rating grades published by international credit-rating agencies. The loss rates are adjusted to reflect forward-looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At the end of each reporting period, the loss rates are updated and changes in the forward-looking estimates are analysed.

The following table provides information about the Group's exposure to credit risk and ECL for trade receivables as at 31 December 2022 was determined as follows:

31 December 2022

	Current	Within 3 months past due	Over 3 months but less than 6 months past due	Over 6 months but less than 1 year past due	Over 1 year past due	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ECL rate	0%	1.0%	2.0%	7.6%	29.7%	
Gross carrying amount						
– trade receivables	61,230	7,033	5,018	4,303	5,230	82,814
Lifetime ECL	–	70	98	326	1,554	2,048

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. FINANCIAL INSTRUMENTS – continued

37.2 Financial risk management objectives and policies – continued

Credit risk – continued

(i) *Trade receivables – continued*

31 December 2021

	Current HK$'000	Within 3 months past due HK$'000	Over 3 months but less than 6 months past due HK$'000	Over 6 months but less than 1 year past due HK$'000	Over 1 year past due HK$'000	Total HK$'000
ECL rate	0%	0.01%	0.7%	2.0%	27.1%	
Gross carrying amount						
– trade receivables	53,103	5,717	3,195	2,421	3,901	68,337
Lifetime ECL	–	4	22	48	1,057	1,131

(ii) *Other financial assets at amortised cost*

Other financial assets at amortised cost include other receivables, loan receivable, bank balances and cash, amount due from a director, amounts due from fellow subsidiaries and amounts due from a non-controlling shareholder of subsidiaries. In order to minimise the credit risk of other receivables, amounts due from fellow subsidiaries and amounts due from a non-controlling shareholder of subsidiaries, the management would make periodic collective and individual assessment on the recoverability of other receivables, amounts due from fellow subsidiaries and amounts due from a non-controlling shareholder of subsidiaries based on historical settlement records and past experience as well as current external information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of other receivables, amounts due from fellow subsidiaries and amounts due from a non-controlling shareholder of subsidiaries are considered to be low.

Besides, the Group's management is of opinion that there is no significant increase in credit risk on amounts due from fellow subsidiaries and amounts due from a non-controlling shareholder of subsidiaries since initial recognition as the risk of default is low after considering the factors as set out in note 3.21(iv) and thus, ECL recognised is based on 12-month ECL and is close to zero.

For loan receivable, the Group assessed the ECL by reference to the probability of default and recovery rate by credit rating grades published by international credit-rating agencies and concluded that there are objective evidence of impairment at the reporting date. Accordingly, a Stage 2 ECL allowance of approximately HK$2,559,000 (2021: Stage 2 ECL allowance of HK$4,335,000) was recognisd for the year ended 31 December 2022. The loss rate is approximately 11.6% (2021: 15.4%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. FINANCIAL INSTRUMENTS – continued

37.2 Financial risk management objectives and policies – continued

Credit risk – continued

(ii) *Other financial assets at amortised cost* – continued

For other receivable, the Group assessed the ECL by reference to the probability of default and recovery rate by credit rating grades published by international credit-rating agencies and concluded that there are objective evidence of impairment at the reporting date. Accordingly, a Stage 2 ECL allowance of approximately HK$3,959,000 (2021: Stage 1 ECL allowance of Nil) was recognnised for the year ended 31 December 2022. The loss rate is approximately 9.07% (2021: nil).

For amount due from a director, the Group assessed the ECL by reference to the probability of default and recovery rate by credit rating grades published by international credit-rating agencies and concluded that the credit risk is not low given the repayment from the director has been reducing in recent years. Accordingly, a Stage 2 ECL allowance of approximately HK$1,054,000 (2021: HK$2,154,000) was recognised for the year ended 31 December 2022. The loss rate is approximately 9.7% (2021: 10.1%).

The credit risks on bank balances and cash are considered to be insignificant because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of bank balances and cash deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank loans and ensures compliance with loan covenants.

