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

(Incorporated in Bermuda with limited liability)

(Stock Code: 876)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

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

	Notes	Six months ended 30 June **2023** **(Unaudited)** ***HK$'000***	 2022 (Unaudited) *HK$'000*
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(18,907)**	(21,826)
Reclassification of exchange differences upon disposal of subsidiaries		**(4,811)**	—
Other comprehensive expense for the period		**(23,718)**	(21,826)
Total comprehensive income/(expense) for the period		**15,058**	(142,457)
Profit/(Loss) for the period attributable to:			
— Owners of the Company		**40,001**	(97,017)
— Non-controlling interest		**(1,225)**	(23,614)
		38,776	(120,631)
Total comprehensive income/(expense) for the period attributable to:			
— Owners of the Company		**14,689**	(120,127)
— Non-controlling interests		**369**	(22,330)
		15,058	(142,457)
		HK cents	*HK cents*
Earnings/(Loss) per share	*7*		
Basic and diluted		**0.79**	(1.92)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	30 June 2023 (Unaudited) *HK$'000*	31 December 2022 (Audited) *HK$'000*
Non-current assets			
Property, plant and equipment		**18,330**	19,464
Right-of-use assets		**17,272**	20,362
Land use rights		—	3,745
Intangible assets		**4,083**	4,579
Goodwill		**20,217**	20,217
Prepayments and deposits	*9*	**21,568**	22,562
Financial assets at fair value through profit or loss ("**Financial assets at FVTPL**")	*8*	**198,468**	200,280
Deferred tax assets		**243**	264
		280,181	291,473
Current assets			
Properties under development		—	124,571
Inventories		**16,532**	18,790
Trade and other receivables	*9*	**131,221**	126,919
Loan receivable		**22,355**	21,968
Amount due from a director		**9,761**	9,787
Amounts due from fellow subsidiaries		**865**	640
Bank balances and cash		**148,340**	173,450
		329,074	476,125

	Notes	30 June 2023 (Unaudited) HK$'000	31 December 2022 (Audited) HK$'000
Current liabilities			
Trade and other payables	*10*	**65,742**	123,995
Other financial liabilities	*11*	**—**	100,753
Lease liabilities		**6,077**	7,013
Amount due to a related party		**691**	723
Amounts due to fellow subsidiaries		**2,655**	2,034
Amount due to a holding company		**72**	—
Amount due to a non-controlling shareholder of a subsidiary		**—**	15,318
Taxation payable		**19,287**	21,172
		94,524	271,008
Net current assets		**234,550**	205,117
Total assets less current liabilities		**514,731**	496,590
Non-current liabilities			
Lease liabilities		**13,302**	24,859
Deferred tax liabilities		**776**	825
		14,078	25,684
Net assets		**500,653**	470,906
Equity			
Share capital		**6,303**	6,303
Reserves		**494,500**	479,026
Equity attributable to owners of the Company		**500,803**	485,329
Non-controlling interests		**(150)**	(14,423)
Total equity		**500,653**	470,906

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

1.1 Basis of preparation

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

1.2 Principal accounting policies

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

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

2. APPLICATION OF AMENDMENTS TO HKFRSS

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

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

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

3. REVENUE AND SEGMENT INFORMATION

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

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

3.1 Segment revenue and results

For the six months ended 30 June 2023 (Unaudited)

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

For the six months ended 30 June 2022 (Unaudited)

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

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

3.2 Segment assets and liabilities

As at 30 June 2023 (Unaudited)

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

As at 31 December 2022 (Audited)

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

3.3 Geographical information

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

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

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

3.4 Information about major customers

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

4. PROFIT/(LOSS) BEFORE INCOME TAX

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

5. INCOME TAX EXPENSE

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

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

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

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

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

6. DIVIDENDS

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

7. EARININGS/(LOSS) PER SHARE

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

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

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

8. FINANCIAL ASSETS AT FVTPL

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

Details of movement is set out below:

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

Notes:

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

(a) The Group owns 5.51% equity interest in a limited partnership which is focus on equity and equity related securities in the information technology, high-quality medical and health industries. As at 30 June 2023, the carrying amount of such investment was approximately HK$164,455,000.

(b) During the reporting period, the Group has disposed of its subsidiaries as described in note 12. Upon the disposal, the remaining interest of the subsidiaries has classified as Financial asset at FVTPL. As at 30 June 2023, the carrying amount of such investment was approximately HK$34,013,000.