As at 31 December 2022 and 2021, the Group does not have any unutilised bank loan facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. FINANCIAL INSTRUMENTS – continued

37.2 Financial risk management objectives and policies – continued

Liquidity risk – continued

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	On demand or less than 1 year	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Over 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2022						
Trade and other payables	**106,094**	**–**	**–**	**–**	**106,094**	**106,094**
Deferred contingent consideration	**2,340**	**–**	**–**	**–**	**2,340**	**2,340**
Lease liabilities	**8,439**	**8,231**	**11,656**	**10,248**	**38,574**	**31,872**
Amount due to a related party	**723**	**–**	**–**	**–**	**723**	**723**
Amounts due to fellow subsidiaries	**2,034**	**–**	**–**	**–**	**2,034**	**2,034**
Amount due to a non-controlling shareholder of a subsidiary	**15,318**	**–**	**–**	**–**	**15,318**	**15,318**
Other financial liabilities	**100,753**	**–**	**–**	**–**	**100,753**	**100,753**
	235,701	**8,231**	**11,656**	**10,248**	**265,836**	**259,134**
As at 31 December 2021						
Trade and other payables	84,654	–	–	–	84,654	84,654
Deferred contingent consideration	2,340	–	–	–	2,340	2,340
Lease liabilities	8,256	7,163	14,232	8,872	38,523	32,281
Amount due to a related party	785	–	–	–	785	785
Amounts due to fellow subsidiaries	1,443	–	–	–	1,443	1,443
Amount due to a non-controlling shareholder of a subsidiary	12,245	–	–	–	12,245	12,245
Other financial liabilities	89,078	–	–	–	89,078	89,078
	198,801	7,163	14,232	8,872	229,068	222,826

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. FINANCIAL INSTRUMENTS – continued

37.3 Fair value measurement of financial instruments

Financial assets and liabilities measured at fair value

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

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

	As at 31 December 2022			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Recurring fair value measurement				
Financial assets at FVTPL:				
Limited partnership interest	**–**	**–**	**200,280**	**200,280**
Financial liabilities at FVTPL:				
Put option liability	**–**	**–**	**35,082**	**35,082**
Deferred contingent consideration	**–**	**–**	**2,340**	**2,340**
	–	**–**	**37,422**	**37,422**

	As at 31 December 2021			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Recurring fair value measurement				
Financial assets at FVTPL:				
Limited partnership interest	–	–	230,098	230,098
Financial assets at FVTOCI:				
Unlisted equity investment	–	245	–	245
Financial liabilities at FVTPL:				
Put option liability	–	–	25,350	25,350
Deferred contingent consideration	–	–	2,340	2,340
	–	–	27,690	27,690

During the years ended 31 December 2022 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair value of unlisted equity investment in Level 2 has been determined by reference to the reported net asset value at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. FINANCIAL INSTRUMENTS – continued

37.3 Fair value measurement of financial instruments – continued

Financial assets and liabilities measured at fair value – continued

Information about Level 3 fair value measurements

The valuation techniques and significant unobservable inputs used to determine the fair values of financial assets and financial liabilities at FVTPL are as follows:

Valuation techniques	Significant unobservable inputs	Financial assets and financial liabilities at FVTPL	Range 2022	Range 2021	Sensitivity relationship of unobservable inputs to fair value
Market approach	Price to sales multiples of comparable companies	Limited partnership interest	**1.0-8.1**	1.0-9.3	Increase/(decrease) in multiples would result in increase/(decrease) in fair value
	Price to earnings multiples of comparable companies	Limited partnership interest	**10.0-92.4**	24.5-40.3	Increase/(decrease) in multiples would result in increase/(decrease) in fair value
	Discount for lack of marketability ("DLOM")	Limited partnership interest	**20.6%**	20%	Increase/(decrease) in DLOM would result in (decrease)/increase in fair value
Binomial option pricing model	Risk-free rate	Put option liability	**2.4%**	2.5%	Increase/(decrease) in risk-free rate would result in (decrease)/increase in fair value
	Risky rate	Put option liability	**15.8%**	15.8%	Increase/(decrease) in risky rate would result in (decrease)/increase in fair value
	Volatility	Put option liability	**49.0%**	42.4%	Increase/(decrease) in volatility would increase/(decrease) in fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

37. FINANCIAL INSTRUMENTS – continued

37.3 Fair value measurement of financial instruments – continued

Financial assets and liabilities measured at fair value – continued

Information about Level 3 fair value measurements – continued

The movements during the year in the balance of Level 3 fair value measurements are disclosed in notes 17, 18 and 27 respectively.

As at 31 December 2022, no sensitivity analysis is performed on deferred contingent consideration as the management considers the impact of change in fair value is not significant to the Group's loss for the year.

Financial assets and liabilities not reported at fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost in the consolidated financial statements approximate their fair values as at 31 December 2022 and 2021.

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	Note	2022 HK$'000	2021 HK$'000
Non-current assets			
Investments in subsidiaries		–	14,110
Current assets			
Prepayments		258	250
Amounts due from subsidiaries		257,521	448,297
Bank balances and cash		6,823	25,767
		264,602	474,314
Current liabilities			
Other payables and accrued charges		1,957	2,167
Net current assets		262,645	472,147
Total assets less current liabilities/Net assets		262,645	486,257
Capital and reserves			
Share capital	31	6,303	6,303
Reserves		256,342	479,954
Total equity		262,645	486,257

On behalf of the Board by:

Zhang Huagang
Director

Luo Jun
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY – continued

Movement in the Company's reserves

	Share premium HK$'000	Share option reserve HK$'000	Contributed surplus (note) HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2021	984,639	22,770	24,930	(531,798)	500,541
Loss for the year	–	–	–	(26,128)	(26,128)
Recognition of equity-settled share-based payment (note 32)	–	5,541	–	–	5,541
Release of share option reserve upon share options forfeited/lapsed	–	(2,897)	–	2,897	–
As at 31 December 2021 and 1 January 2022	984,639	25,414	24,930	(555,029)	479,954
Loss for the year	–	–	–	(226,156)	(226,156)
Recognition of equity-settled share-based payment (note 32)	–	2,544	–	–	2,544
Release of share option reserve upon share options forfeited/lapsed	–	(17,203)	–	17,203	–
As at 31 December 2022	**984,639**	**10,755**	**24,930**	**(763,982)**	**256,342**

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

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39. PARTICULARS OF SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are directly and indirectly owned by the Company at 31 December 2022 and 2021 are as follows:

Name of subsidiary	Type of legal entity	Place of incorporation/ establishment/ operations	Particulars of issued and paid up capital/ registered capital	Effective equity interest attributable to the Group		Principal activities
				2022	2021	
On Growth Global Development Limited	Limited liability company	BVI	USD100	100%	100%	Investment holding
Royal Dental Laboratory Limited	Limited liability company	Hong Kong	HK$1	100%	100%	Trading in dental prosthetics
深圳市金悠然科技有限公司	Limited liability company	PRC	RMB42,000,000	100%	100%	Manufacture of and trading in dental prosthetics
United Noble Development Limited	Limited liability company	Hong Kong	HK$100	100%	100%	Investment holding of loan receivable/ convertible bonds receivable
Huge Profit Group Limited	Limited liability company	Hong Kong	HK$1	100%	100%	Investment holding of convertible promissory note
美加健康貿易(深圳)有限公司	Limited liability company	PRC	RMB20,000,000	100%	100%	Trading in dental prosthetics and medical technology development
美加健康科技(深圳)有限公司	Limited liability company	PRC	RMB20,000,000	100%	100%	Medical consultation and medical technology development
美加健康服務(深圳)有限公司	Limited liability company	PRC	RMB100,000,000	100%	100%	Medical consultation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

39. PARTICULARS OF SUBSIDIARIES – continued

Name of subsidiary	Type of legal entity	Place of incorporation/ establishment/ operations	Particulars of issued and paid up capital/ registered capital	Effective equity interest attributable to the Group		Principal activities
				2022	2021	
深圳醫佳普通專科門診部	Limited liability company	PRC	RMB500,000	80%	80%	Provision of medical services
深圳佳康康復醫學科門診部	Limited liability company	PRC	RMB1,000,000	100%	100%	Provision of medical services
珠海十里蓮江農旅健康小鎮開發有限公司	Limited liability company	PRC	RMB10,000,000	55%	55%	Health care project development
深圳佳醫普通專科門診部	Limited liability company	PRC	RMB1,000,000	70%	70%	Provision of medical services
和晟健康科技(海口)有限公司 (formerly known as 佳兆业健康科技(海口)有限公司)	Limited liability company	PRC	RMB10,000,000	100%	100%	Investment holding
Basic Dental Implant Systems, Inc (note 33)	Limited liability company	USA	USD 1,000	100%	100%	Trading of dental implant instruments
東莞市金悠然科技有限公司	Limited liability company	PRC	RMB5,000,000	100%	100%	Trading in dental prosthetics
鶴崗市金悠然科技有限公司	Limited liability company	PRC	RMB2,600,000	100%	100%	Trading in dental prosthetics
深圳達逸臻科技有限公司 (note 18)	Limited liability company	PRC	RMB10,000,000	100%	100%	Investment holding

Notes:

(a) The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

(b) None of the subsidiaries had any debt securities subsisting at 31 December 2022 and 2021 or at any time during the years.