9. TRADE AND OTHER RECEIVABLES

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

Note:

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

Pursuant to the Original Cooperation Agreement and Supplementary Cooperation Agreement, the Group is committed to contribute RMB167,000,000 (equivalent to approximately HK$201,000,000) which comprises contribution of RMB120,000,000 (equivalent to approximately HK$144,000,000) to be the registered capital to Shanghai Jiading Health Services Co., Ltd.* (上海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.

The following is an aged analysis of trade receivables, presented based on invoice dates which approximate to revenue recognition dates, net of ECL allowance, at the end of the reporting period:

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

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.

* *For identification purpose only*

10. TRADE AND OTHER PAYABLES

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

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.

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

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

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

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

11. OTHER FINANCIAL LIABILITIES

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

(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 Development Co., Ltd ("Zhuhai Shili Lianjiang Health Care"), out of which an amount of RMB43,870,000 (equivalent to approximately HK$53,718,000) and RMB21,730,000 (equivalent to approximately HK$26,608,000) will be contributed to the registered capital and capital reserve of Zhuhai Shili Lianjiang Health Care, respectively. Upon completion of the Capital Contribution, Zhuhai Shili Lianjiang Health Care will be owned as to 40% by Sinochem, 33% by the Group and 27% by Zhuhai Shili Lianjiang Development. Pursuant to the Capital Contribution Agreement, Sinochem will not involve in daily operation of Zhuhai Shili Lianjiang Health Care.

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

** For identification purpose only*

During the reporting period, an indirect wholly-owned subsidiary of the Group has entered into a sale and purchase agreement with an independent third party to dispose of its 0.1% equity interest for each in Haoyi Healthcare Services (Shenzhen) Partnership (Limited Partnership)* (浩易康養服務(深圳)合夥企業(有限合夥)) ("Haoyi") and Guanghao Health Consulting Service (Zhuhai) Co., Ltd.* (光浩健康諮詢服務(珠海市)有限公司) ("Guanghao") together with undertake the Capital Contribution Agreement and the position of general partner of Haoyi (the "Disposal") which has disclosed in note 12.

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

Details of movement is set out below:

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

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

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

* *For identification purpose only*

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

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

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

12. DISPOSAL OF SUBSIDIARIES

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

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

Interim Dividend

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

Business Review

Dental Business

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

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

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

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

Health Care Business

Rehabilitation Business

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

Health Leisure Business

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

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

Prospect

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

* *For identification purpose only*

Dental Business

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

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

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

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

Rehabilitation Business

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

Operating Results and Financial Review

Revenue

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

Gross Profit and Gross Profit Margin

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

Loan Receivable

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

Financial assets at fair value through profit or loss

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

Bank Balance and Cash

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

* *For identification purpose only*

Land Use Rights

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

Capital Expenditure and Capital Commitments

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

Contingent Liabilities

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

Charge on the Group's Assets

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

Treasury Policy

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

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

Liquidity, Capital Structure and Financial Resources

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

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

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

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

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

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

Employees and Remuneration Policy

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

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

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

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

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

Other Information

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

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

Compliance with the Code on Corporate Governance Practices

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

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

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

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

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

As at 30 June 2023, the fair value of financial assets at fair value through profit or loss was approximately HK$ 198.5million, representing approximately 32.6% of the total assets of the Group. Please refer to note 8 in this announcement for details.

Disposals of Subsidiaries

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

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

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

Important Events After Reporting Period

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

Audit Committee

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

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

Review of Interim Results

The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2023 have been reviewed by the Audit Committee and the Company's auditor, Messrs. Elite Partners CPA Limited, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

PUBLICATION OF THE 2023 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The Company's interim report for the six months ended 30 June 2023 will be published on the websites of the Stock Exchange at www.hkex.com.hk and the Company at www.kaisahealth.com in due course.

By order of the Board
Kaisa Health Group Holdings Limited
Kwok Ying Shing
Chairman

Hong Kong, 28 August 2023

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Kwok Ying Shing (Chairman), Mr. Luo Jun (Co-Vice Chairman), Mr. Wu Tianyu (Co-Vice Chairman) and Mr. Zhang Huagang and three independent non-executive Directors, namely Dr. Liu Yanwen, Dr. Lyu Aiping and Ms. Li Zhiying.