(c) At the end of the reporting period, the Company has other subsidiaries that are not material to the Group in which the principal activities of those subsidiaries are investment holding and inactive.

The Group includes 1 subsidiary (2021: 1) with material non-controlling interests ("NCI"), the details and the summarised financial information, before intragroup eliminations, are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

39. PARTICULARS OF SUBSIDIARIES – continued

Zhuhai Shili Lianjiang Health Care

	2022 HK$'000	2021 HK$'000
Proportion of ownership interests and voting rights held by the NCI	**45%**	45%
Current assets	**144,944**	212,212
Non-current assets	**3,911**	41,574
Current liabilities	**(87,243)**	(131,493)
Non-current liabilities	**(8,645)**	(5,990)
Net assets	**52,967**	116,303
Carrying amount of NCI	**23,835**	52,336

	2022 HK$'000	2021 HK$'000
Revenue	**2,561**	2,417
Expenses	**(72,775)**	(28,713)
Loss for the year	**(70,214)**	(26,296)
Other comprehensive income/(expense) for the year	**1,794**	(2,677)
Total comprehensive expense for the year	**(68,420)**	(28,973)
Loss attributable to NCI	**(31,596)**	(11,833)
Total comprehensive expense attributable to NCI	**(30,789)**	(13,038)
Dividend paid to NCI	**–**	–
Net cash flows used in operating activities	**(25,234)**	(28,194)
Net cash flows from/(used in) investing activities	**7,587**	(55,595)
Net cash flows (used in)/from financing activities	**(869)**	96,584
Net increase in cash and cash equivalents	**(18,516)**	12,795

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

40. RELATED PARTY TRANSACTIONS

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

	2022 **HK$'000**	2021 HK$'000
Nature of transactions		
Lease payment paid to Kaisa Group Holdings Ltd. (note)	**144**	144

Note:

This is an exempted connected transaction of the Company under Chapter 14A of the Listing Rules. Please refer to paragraph (i) under Connected Transactions on page 77 of the Annual Report for further details.

Key management personnel compensation represents the amounts paid to the directors and the five highest paid individuals as set out in notes 9 and 10, respectively.

FIVE YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2018 HK$'000	2019 HK$'000 (Note)	2020 HK$'000	2021 HK$'000	**2022** **HK$'000**
RESULTS					
Revenue	241,948	251,618	183,810	209,626	**191,499**
(Loss)/Profit before income tax	(19,255)	(362,671)	(41,473)	11,203	**(170,963)**
Income tax expense	(2,784)	7,625	778	(23,526)	**(1,169)**
Loss for the year from continuing operation	(22,039)	(355,046)	(40,695)	(12,323)	**(172,132)**
Loss for the year from discontinued operation	–	–	–	–	**–**
Loss for the year	(22,039)	(355,046)	(40,695)	(12,323)	**(172,132)**
Profit/(Loss) for the year attributable to owners of the Company	(22,039)	(354,673)	(39,692)	2,359	**(123,318)**
Loss for the year attributable to non-controlling interests	–	(373)	(1,003)	(14,682)	**(48,814)**
	(22,039)	(355,046)	(40,695)	(12,323)	**(172,132)**

Note:
Included results of the EMS Business whereby its operation was classified as discontinued operation in 2017.

	As at 31 December				
	2018 HK$'000	2019 HK$'000	2020 HK$'000	2021 HK$'000	**2022** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	1,074,386	714,857	757,539	971,333	**767,598**
Total liabilities	(69,292)	(73,196)	(110,038)	(288,489)	**(296,692)**
Net assets	1,005,094	641,661	647,501	682,844	**470,906**
Attributable to:					
Owners of the Company	1,005,094	642,007	636,516	651,117	**485,329**
Non-controlling interests	–	(346)	10,985	31,727	**(14,423)**
	1,005,094	641,661	647,501	682,844	**470,906**

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